TE TAI ŌHANGA
THE TREASURY

Reference: 20200389

24 February 2021

Thank you for your Official Information Act request, received on 9 November 2020. You requested the following:

1. Treasury Report T2020/819: Amended Letter of Expectations for Airways Corporation of New Zealand Limited
2. Joint Report by the Treasury and Ministry of Transport T2020/827: COVID-19 - impacts for Waka Kotahi NZ Transport Agency's major contractors and supply chain
3. Joint Report by the Treasury and Ministry of Transport T2020/553: Further advice on implementation of the New Zealand Upgrade Programme
4. Treasury Report T2020/794: Timeframes for Reserve Bank Institutional Bill
5. Joint Report by the Treasury and Ministry of Health T2020/758: COVID-19 public health response - additional funding required
6. Aide Memoire T2020/875: Commercial Rents
7. Treasury Report T2020/863: Radio New Zealand: Time-Limited Funding
8. Treasury Report T2020/911: All-of-government paper on Managed Economy
9. Treasury Report T2020/927: Alternative Economic Scenarios
10. Treasury Report T2020/836: Support for the media sector - Kordia transmission pricing
11. Inland Revenue Report IR2020/203: Tax policy report: COVID-19 and the tax treatment of redundancy payments
12. Treasury Report T2020/864: Wage Subsidy Scheme - next steps
13. Treasury Report T2020/998: Southern Response case timing
14. Aide Memoire T2020/883: Commercial Performance COVID-19 State of Play as at 15 April 2020
15. Aide Memoire T2020/1012: Questions on Ex-Post Pandemic Insurance
16. Treasury Report T2020/1054: Delegation of Guarantee and Indemnity Requests for the Ministry of Foreign Affairs and Trade
17. Aide Memoire T2020/1034: Weekly New Zealand Debt Management Update – 17 April
18. Reserve Bank of New Zealand Report 5496: Consultation regarding the temporary removal of Loan-to-Value lending restrictions

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https://treasury.govt.nz

19. Treasury Report T2020/1047: Issues relating COVID-19 public health response
20. Joint Report by the Treasury and Ministry of Social Development T2020/1081: Clarifying Eligibility of the Leave and Wage Subsidy Schemes
21. Treasury Report T2020/1127: Crown Infrastructure Partners Limited: amending constitution and funding to support the Infrastructure Reference Group and post-COVID-19 recovery
22. Treasury Report T2020/1063: Consumer credit support
23. Aide Memoire T2020/1236: Active Labour Market Policies

On 18 November 2020, the Treasury transferred *Inland Revenue Report IR2020/203: Tax policy report: COVID-19 and the tax treatment of redundancy payments* to Inland Revenue and *Reserve Bank of New Zealand Report 5496: Consultation regarding the temporary removal of Loan-to-Value lending restrictions* to the Reserve Bank of New Zealand.

On 7 December 2020, I wrote to you to extend the time limit for deciding on your request by an additional 40 working days, due to the consultation necessary.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	1 Apr 2020	Treasury Report T2020/819: Amended Letter of Expectations for Airways Corporation of New Zealand Limited	Release in part
2.	1 Apr 2020	Joint Report by the Treasury and Ministry of Transport T2020/553: Further advice on implementation of the New Zealand Upgrade Programme	Release in part
3.	1 Apr 2020	Treasury Report T2020/794: Timeframes for Reserve Bank Institutional Bill	Release in part
4.	1 Apr 2020	Joint Report by the Treasury and Ministry of Health T2020/758: COVID-19 public health response - additional funding required	Release in part
5.	4 Apr 2020	Aide Memoire T2020/875: Commercial rents	Release in part
6.	6 Apr 2020	Treasury Report T2020/863: Radio New Zealand: Time-Limited Funding	Release in part
7.	7 Apr 2020	Treasury Report T2020/911: All-of-government paper on Managed Economy	Release in part
8.	8 Apr 2020	Treasury Report T2020/927: Alternative economic scenarios	Release in part
9.	9 Apr 2020	Treasury Report T2020/864: Wage Subsidy Scheme - next steps	Release in part

10.	15 Apr 2020	Treasury Report T2020/998: Southern Response case timing	Release in part
11.	15 Apr 2020	Aide Memoire T2020/883: Commercial performance COVID-19 State of Play as at 15 April 2020	Release in part
12.	16 Apr 2020	Treasury Report T2020/1054: Delegation of authority to provide guarantees and indemnities in relation to COVID-19 repatriation flights	Release in part
13.	17 Apr 2020	Aide Memoire T2020/1034: Weekly New Zealand Debt Management update – 17 April	Release in part
14.	17 Apr 2020	Treasury Report T2020/1047: Issues relating COVID-19 public health response	Release in part
15.	20 Mar 2020	Joint Report by the Treasury and Ministry of Social Development T2020/1081: Clarifying eligibility of the COVID-19 Leave Payment Scheme and COVID-19 Wage Subsidy	Release in full
16.	21 Apr 2020	Treasury Report T2020/1127: Crown Infrastructure Partners Limited: amending constitution and funding to support the Infrastructure Reference Group and post-COVID-19 recovery	Release in part
17.	23 Apr 2020	Treasury Report T2020/1063: Consumer credit support	Release in part
18.	30 Apr 2020	Aide Memoire T2020/1236: Active Labour Market Policies	Release in part

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 6(a) – to protect the security or defence of New Zealand or the international relations of the Government of New Zealand,
- section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information,
- section 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied,
- section 9(2)(d) – to avoid prejudice to the substantial economic interests of New Zealand,
- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,

- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment,
- section 9(2)(i) – to enable the Crown to carry out commercial activities without prejudice or disadvantage,
- section 9(2)(j) – to enable the Crown to negotiate without prejudice or disadvantage, and
- section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

Information publicly available

The following information is also covered by your request and is publicly available on the Treasury and Unite against COVID-19 websites:

Item	Date	Document Description	Website Address
19.	1 Apr 2020	Attachment to Treasury Report T2020/819: Amended Letter of Expectations for Airways Corporation of New Zealand Limited (item 1)	https://www.treasury.govt.nz/sites/default/files/2020-09/loe-acnz-covid14sep20_1.pdf
20.	1 Apr 2020	Joint Report by the Treasury and Ministry of Transport T2020/827: COVID-19 - impacts for Waka Kotahi NZ Transport Agency's major contractors and supply chain	Will be included in a forthcoming release to be published on the Treasury website.
21.	9 Apr 2020	Treasury Report T2020/836: Support for the media sector - Kordia transmission pricing	https://covid19.govt.nz/assets/resources/proactive-release-2020-june/BRIEFING-Support-for-the-media-sector-Kordia-transmission-pricing.pdf
22.	16 Apr 2020	Aide Memoire T2020/1012: Ex-Post Pandemic Insurance (EPI) follow-up	https://www.treasury.govt.nz/sites/default/files/2020-09/oia-20200215.pdf

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Some relevant information has been removed from documents listed in the above table and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Kosal Kong
Acting Manager, Ministerial Advisory

OIA 20200389
Information for Release

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Amended Letter of Expectations for Airways Corporation of New Zealand Limited

Date:	1 April 2020	**Report No:**	T2020/819
		File Number:	SE-2-2-1 (Performance Planning and Monitoring)

Action sought

	Action sought	Deadline
Minister for State Owned Enterprises (Rt Hon Winston Peters)	**Note** the contents of this report	None
Minister of Finance (Hon Grant Robertson)	**Agree** that the Associate Minister for State Owned Enterprises signs the attached Letter of Expectations	6 April 2020
Associate Minister of Finance (Hon David Parker)	**Note** the contents of this report	None
Associate Minister for State Owned Enterprises (Hon Shane Jones)	**Sign** and **send** the attached Letter of Expectations **Forward** this report and the accompanying Letter of Expectations to the Minister of Transport	6 April 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Maruta Kanepa	Analyst, Commercial Performance	s9(2)(k)	✓
Shelley Hollingsworth	Manager, Commercial Performance		

Minister's Office actions (if required)

Minister of Finance:

Return the signed report to Treasury

Associate Minister for State Owned Enterprises:

Return the signed report to Treasury

Sign and **send** the amended Letter of Expectation to Airways' Chair

Forward this report and the accompanying Letter of Expectations to the Minister of Transport

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: Amended Letter of Expectations for Airways Corporation of New Zealand Limited

Purpose of Report

1. The purpose of this report is to seek your approval for an amended Letter of Expectations for Airways Corporation of New Zealand Limited (Airways) to indicate shareholding Ministers' expectations of Airways in its new operating environment. This amended letter follows the sharp deterioration in the company's operating environment as a result of which shareholding Ministers agreed to subscribe for new shares in the company on 27 March 2020. The funding is intended to mitigate liquidity s9(2)(b)(ii); s9(2)(i) & s9(2)(j) issues Airways faces, so that it can continue to provide air traffic services to the airlines [T2020/744 refers].

Analysis

2. The Crown has taken steps to support the aviation industry and Airways, including:

   - the suspension of funding reviews across all aviation and border agencies for the next 12 months,
   - financial support to airlines rebating them for fees they pay Airways over the next 6 months, and
   - providing Airways with financial support of up to $70 million to help mitigate the liquidity s9(2)(b)(ii); s9(2)(i) & s9(2)(j) issues Airways faces, so that it can continue to provide air traffic services to the airlines.

3. In light of the changed operating environment for Airways and the financial support provided by the Crown, the amended Letter of Expectations expresses shareholding Ministers' expectations that Airways:

   - support its airline customers by not raising service fees for the next 12 months,
   - reduce its financial risk exposure s9(2)(b)(ii), s9(2)(i) and s9(2)(j) while maintaining the safety and efficiency of Airways' air traffic services, and
   - take the necessary steps to realign its business with prospective future customer demand.

4. The Ad Hoc Cabinet Committee on COVID-19 Response (CVD) agreed on the COVID-19 Aviation Relief Package comprising suspension of funding reviews for the next 12 months. Hence, this Letter of Expectations is issued in respect of the upcoming 12 months – March 2020 to February 2021 (inclusive).

Risks

5. Airlines are continuing to adjust their flight schedules and it is unclear how long air travel will be negatively impacted. It is possible that Airways will require Government support beyond the $70 million approved to date. However, as indicated in the draft letter, the company should be expected to pursue all internal options available to it, as well as other support available (such as the wage subsidy scheme), before seeking further financial support from the Crown. If further support to Airways is required because air traffic services revenue falls further, we could explore additional funding

from the aviation relief package [CAB-20-MIN-0131 refers], or pursue other available avenues.

6. We will continue to liaise with Airways to monitor the risk of further air traffic volume reductions to provide as much lead-time as possible for any further action the Crown needs to take.

Recommended Action

We recommend that you:

a. **agree** that the Associate Minister for State Owned Enterprises signs the attached Letter of Expectations

Agree/disagree.
Minister of Finance

Agree/disagree.
Associate Minister for State Owned Enterprises

b. **forward** this report and the accompanying Letter of Expectations to Minister of Transport

Agree/disagree.
Associate Minister for State Owned Enterprises

Shelley Hollingsworth
Manager, Commercial Performance

Rt Hon Winston Peters
Minister for State Owned Enterprises

Hon Grant Robertson
Minister of Finance

Hon David Parker
Associate Minister of Finance

Hon Shane Jones
Associate Minister for State Owned Enterprises

Ministry of Transport
TE MANATŪ WAKA

TE TAI ŌHANGA
THE TREASURY

Further advice on implementation of the New Zealand Upgrade Programme

Reason for this briefing	To provide you with an update on the implementation of the transport aspects of the New Zealand Upgrade Programme (NZUP) including advice on further decisions needed.
Action required	Agree to obtain a formal delegation from Cabinet for decision making on the transport aspects of the NZUP and direct officials to develop a Cabinet paper to give effect to this. Agree to the proposed governance approach for the NZUP, similar to the Kaikōura Rebuild Programme. Agree to the proposed approach to retain Crown ownership of the Drury rail stations.
Deadline	As soon as possible.
Reason for deadline	No immediate actions are required but decisions are needed to inform our next steps.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Helen White	Manager, Investment, Ministry of Transport	s9(2)(g)(ii)	✓
Marcus Sin	Senior Advisor, Investment, Ministry of Transport		
David Taylor	Manager, National Infrastructure Unit, The Treasury		
Erana Sitterlé	Senor Analyst, National Infrastructure Unit, The Treasury		✓

MINISTER'S COMMENTS:

Date:	1 April 2020	**Briefing number:**	OC200199 T2020/553
Attention:	Hon Grant Robertson (Minister of Finance) Hon Phil Twyford (Minister of Transport)	**Security level:**	In-confidence

Minister of Transport's office actions

☐ *Noted* ☐ *Seen* ☐ *Approved*

☐ *Needs change* ☐ *Referred to*

☐ *Withdrawn* ☐ *Not seen by Minister* ☐ *Overtaken by events*

Purpose of report

1. In our previous advice (OC191303 and T2019/4158 refers), the Ministry of Transport (the Ministry) and the Treasury undertook to provide the Minister of Finance and Minister of Transport (Joint Ministers) with further advice on the implementation of the New Zealand Upgrade Programme (NZUP). The purpose of this briefing is to:

   1.1. seek your in-principle approval to the decision making process for the NZUP

   1.2. seek your approval for the Ministry and the Treasury's proposed approach for governance, oversight and monitoring arrangements of the NZUP which is similar to what was undertaken for the Kaikōura Rebuild Programme

   1.3. seek your approval for the Ministry and the Treasury's proposed approach for the Crown to retain ownership of Drury rail stations.

Executive Summary

2. Since the NZUP was announced in January 2020, COVID-19 has had an unexpected and significant impact on the economy, and will continue to do so for the near future. The NZUP can play an important part in New Zealand's economic recovery from COVID-19.

3. The agencies are finalising the Establishment Reports which will factor in any changes to project estimates resulting from the COVID-19 shutdown.

4. In order to ensure we can continue to progress the work on a timely basis and make agile decisions on the timing and procurement of NZUP projects, we are seeking your agreement now in order to begin implementing the proposed approach for decision making and governance of the NZUP as soon as practicable.

5. The NZUP takes a different investment approach to the typical transport project delivery approach used by Waka Kotahi New Zealand Transport Agency (Transport Agency) through the National Land Transport Fund (NLTF). This is because it is directly funded through the Crown. It is also the largest single transport investment that has been made outside of the NLTF.

6. As a result of this, Ministers need a higher level of certainty and assurance over the delivery of the programme than would typically be the case for projects funded through the NLTF.

7. Based on Cabinet guidelines, Cabinet is required to sign off key NZUP project decisions, such as business cases, the procurement strategy and other milestones. We recommend seeking Cabinet approval to delegate decision making rights to Joint Ministers to strike a balance between retaining Ministerial responsibility and direction, and the efficiency of project delivery.

8. The Transport Agency and KiwiRail are concerned that this will slow down the delivery of NZUP projects. However, the Ministry and the Treasury consider it is important for Ministers to retain decision making rights given the nature and size of the programme and the level of risk that sits with the Crown if costs are over-run which we expect is likely.

9. We note that, for projects where business cases are complete or the risk of cost escalation is low, the Joint Ministers could further delegate decision making to the respective transport entity Boards.

10. In line with Ministers' signals for robust and integrated governance at a programme level, we recommend a governance, assurance and monitoring approach similar to the Kaikōura Rebuild Programme. This approach has been successful for that programme as it delivered cost savings and identified efficiencies while avoiding unnecessary delays to the delivery of the projects in the programme.

11. Pending Ministerial direction, we will establish the governance approach and provide a draft Cabinet paper to seek appropriate delegations for decision making on the NZUP projects.

12. We are also identifying opportunities to leverage our proposed NZUP governance and accountability processes to provide similar assurance on other infrastructure projects that might arise as part of the COVID-19 recovery, such as through the Crown Infrastructure Partners process. We will incorporate these elements into our future advice.

13. We previously advised you we would investigate options to retain Crown ownership of the Drury rail stations in the NZUP as the programme was developed on the basis that it includes only capital expenditure.

14. To do this, we recommend funding KiwiRail to build the Drury rail stations and transferring ownership of the rail stations to Auckland Transport (AT) after construction is complete.

15. This will ensure network consistency and integration with the ownership of other stations. As owner, AT can more easily make future strategic decisions around land or stations from an operator and network perspective. This would require KiwiRail to write down the station assets on their balance sheet when the transfer occurs.

The NZUP will be an important fiscal stimulus to respond to COVID-19 impacts

16. Since the NZUP was announced in January 2020, COVID-19 has had an unexpected and significant impact on the economy, and will continue to do so for the near future. As the NZUP was initially designed as a fiscal stimulus package, it is important to ensure that the programme is delivered in a way that supports New Zealand's economic recovery from COVID-19.

17. Early indications from the Transport Agency and KiwiRail is that some work on the NZUP projects can already begin (or continue) during the COVID-19 lockdown such as planning and business case development. This will help mitigate some of the delays the Alert Level 4 lockdown is likely to cause to the NZUP.

18. However, the agencies have noted that there will still be delays to NZUP projects during this period as aspects of NZUP projects cannot commence as soon as expected given the lockdown of non-essential services. There is also a risk that the capacity of the construction sector may be constrained during and after the COVID-19 lockdown.

19. The agencies are reflecting these impacts in their Establishment Reports. Joint Ministers had requested the Establishment Reports by 31 March 2020. This has been delayed by several days to allow agencies to factor in any COVID-19 considerations on the delivery and cost of NZUP projects. We will provide the Establishment Reports and accompanying advice as soon as possible and keep you updated on progress through our weekly reports.

The nature of the NZUP differs from the usual land transport investment processes

20. The funding for the NZUP is provided exclusively through the Crown who is entering into a purchasing arrangement with the Transport Agency and KiwiRail to deliver the projects. This

arrangement means that Ministers have a direct responsibility for overseeing the programme on behalf of the Crown.

21. This is similar to the approach that is undertaken by KiwiRail for some rail projects however contrasts with the typical process of funding land transport projects through the National Land Transport Fund (NLTF) where responsibility and accountability of the selection of projects for inclusion in the National Land Transport Programme sits with the Transport Agency Board.

NZUP projects currently require Cabinet approval for ongoing decision making

22. In November 2019, Cabinet authorised the Budget Ministers to take decisions on the final details of the NZUP (that is, the allocation of Crown funding between different portfolio areas), along with decisions on any associated operational funding that may be needed (CAB-MIN-0572 refers). The Budget Ministers then delegated decisions on the allocation of Crown funding for transport projects to Joint Ministers.

23. These delegations only relate to the initial decisions for the projects announced on 29 January 2020. Further Cabinet decisions are required to determine the delegation of ongoing decision making on the NZUP investments, otherwise the following Cabinet Circular CO(19)(6) requirements will apply:

- Cabinet has decision rights on all investment proposals where the investment requires new Crown funding or support
- agencies must develop all significant investment proposals in accordance with published Treasury business case guidance.

24. In accordance with the requirement above, the Transport Agency and KiwiRail currently need to provide business cases through the Ministry and the Treasury to Cabinet for approval before investment in the NZUP can be progressed and Crown funding released.

The Ministry and the Treasury recommend Cabinet delegates NZUP decisions to the Joint Ministers

25. The table below describes possible options for decision-making in relation to transport investments in the NZUP, with the advantages and disadvantages of each option.

Option	Advantages	Disadvantages
Cabinet retains all decision-making in accordance with Cabinet Circular CO(19)(6)	Cabinet retains full responsibility for Crown investments.	The Cabinet approval process will create delays in project delivery.
Cabinet delegates decisions to the Joint Ministers, with the option of potentially delegating some decisions to the Transport Agency and KiwiRail Boards *(The Ministry and the Treasury's preferred option)*	Ministerial oversight and responsibility is retained and Ministers have a more direct ability to intervene in projects if required. This option provides a balance between ensuring Ministers retain some control and that projects are delivering the intended outcomes while reducing some additional approval processes.	The process may create delays in project delivery, compared to the usual NLTF approval process.

Decisions are delegated to the Transport Agency and KiwiRail Boards	This would allow project delivery to progress in accordance with the usual NLTF process.	This option does not support Ministers' intention to have a whole of programme approach to monitoring the use of funding, the delivery of projects and the management of risks.

26. The Ministry and the Treasury recommend Cabinet delegates the decision making for the transport investments in the NZUP to the Joint Ministers. This approach provides a balance between retaining an appropriate level of Ministerial oversight and the timely delivery of transport projects as the decision to approve final business cases would sit directly with the Joint Ministers.

27. If this approach is agreed, officials will develop a draft Cabinet paper to give effect to this.

28. The Joint Ministers could delegate further decisions to the Transport Agency and KiwiRail Boards where it is appropriate for individual projects. This may involve Ministers retaining the decision making on major contractual commitments (e.g., the decision to procure, major cost escalations over budget) while other decisions are delegated to the agencies' respective Boards.

29. Officials will identify where further delegations could be made to the respective transport agency Boards if you agree with this approach. In our advice, we would ensure the implications of holding particular decision making powers, and the costs and benefits of holding those powers, are clear to Ministers.

We recommend a similar governance approach to the Kaikōura Rebuild Programme

30. Joint Ministers have sent clear signals for their desire for a robust governance, monitoring and assurance approach across the delivery of the NZUP. Ministers have also been clear that the oversight arrangements need to be fit-for-purpose and designed in a way that support the efficient and effective delivery of the programme and its expected outcomes.

Previous experience demonstrates the benefits of additional assurance arrangements for Crown investments

31. The Ministry has experience in providing assurance over the delivery of complex and large scale projects in the transport sector, often with multiple agencies with a delivery role.

32. The most recent example is the Kaikōura Rebuild Programme. These oversight arrangements enabled officials to identify the risks and issues, including cost savings, and provided robust external assurance across the whole programme for Ministers in their purchaser role. This has been an important element of the programme's success.

33. Given the success of the approach taken with the Kaikōura Rebuild Programme, we recommend Joint Ministers agree to a similar model for the NZUP, involving an Oversight Steering Group, an external independent assurance advisor and Gateway reviews. Further details on this approach are set out in Annex 1.

34. If Joint Ministers agree with this approach, we will provide you with draft letters to the Transport Agency and KiwiRail Board Chairs. The letters will set out the Ministerial expectations to the transport agencies on the proposed approach for governance, monitoring and assurance of the NZUP.

35. There is also work that is currently being undertaken as part of the COVID-19 response across other Government departments and agencies, such as the Crown Infrastructure

Partners process. If further transport projects are identified in this work, there may be an opportunity to leverage the governance and accountability processes that are already being set up for the NZUP. We will identify the relevant opportunities in our future advice.

The Ministry has undertaken some preliminary planning to stand up the governance, oversight and monitoring arrangements

36. In anticipation of final decisions by Joint Ministers, the Ministry has undertaken some preliminary planning to establish the governance and oversight arrangements that Joint Ministers ultimately agree on. As you are aware, the Ministry has put forward a late bid for Budget 2020 of $10.61 million for five years to secure additional resource to put in place the governance, oversight and monitoring arrangements. This has now been approved by the Minister of Finance.

37. Subject to Ministerial direction on the governance arrangements, an establishment team will be formed within the Ministry to put in place the NZUP Oversight Group, along with other core processes required to provide integrated advice and support to Ministers.

The transport agencies disagree with the proposed approach for governance of the NZUP and the proposed approach for decision making in this paper

38. The Transport Agency recently presented to Ministers a potential approach to the delivery of governance, oversight and monitoring for the programme. These arrangements are similar to what the transport agencies would usually use in the delivery governance of their individual projects.

39. Officials consider that this approach does not provide a sufficient level of assurance to Joint Ministers because:

    39.1. it does not take a whole of programme perspective across the agencies

    39.2. it creates confusion on the roles and responsibilities within the system, between funder and delivery agency

    39.3. it does not enable the Ministry or the Treasury to provide an independent level of assurance over the delivery of the NZUP.

40. The agencies also advise that if key decisions such as procurement, contract award or business case approval are taken by Joint Ministers rather than the agency Boards, it could add six months (or more) to project timeframes. They have advised that this is due to the projects having a large number of milestones. The agencies consider that seeking Joint Ministers' decisions after their Boards have already approved the projects and their business cases will add significant time to achieving project milestones.

41. The Ministry and the Treasury disagrees with this assessment. We are concerned that the agencies have misunderstood what is proposed as many of these decisions would still be retained by the agencies if a delegation is made. However, similar to the Kaikōura Rebuild Programme, there would be a level of oversight on whether these decisions are robust. Officials' also note that both the Transport Agency and KiwiRail were complementary of the Oversight Group arrangement when it was undertaken for the Kaikōura Rebuild programme.

42. Any delay to NZUP projects will depend on the level of delegation that Joint Ministers agree to provide to the Transport Agency and KiwiRail Boards. In making recommendations to Ministers, we would ensure the implications of holding particular decision making powers,

and the costs and benefits of holding those powers, are clear to Ministers. We would also ensure that Joint Ministers maintain control and oversight where it is required without unnecessarily delaying the project delivery.

We recommend KiwiRail be funded to build the Drury rail stations and then transfer ownership to Auckland Transport

43. The NZUP was developed on the basis that it includes only capital expenditure. However, any Crown contributions to Auckland Transport's investment in the Drury rail stations, which is the conventional approach to building rail stations in Auckland, would constitute operating expenditure for the purposes of Crown appropriations.

44. The rail stations are a critical component of the Drury work programme and its construction will provide a significant opportunity for urban development in the area.

45. The project consists of two new stations at Drury Central and Drury West and includes new platforms, park and ride facilities and a bus/rail interchange. The estimated cost of the two rail stations is $247 million however the funding is currently not appropriated and the cost and scope of the stations may be refined in the upcoming Establishment Reports.

46. In the letters to the Transport Agency and KiwiRail Chairs in January 2020, the Joint Ministers directed both parties to work with the Ministry and the Treasury to finalise the delivery mechanism for the two rail stations, and to identify options to progress the projects as capital expenditure.

AT could be funded directly by the Crown to build, own and operate the stations via an operating appropriation

47. The conventional approach for building rail stations in Auckland is for Auckland Transport (AT) to build, operate and own the rail stations. This is because it provides favourable outcomes for:

    47.1. network consistency and integration – AT is the Auckland passenger rail operator and the owner of all the other stations in the Auckland metropolitan area

    47.2. long-term incentives and efficient decision making – AT retaining ownership of the stations aligns the financial and operating incentives for the assets and enables efficient decision making on future work that may be needed for the stations.

48. Officials' prefer this approach as it would achieve the best operating outcomes for the development of the Drury area over the longer term.

49. However, we note that this would involve the Crown directly funding AT through an operating appropriation to build and assume operation of the Drury rail stations. If Joint Ministers do not want to pursue this option, the next best alternative is discussed below.

If Joint Ministers prefer not to directly fund AT, we recommend KiwiRail be funded to build the stations and for the ownership to be transferred to AT after construction is complete

50. Both agencies consider that it will be critical to involve AT in the planning and build process given their significant role in operating the network in Auckland. Officials also note that the Transport Agency have an ongoing role in supporting decisions in the planning, procurement

and construction of the stations as part of their Supporting Growth Alliance with AT.[1] This could be achieved through:

Option	Description	Ministry and Treasury advice
The Crown directly funds AT to build, own and operate the stations via an operating appropriation *(Officials' preferred option)*	AT is funded directly by the Crown to build, own and operate the stations.	This provides the best operating outcomes for the development of the Drury area over the longer term. If Joint Ministers do not want to pursue this option, the next best alternative that is recommended by officials is for KiwiRail to be funded to build the stations.
The Crown funds KiwiRail to build the stations and KiwiRail transfers it to AT after construction is complete *(Officials' second preferred option)*	KiwiRail owns the stations during construction and then transfers ownership of the land (where appropriate) and rail stations to AT after construction is complete, for no cost.[2]	This option provides the strongest network consistency and integration outcome for ownership of stations. As owner, AT can more easily make strategic decisions around land or stations from an operator and network viewpoint. This would require KiwiRail to write down the station assets on their balance sheet when the transfer occurs. The accounting impacts on the Crown are described in paragraph 47.
The Crown funds KiwiRail to build the stations and KiwiRail leases the stations to AT after construction is complete. *(KiwiRail's preferred option)*	AT enters into a leasing arrangement with KiwiRail for the land (where appropriate) and stations at a peppercorn rental which transfers the maintenance and operational responsibilities to AT.	This ownership outcome is different from the network arrangements where stations are owned and operated by AT. Fragmented ownership across the network will be sub-optimal. Even though AT will be best placed to make decisions from an operator and network viewpoint, any future decisions on land and stations would require KiwiRail decisions and agreement as owner.
The Crown funds the Transport Agency to plan, design and consent the stations and the funding arrangements and construction phase is decided later *(the Transport Agency's preferred option)*	The Transport Agency is directly funded to build the stations however the roles, responsibilities and funding arrangements for the construction phase of the project under this arrangement would remain unclear and would be decided later.	Officials do not agree with this approach because: • given the scale of the project, it is critical to ensure that there is a single agency that is responsible and accountable for the delivery of the project from the start of the process • KiwiRail are better placed for this role as it can ensure that there is an alignment of design, construction and cost management with AT • the Supporting Growth Alliance is more critical for achieving expected outcomes for the project (rather than the Transport Agency itself) as the location of the stations will need to be integrated with existing plans to develop the Drury area.

51. If Ministers are not willing to consider funding AT directly, we recommend that KiwiRail initially own the stations and to then transfer the ownership to AT after construction is

[1] The Supporting Growth Alliance is a collaboration between the Transport Agency and AT to investigate and plan the transport network and support Auckland's urban growth over the next 30 years.
[2] Officials have assumed that KiwiRail selling the stations to AT is not an option under the direction of the NZUP package and is unlikely to be accepted by AT

complete. This would be consistent with the existing operating model for the Auckland rail network.

52. Officials note that KiwiRail prefers to retain ownership of the rail stations as the transfer of the stations to AT would involve an asset write down. The Ministry and the Treasury note that since KiwiRail is a State Owned Entity, Ministers cannot direct a particular ownership outcome for the stations. This means that the transfer of the stations to AT would need to be included as a condition for receiving the Crown funding.

53. If Ministers agree with this approach, officials will draft a letter from the Minister of Transport to the Transport Agency and KiwiRail Boards setting out Ministerial expectations on the ownership outcomes for the project.

Summary of Appropriation and fiscal impacts of options

54. The table below summarises the impacts on the Crown's operating balance before gains and losses (OBEGAL) and the type of appropriation required to fund the stations under each of the ownership outcomes:

	Directly fund AT	**KiwiRail funded to build then transferred to AT**	**KiwiRail funded to build then leased to AT**	**Transport Agency funded to plan**
OBEGAL impact of ownership outcome	Decrease	Decrease *(but involves a KiwiRail asset write-down)*	None	None
Appropriation required for government funding	Operating expenditure	Capital expenditure	Capital expenditure	Capital expenditure

Next steps

55. If you agree to the proposed approach for governance, monitoring and assurance of the NZUP, the Ministry and the Treasury will continue to work together with the Transport Agency and KiwiRail to progress next steps, which are to:

    55.1. implement the proposed governance and monitoring approach with the agencies

    55.2. secure the required resources to establish the NZUP Oversight Group and to set up the governance, monitoring and assurance approach for the programme.

56. Officials will also prepare letters to the transport Agency and KiwiRail Boards that set out the Ministerial expectations to the transport agencies on the proposed approach for governance, monitoring and assurance of the NZUP.

57. If you agree to the recommended approach for decision making, we will prepare a draft paper that requests Cabinet to delegate the decision rights on the transport projects in the NZUP to the Joint Ministers.

58. The Transport Agency and KiwiRail were due to provide you with Establishment Reports on 31 March 2020 to describe how they will deliver the respective projects they are responsible for in the NZUP. These reports will now be delayed by several days to provide information of the impact of COVID-19 on project cost and delivery timelines.

59. The Ministry and the Treasury will provide the Joint Ministers with further advice on whether further delegations should be made to the Transport Agency and KiwiRail Boards for individual projects in the NZUP after the Establishment Reports are received.

60. If you agree to the recommendation for KiwiRail to be funded to deliver the Drury stations and to then transfer the stations to AT, officials will:

    60.1. work together with the Transport Agency and KiwiRail to reflect this in the Establishment Reports

    60.2. draft a letter from the Minister of Transport to the Transport Agency and KiwiRail Boards setting out Ministerial expectations and ownership outcomes for the stations.

Recommendations

61. The recommendations are that you:

Decision making arrangements in the programme

(a) **note** that the investment decisions for projects in the New Zealand Upgrade Programme (NZUP) requires Cabinet approval under the existing arrangements

(b) **note** that officials will provide further advice where further delegations could be made to the Transport Agency and KiwiRail Boards for individual NZUP projects

(c) **request** for Ministry of Transport (the Ministry) and Treasury officials to prepare a draft paper to Cabinet to delegate decisions to the Minister of Finance and Minister of Transport for NZUP transport projects — Yes/No

Governance, oversight and monitoring of the programme

(d) **note** that Ministers have directed that a greater level of oversight and assurance is required over the delivery of the projects within the NZUP package

(e) **agree** to progress the Ministry and Treasury's proposed governance, monitoring and oversight approach for the NZUP — Yes/No

(f) **agree** for the Ministry and Treasury to prepare draft letters to the Chairs of the Transport Agency and KiwiRail Boards that sets out the Ministerial expectations under the proposed approach — Yes/No

Options to retain Crown ownership of the Drury rail stations

(g) **note** that officials recommend directly funding Auckland Transport via an operating appropriation to build, own and operate the Drury rail station as this will achieve the best operating outcome for the Drury area

(h) **note** that if the Minister of Finance and the Minister of Transport do not want to directly fund Auckland Transport, the next best alternative is for KiwiRail to be funded for, and be responsible for delivering the Drury stations

(i) **agree** that as a condition of delivering the Drury stations, KiwiRail will either;

i. lease the operation and maintenance of the Drury rail stations to Auckland Transport after construction is complete — Yes/No

OR

ii. transfer the ownership of the Drury rail stations to Auckland Transport after construction is complete — Yes/No

(j) **note** officials will prepare draft letters to the Transport Agency and KiwiRail Boards that set out the Ministerial expectations and clarify ownership outcomes for the Drury rail stations

Helen White **Manager, Investment** **Ministry of Transport**	David Taylor **Manager, National Infrastructure Unit** **The Treasury**

MINISTERS' SIGNATURES:

Hon Phil Twyford **Minister of Transport**	Hon Grant Robertson **Minister of Finance**
DATE:	***DATE:***

Annex One: Recommended governance, oversight and monitoring approach

	Ministry and Treasury advice
A NZUP Oversight Steering Group	The purpose of the Oversight Group is to provide general assurance and would: • monitor and advise the Joint Ministers on overall delivery, expenditure and risk across the programme • ensure projects and the programme is delivering on the intended outcomes the Joint Ministers are seeking • commission any external assurance that may be required either across the programme as a whole or on individual projects where concerns arise • receive any notifications where Gateway reviews identify concerns or risks that need to be actively managed.
	The Oversight Group would be led by the Ministry, and include the Treasury as well as Transport Agency and KiwiRail representatives, and an external expert with infrastructure and investment experience. We would communite with officials from the New Zealand Infrastructure Commission on their role in the programme. It is proposed that the Oversight Group would be chaired by an external expert with deep infrastructure, engineering and investment management experience
	The Oversight Group would have the ability to seek more assurance, advise Joint Ministers on risks and concerns, and provide advice on approval and the release of funding
	The Oversight Group would identify projects that are of high risk or of interest to the Joint Ministers and tailor a more targeted level of oversight and assurance for these projects
Appointment of an external independent assurance advisor	The role of the external advisor is to report to the Oversight Group. The focus of this role is not to directly manage projects but to provide advice on general risk, assurance and delivery issues in order to support the governance conversations on both the portfolio (i.e. all projects) and specific high risk projects or projects of high interest that have been identified by the NZUP Oversight Group.
A requirement to ensure Gateway is consistently applied	All projects will need to go through a Risk Profile Assessment that will determine what projects need to be Gateway reviewed. Gateway would also be applied to the overall programme and the Ministry's role in the programme as a whole

We consider the benefits of the proposed approach are that it:

- provides a single, external and integrated view of progress and risks across the delivery of the programme, including over the governance and assurance arrangements the transport agencies already have in place
- supports the effective co-ordination of agencies involved in the delivery of the programme
- enables the Ministry, with the support of external experts, to provide independent advice on the delivery of the NZUP as a whole
- enables the Ministry, with support from the Treasury, to perform our assurance and oversight role without duplicating the delivery role or governance arrangements of the transport agencies.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Timeframes for Reserve Bank Institutional Bill

Date:	2 April 2020	**Report No:**	T2020/794
		File Number:	MC-1-7-3-1-3 (Institutional Arrangements)

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	Indicate preferred option for progressing work on the Reserve Bank Institutional Bill	9 April 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Felicity Barker	Principal Advisor	s9(2)(k)	s9(2)(g)(ii)	✓
James Haughton	Acting Manager, Reserve Bank Act Review			

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: Timeframes for Reserve Bank Institutional Bill

Recommended Action

We recommend that you either:

a **agree** to Option 1: a first reading of the Reserve Bank Institutional Bill before 6 August 2020, requiring introduction of the Bill by 18 June

or

b **agree** to Option 2: an introduction of the Reserve Bank Institutional Bill before 6 August 2020 (recommended)

James Haughton
Acting Manager

Treasury Report: Timeframes for Reserve Bank Institutional Bill

Purpose of Report

1. The purpose of this report is to clarify the timeframes for the Reserve Bank of New Zealand Bill (Institutional Bill). You have previously agreed that work on this Bill continue on current timeframes, including a first reading in June or July.

2. Given ongoing uncertainty about the availability of House and Cabinet time due to the COVID response, there are two possible approaches. The work can proceed on the basis that the Bill will receive its first reading before the election. Alternatively, the Bill could be introduced before the election, and first read after a new Parliament is constituted following the general election.

Option 1: a first reading before the election

3. You wrote to the Leader of the House requesting that the Bill receive its first reading on 30 June or 1 July. The Leader of the House replied on 11 March, stating that introduction prior to 18 June 2020 would maximise the chances of the Bill receiving a first reading, as this would leave more options for House time. The House will rise on 6 August, and Parliament will be dissolved on 12 August.

4. Introduction of the Bill by 18 June 2020, would require the Bill to be lodged for Cabinet on 10 June, for approval at the Cabinet meeting of 15 June. Under the usual process, this requires the Bill to go to the Cabinet Legislation Committee on 26 May. Officials and the Parliamentary Counsel Office are presently working to this timetable and illustrative dates are set out in the table below.

26 May	Cabinet LEG Committee
3 June	Cabinet DEV Committee (alternative)
15 June	Cabinet meeting
18 June	Bill is introduced
23-25 June	First reading and referral to Select Committee
30 June, 1,2 July	Alternative first reading dates
6 August	House rises

5. However, meeting this timeframe would be challenging under normal circumstances, but more so in the current environment given the priority of the COVID response and competing pressures on resources. Meeting this timeframe reduces the time available to undertake quality assurance processes. Depending on progress and the operation of Cabinet committees due to the COVID response, it may be necessary for the Bill to go to an alternative Cabinet committee, or straight to Cabinet. Successfully introducing the Bill would require Cabinet committee decisions at the right time, with no tolerance for delay.

6. Given the current pressures, we think consideration should be given to an alternative timetable which would still see introduction before the election.

Option 2: an introduction before the election

7. Under this option, officials would work to have the Bill ready to be introduced before the House rises on 6 August, but it would not receive its first reading. Introducing a Bill requires minimal House time. The Bill would not be referred to Select Committee until a new Parliament is constituted, which means submissions would not be received throughout this period. This may

result in some marginal delay to the date of enactment, although this is not likely to be significant. Enactment in 2021 would still be likely.

8. This approach has the advantages that it would allow for more time to draft the Bill, reducing pressure on Treasury's legal resources and ensuring a robust quality assurance processes; and it does not require House time or meeting specific Cabinet dates. It does require LEG and Cabinet time in July. A table with illustrative dates is below. We consider that this option would be achievable in the context of the Government's COVID response.

June 30	Cabinet LEG Committee
July 6	Cabinet meeting
July 6-17	Parliament is in recess
July 21	Bill is introduced
6 August	House rises

Recommendation

9. The Treasury recommends Option 2. Option 2 is still achievable despite the current adjournment of Parliament. It will make only a marginal difference to the final date of passage of the Bill, and will allow for full quality assurance processes to be taken while not competing with urgent work for resources and Cabinet and House time.

TE TAI ŌHANGA
THE TREASURY

MINISTRY OF HEALTH
MANATŪ HAUORA

Joint Report: COVID-19 public health response – additional funding required

Date:	1 April 2020	**TSY Report No:**	T2020/758
		Health Report No:	H20200565
		File Number:	SH-1-6-1-3 (Coronavirus COVID19)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson) Minister of Health (Hon David Clark)	**Read** the contents of this report. **Agree** to seek Cabinet approval to increase the COVID-19 public health response contingency by $700 million.	As soon as possible.

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Niki Lomax	Senior Analyst, Health, The Treasury	s9(2)(k)	s9(2)(g)(ii)	✓
Jess Hewat	Acting Manager, Health, The Treasury			
Fergus Welsh	Chief Financial Officer, Ministry of Health			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (Annex 1 - COVID-19 Public Health Response Tagged Contingency – Calls on the contingency as at 1 April 2020)

Joint Report: COVID-19 public health response – additional funding required

Executive Summary

On 16 March Cabinet established a $500 million tagged contingency to provide for the immediate costs required for the COVID-19 public health response [CAB-20-MIN-0110 refers]. Cabinet also noted the significant uncertainty about what would be required for the public health response, and that additional funding may be needed.

This significant uncertainty persists, and in this context, our primary focus is to ensure that funding is not a constraint in the response and that the system has assurance that it will have access to the resources it needs.

To date, $275.2 million has been drawn down from this contingency, leaving $224.8 million remaining. This is insufficient to provide for the total likely costs of the public health response. The Ministry of Health is aware of at least another $488.1 million that will be likely sought in the coming weeks – for personal protective equipment (PPE) and to provide financial support to a range of health care providers (including private providers, non-government organisations and charities). In addition, we are expecting further funding will be required for DHBs, additional PPE and testing, support for the health and disability system workforce, and additional funding for PHARMAC.

Given the rapidly evolving situation, there remains significant uncertainty about the likely total cost of the response. Taking all these costs into account we estimate that an additional $700 million will likely be sought before 30 June 2020 – this would bring the total cost of the COVID-19 public health response to $1.2 billion. This is consistent with the Treasury's cost modelling which estimates between $1.2–2.0 billion will likely be required over 6 months.

We present two options for managing this additional $700 million. Ministers could choose to either add this $700 million to the existing COVID-19 public health contingency, or could choose to exhaust the existing contingency and charge requests as they arise against the broader notional fund for the COVID-19 response. Both options are practical, but increasing the existing contingency may have some communications advantages.

Under either option the Treasury and the Ministry of Health will work to develop a monitoring framework for the funding spent on the COVID-19 public health response, to provide assurance that the funding is being spent and having the intended impact. We recognise this framework would need to find the appropriate balance between ensuring Ministers have sufficient, regular over-sight of how this spending is used without creating additional reporting burdens on the sector in the current context.

Recommended Action

We recommend that you:

a **note** that on 16 March a $500 million tagged contingency was established to provide for the immediate costs required for the COVID-19 public health response, and that to date $275.2 million has been drawn down from this contingency leaving $224.8 million remaining

b **note** that further calls on this contingency totalling $488.1 million are expected over the next few weeks

c **note** that one of these requests seeking $15.0 million to support community pharmacies is particularly urgent and cannot wait for Cabinet consideration

d **agree** to provide this funding to pharmacies now through existing baselines in the Public Health Service Purchasing appropriation and then seek Cabinet agreement to draw down on the contingency to commensurately increase the appropriation to ensure there is sufficient funding available for other COVID-19 public health response measures

Agree/disagree Minister of Finance	*Agree/disagree* Minister of Health

e **agree** to reprioritise $24.8 million across 2019/20 to 2021/22 from Budget 2019 Mental Wellbeing package to assist in funding the COVID-19 psychosocial response

Agree/disagree Minister of Finance	*Agree/disagree* Minister of Health

f **note** that the Budget Cabinet paper, to be considered on 6 April, will seek Cabinet's agreement to establish a notional fund for the COVID-19 response

EITHER

g **agree** to

a. seek Cabinet approval to allocate $700 million from the notional fund for the COVID-19 response and increase the COVID-19 public health response contingency (The Treasury and Ministry of Health recommended option)

Agree/disagree Minister of Finance	*Agree/disagree* Minister of Health

OR

b. allow the COVID-19 public health contingency to be fully exhausted and manage all future funding requests for the public health response centrally through the notional fund for the COVID-19 response

Agree/disagree Minister of Finance	*Agree/disagree* Minister of Health

h **agree** that officials should prepare a Cabinet paper based on the recommendations in this report for the CVD Cabinet Committee on Tuesday 7 April, and

Agree/disagree Minister of Finance	*Agree/disagree* Minister of Health

i **direct** officials from the Treasury and the Ministry of Health to report back to Joint Ministers with a framework for monitoring the funding spent against this contingency, providing assurance that the funding is being spent and having the intended impact.

Agree/disagree Minister of Finance	*Agree/disagree* Minister of Health

Jess Hewat **Acting Manager, Health and ACC** **The Treasury**	Fergus Welsh **Chief Financial Officer** **Ministry of Health**
Hon Grant Robertson **Minister of Finance**	Hon Dr David Clark **Minister of Health**

Joint Report: COVID-19 public health response – additional funding required

Purpose of Report

1. This paper provides an update on the funding that has been allocated to date for the COVID-19 public health response and sets out the estimated upcoming calls on the COVID-19 public health response contingency over the coming weeks. These expected calls exceed the funding remaining in the contingency and therefore we recommend increasing this contingency by $700 million. Subject to your agreement, officials will prepare a paper for the Minister of Finance and the Minister of Health to take to Cabinet.

COVID-19 public health response – tagged contingency

2. On 16 March Cabinet established a $500 million tagged contingency to provide for the immediate costs required for the COVID-19 public health response [CAB-20-MIN-0110 refers]. The COVID-19 Ministerial Group were delegated authority to draw down the tagged contingency. Cabinet also noted the significant uncertainty about what would be required for the public health response, and that additional funding may be needed.

3. **To date, $275.2 million has been drawn down from this contingency, leaving $224.8 million remaining**. A comprehensive list of measures that this funding is provided in Annex 1. In summary:

   a $238.2 million was drawn down immediately to provide for number of different public health response measures;

   b $23.0 million was drawn down for the COVID-19 Māori Response Package;

   c $14.0 million was drawn down for the COVID-19 Pacific Response Package[1];

4. Of the $275.2 million that has been appropriated approximately $171.2 million has either been committed or paid out (refer Annex 1). Decisions are being made each day which will see commitments against this funding continue to increase.

5. The Ministry of Health has revised some of the original cost estimates of the response measures agreed in the 16 March Cabinet paper as we have received better information, the approach has been agreed, or the approach has changed due to the decision to move to Level 4.

[1] The Māori and Pacific health response packages also included funding that was reprioritised.

Additional funding required

Cost of the public health response

6. We are aware of a number of likely upcoming calls on the existing contingency. Further information on these calls is provided in paragraph 11 below. Given the rapidly evolving situation, there remains significant uncertainty about the likely total cost of the response but we estimate that an additional $700 million will likely be sought before 30 June 2020 – this would bring the total cost of the COVID-19 public health response to $1.2 billion.

7. This aligns with cost modelling that has been undertaken by the Treasury that has estimated that the cost of the public health response over 6 months is likely to be between $1.2–2.0 billion.

Managing cost uncertainty

8. In the context of this considerable uncertainty, our primary focus at this stage is to ensure that funding is not a constraint in the response and that the system has assurance that it will have access to the resources it needs. As such, the proposals for additional funding have not received the levels of scrutiny ordinarily provided to new spending. This is appropriate. To the degree that it is possible, we will work to ensure there is consistency in the approach and robustness to costs outlined in the Cabinet paper.

9. In order to improve integrity in the use of the tagged contingency we recommend that the Treasury and the Ministry of Health develop a monitoring framework across the Health COVID-19 tagged contingency to track progress on the initiatives that have been funded. We recognise this framework would need to find the appropriate balance between ensuring Ministers have sufficient, regular over-sight of how this spending is used without creating additional reporting burdens on the sector at this time.

Risks of overlap with broader COVID-19 policy response

10. There are also risks that a number of proposals outlined below may directly overlap with other broader policy responses that have been deployed as a result of COVID-19. In particular, there have been a number of calls from health and disability service providers (across the non-government organisation, charity and private sectors) seeking urgent financial support. Policy work is underway at the Ministry to ensure the approach to these requests is consistent and does not duplicate assistance provided by the Government through the wage subsidy scheme. The costs provided in paragraph 11 below are therefore indicative and may change before funding is formally sought through a Cabinet paper. We are working through these issues at pace and will look to provide further clarity over the next few days.

Upcoming calls on the tagged contingency

11. The Ministry of Health is aware of the following likely upcoming calls on the contingency. Combined, the estimated combined total of this requests is $487.9 million, which significantly exceeds the funding available in the tagged contingency:

    a. **$200 million – Personal protective equipment (PPE)**: purchase of personal protective equipment (PPE) for frontline health care workforce and essential services workforce (the Ministry of Health will coordinate with the National Crisis Management Centre (NCMC) on PPE requirements – it is likely that more than $200 million will be required);

b **$45 million – Public Health Organisations (PHOs)**: funding for DHBs to distribute to general practices via PHOs to support capacity and capability in all general practices (including for virtual consultations) to respond to COVID-19 (note that, in addition the Ministry is considering a bridging finance scheme for general practices that would make approximately $120 million available for loans to general practices suffering low cash flow – further policy work is required to understand the scope and criteria for support);

c **$28 million – Private hospitals**: to compensate private hospitals for use of ICU capacity and offset loss of revenue from deferred planned care up to 30 June 2020;

d **$97.5 million – Disability support services**: to provide up to six months of backfill for disability support services workforce and additional support for carers looking after family members;

e **$63.6 million – Aged Residential Care providers**: to support providers maintaining ARC facilities free of COVID-19 and allow them to provide hospital level care to new residents, freeing up beds in DHB hospitals;

f **$3.8 million – Maternity**: to provide urban and rural locum support for midwives who require sick leave or are required to self-isolate, and additional support for the New Zealand College of Midwives to support midwives through the pandemic;

g **$19 million – Hospices**: to provide financial support to hospices up to 30 June 2020, to compensate foregone revenue from cancelled fundraising events and hospice shop revenue;

h **$15 million – Community pharmacies**: for a one-off payment to all contracted community pharmacies that will be used to meet any COVID-19 related costs;

i **$16 million – Ambulances**: to compensate ambulance service providers for foregone revenue from cancelled fundraising and to support backfilling of staff up to 30 June 2020;

12. We are also aware of a number of other areas where calls on the contingency are likely, but where we are less certain about what funding will be required or when this request will be confirmed:

a Additional funding for DHB hospitals (refer paragraphs17-24 below);

b Additional funding for COVID-19 testing and laboratory services (costs are highly dependent on the success of Level 4 containment measures);

c Additional funding to support the health and disability system workforce (advice on options for supporting the workforce will be provided to Ministers over the coming week – the cost of options such as extending access to wage subsidies to the health workforce could, depending on the options chosen, be in the order of hundreds of millions);

d Additional funding for PHARMAC to manage increased prices and supply chain disruption for medicines; and,

e Additional funding for areas such as a National Clinical Coordination Centre, if required, for central tasking and coordination for areas such as air ambulance services.

13. Ministers should note that of these items listed in paragraph 11, the support for community pharmacies is particularly urgent and cannot wait for Cabinet consideration. Funding is required to meet immediate needs of the pharmacy community who are managing unprecedented contacts from communities which require additional measures such as security. As there is sufficient funding available in the Public Health Service Purchasing appropriation to provide $15.0 million to pharmacies we recommend you agree to provide this funding to pharmacies now and then seek Cabinet agreement to draw down on the contingency to commensurately increase the appropriation to ensure there is sufficient funding available in 2019/20 for other COVID-19 public health response measures.

Reprioritisation within Vote Health

14. The 16 March Cabinet paper allocated $15.0 million for the psychosocial response and recovery plan. The Ministry of Health has subsequently identified that further funding will be required to support both the immediate response, as well as the ongoing recovery phase over the next few years.

15. The Ministry of Health is recommending reprioritising $24.8 million over the next three years ($12.563 million in 2019/20; $8.750m in 2020/21, and $3.500 m in 2021/22 only) from the funding provided in the Budget 2019 mental wellbeing package to focus specifically on the COVID-19 psychosocial response. This would still allow $332.8 million across the 3 years to implement the Budget 2019 mental wellbeing initiatives. The COVID-19 psychosocial response will be designed to complement this Budget 2019 investment.

16. It is likely that there will be further opportunities for reprioritisation of underspends within Vote Health, especially in relation to a number of health services unable to be provided under Level 4 containment measures (e.g. planned care, dental and some screening services). The Treasury will work with the Ministry to monitor this and provide a clearer picture of this at a later date.

District Health Boards

17. On 17 March 2020 the Minister of Health wrote to DHB Chief Executives issuing a Ministerial direction under section 32 of the New Zealand Public Health and Disability Act 2000 and section 102 of the Crown Entities Act 2004 directing DHBs to act consistently with national-level plans and policies relating to the Government Response to the COVID-19 pandemic. This letter noted that in practical terms, the direction means that DHB Chief Executives are not required to seek approval from Boards to enact significant policy decisions within the Government's COVID-19 response, e.g. expenditure outside normal financial delegations.

18. In addition, the Ministry of Health has asked DHBs to track and provide weekly reporting on service delivery impacts and financial costs specific to the COVID-19 response. The Ministry received the first submission of this information last week, but reporting is not yet complete and reliable enough, nor does it cover a sufficient time period to inform any cost estimates.

19. From this information however, we have assessed that DHBs are likely to need additional funding in the 2019/20 financial year. Examples of the type of additional costs include:

    a clinical supplies and equipment (other than PPE and ventilators),

    b contracted support services such as security and communications, c additional arrangements with private hospital facilities to support service delivery (over and above ICU capacity), and

d other incidental costs such as accommodation and transport for essential workers.

20. Funding provided to DHBs will be accompanied with a clear expectation that they comply with the section 32 directive, and the Ministry of Health's request to track and report COVID-19 costs. Understanding costs is not about cost containment – it is about supporting an effective response and ensuring that there is national consistency amongst DHBs to the response.

21. The Ministry is also closely monitoring DHBs cash positions. Joint Ministers recently agreed to provide an additional $430 million of capital to DHBs to meet immediate working capital needs of 10 DHBs and manage the sector wide cash position [HR/20200312 and T2020/484 refer]. s9(2)(i) [redacted]

22. The Budget 2020 Cabinet paper also recommends providing $980 million per annum additional operating funding for DHBs from 2020/21 onwards. This represents the largest increase in DHB baselines in any Budget and ensures that all DHBs receive at least the same increase they received last year, once population adjustments from the 2018 census are taken into account.

23. This funding is not specifically for the COVID-19 public health response – although the increasing pressure DHBs are facing as a result of COVID-19 is a key reason why the Treasury and the Ministry of Health now support a larger increase. With an investment of this size, communications to DHBs will need to be carefully managed to ensure they do not see the entire amount as a signal of future increases for cost pressures, and increase the size of all their contracts accordingly. Further work will be required to allocate this funding to DHBs and the subsequent messaging provided to DHBs to ensure expectations are clear.

24. Ministers should note that while this increase is substantial, we do not expect it will address the underlying DHB deficits.

Cost modelling prepared by the Treasury

25. The success of COVID-19 public health response and suppression strategy will determine the economic costs of the outbreak. Immediate investment to increase health system capacity is critical. The Treasury has undertaken its own modelling using data provided by the Ministry of Health on current capacity within the health system and strategies to increase the number of intensive care unit (ICU) beds and ventilators available. Annex 2 provides an overview of some of the outputs from this work so far.

26. Underpinning this, the Treasury has also undertaken some independent cost modelling of what is likely to be required for the response over the next six months, under the presumption that the Ministry of Health takes all available action to increase capacity.

27. This model factors in the initial set up costs of Community Based Assessment Centres (CBACs), isolation centres, additional ICU beds, and support for primary care, whilst also considering ongoing operational expenditure such as workforce, testing, tracing and Ministry of Health management costs. These costings were quality assured by public health policy specialists at NZIER. **The Treasury estimates that the total cost of the public health response for a sustained outbreak over six months could likely be in the range of $1.2 billion to $2.0 billion** (inclusive of the $500 million already committed).

28. The Treasury is available to (virtually) meet with the Minister of Finance and the Minister of Health to talk through this model and the underlying assumptions.

Options for funding additional public health response costs

29. Based on our understanding of the current situation, our assessment is that an additional $700 million is required for the COVID-19 public health response and that this upfront investment in measures to contain the virus, support vulnerable people in our community, and ensure the health system has as much capacity as possible to respond, will also reduce the economic costs of the pandemic in the longer-term.

30. We recommend that you commit an additional $700 million to the public health response now, noting that further funding may be required. This would bring the total amount committed to the COVID-19 public health response to $1.2 billion. If Ministers agree to provide funding to all measures listed in paragraph 11, this would leave approximately $440 million available in the contingency for additional funding for DHBs, PPE, testing, support for the health workforce, and PHARMAC, and any other public health response measures that arise.

31. Depending on how the outbreak progresses, further funding may be required. We will continue to monitor information provided by DHBs, the effectiveness of the suppression strategy, update the modelling work accordingly and report back. The Treasury and the Ministry of Health will work together on an overarching approach to monitoring the funding spent against this contingency, to provide Ministers with assurance the funding is being spent and having the intended impact.

32. The Budget 2020 Cabinet paper seeks agreement to establish a notional fund for the COVID-19 response to support the public health system, businesses and workers, the economy and Crown agencies to continue to deliver services.

33. We recommend that the additional $700 million be a charge against this notional fund. Ministers could either agree to:

    a Use this additional $700 million to increase the COVID-19 public health contingency; or

    b Allow the COVID-19 public health contingency to be fully exhausted and manage all future funding requests centrally through the notional fund for the COVID-19 response.

34. The Treasury and the Ministry of Health consider both options to be practical. There may be communications advantages of setting aside funding specifically for the public health response.

Risks

DHB deficits

35. The COVID-19 response and resulting additional pressure on DHBs is likely to have a lasting impact on DHB operational deficits and balance sheets. There is significant uncertainty about what will be required, and for how long, as well as how easy it will be for DHBs to unwind COVID-19 related spending increases once the crisis is over.

36. Further thinking will be required on how best to address the limited levers available to Government to contain DHB spending, given the new context in which any sort of significant system transformation is unlikely to be feasible in the medium-term. Particularly as we move out of the response phase and towards economic recovery, the absence of effective levers will risk undermining the Government's ability to deliver its fiscal strategy.

37. In the immediate-term however, it is important that DHBs have the resources available to pivot swiftly to respond to COVID-19 response needs as they emerge. As noted above, the success of COVID-19 public health response will determine the economic costs of the outbreak.

DHB liquidity

38. You recently signed a report that agreed to allocate $430 million capital to meet the immediate working capital needs of ten DHBs and manage the sector wide cash position [T2020/484, HR20200312 refers]. There is a risk, given the weak cash position of a number of DHBs and the additional preparedness work required of them that further capital injections may be required this financial year to support the cash flow position of DHBs.

39. DHBs have been asked to raise any concerns about cash flow with the Ministry of Health as early as possible. The Treasury and the Ministry of Health will keep closely in touch on this issue to ensure we are well positioned to respond if an issue arises.

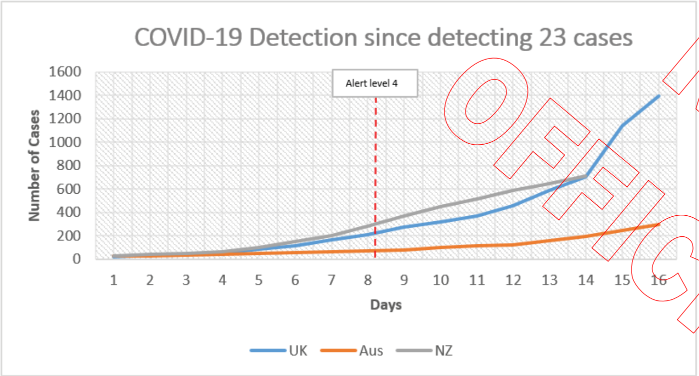
40. s9(2)(i) [redacted]

41. On 27 March the Minister of Finance invoked section 25 of the Public Finance Act 1989 relating to emergency expenditure. Section 25 enables Chief Executives of departments to incur emergency expenditure without appropriation. Using powers under section 25 should be a last resort option s9(2)(i) [redacted]

Annex 1: COVID-19 Public Health Response Tagged Contingency – Calls on the contingency and funding committed to date, as at 31 March 2020

Initiative	$ million		Comment from the Ministry of Health
	Appropriated	Committed or spent to date	
16 March 2020 – CAB-20-MIN-0110 – Funding for COVID-19: Public Health Response	**238.2**		
Costs committed as at 16 March (telehealth, isolation centre at Whangaparāoa)	2.7	2.1	A wash up of residual costs is underway, and the total of $2.7 million is expected to be fully consumed once all involves are received.
Public health campaign	10.0	10.0	This includes Public health messaging and pamphlets etc., and the recently agreed funding for the Māori Health package, It excludes any costs associated with the broader All of Government communications programme, which is expected to be approximately $25 million.
Healthline – COVID-19 response	20.0	17.3	This is expected to be fully committed by 30 June 2020.
Ministry of Health costs, including support for MCDEM	10.0	2.6	Several streams are now being led by the all of government programme, which may see this amount reduce. We will continue to closely monitor the costs being incurred and committed
Public health capacity – including contact tracing	40.0	28..1	The increase in cases and the move to Level 4 has seen costs continue to increase in this area, with additional resources and tools being secured for contact tracing.
Workforce capacity across DHB provided services	30.0	0.6	Work continues in this area to ensure that workforce capacity exists.
Additional ventilated and non-ventilated ICU capacity	31.5	5.7	Work continues in this area and this changes by the day. This is expected to be fully committed.
General practice support, including establishment of Community Based Assessment Centres (CBAC)	50.0	57.8	The increase in cases and the move to Level 4 has seen costs continue to increase in this area, as contracts and costs are firmed up.
Telehealth consultation service for clinicians	20.0	23.8	
COVID-19 testing - laboratory capacity	5.0	5.0	This is expected to be fully committed by 30 June 2020
Psychosocial response and recovery plan	15.0	14.2	As noted in paragraphs 9 and 10, the Ministry has subsequently identified that further funding will be required to support the both the immediate response, as well as the ongoing recovery phase over the next few years.
Additional stocks of Mylan flu vaccine	4.0	4.0	This is expected to be fully committed by 30 June 2020
21 March 2020 – Joint Ministers Letter – COVID-19 Māori Response Package	**23.0**		
Additional support for Māori health providers to redirect efforts towards COVID-19	5.0	-	Work is underway with providers to establish and roll out the programme. We expect it to be fully committed by 30 June.
Locally-specific support to kuia and koroua, as well as for Māori who are self-isolating, unwell or in general need of assistance	18.0	-	
30 March 2020 – CAB-20-MIN-0141 – COVID-19 Pacific Response Package	**14.0**		
Capacity for Pacific Health and Disability providers, mobilisation of Pacific Health Networks, Pacific engagement, communication and awareness raising, and Pacific focussed services – telehealth, contact tracing, aged care, disability services	14.0	-	Work is underway with providers to establish and roll out the programme. We expect it to be fully committed by 30 June.
Total drawn down/committed as at 31 March 2020	**275.2**	**171.2**	
Total remaining in the contingency	**224.8**		

Annex 2: Examples of early findings of modelling undertaking by Treasury on COVID-19

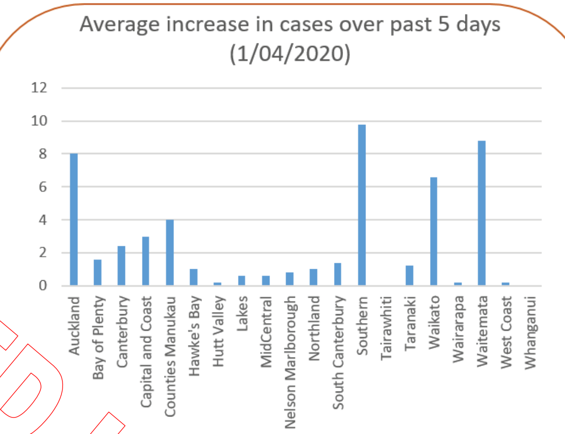


The number of new cases per day in New Zealand mapped against UK and Australia using 23 cases as the baseline

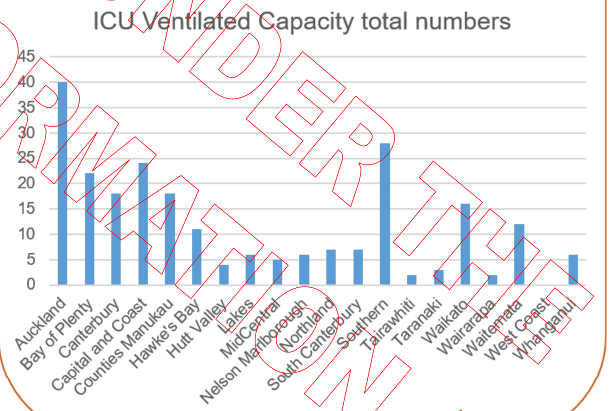
Suppression success is based on maintaining health system capacity and compliance.

As health system capacity goes down due to staff absence, accumulated pressure on resources and seasonable pressures, this must be met with actions to drive down the number of cases the system has to deal with.

Behavioural science suggests that compliance decreases over the course of each suppression event and in each subsequent suppression event. As this suppression has never been deployed before, this thinking is currently untested.



Spread is not universal across NZ, neither is ICU capacity, however there will be ability to transfer patients between DHBs where there is capacity.

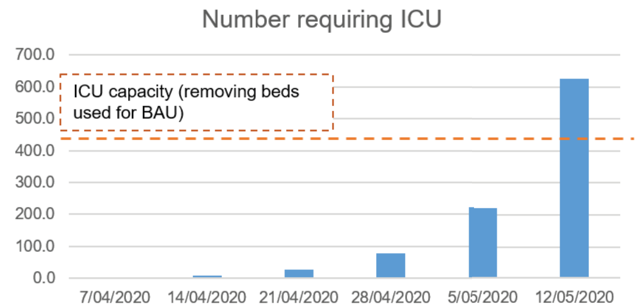


Potential number ventilator capable beds in the public health system:

564 Beds

Of these, an estimated **140** are required for BAU (non-COVID) and **401** are not currently staffed or are based outside of ICU facilities.

Based on current trends (which do not yet take account of Level 4 measures), the number of patients requiring ICU is predicted to outstrip total capacity within 6 weeks.



TE TAI ŌHANGA
THE TREASURY

Reference: T2020/875 SH-18-2 (Housing Policy)

Date: 4 April 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: 10am, Sunday 5 April

Commercial Rents

This aide memoire supports your meeting with the Minister of Justice at 10am on Sunday 5 April to discuss changes to the Property Law Act 2007 to protect commercial tenants from eviction. It also provides background on the commercial rental sector and more information on the options described in *COVID-19 Support for SMEs* (TR T2020/845) that could be paired with the Property Law Act changes.

The Property Law Act proposals are to:

- extend time frames for the cancellation of commercial leases from 10 to 30 days
- ensure that rent cannot be increased in commercial leases during Alert Level 4
- restrict the exercise of mortgagees' powers by extending the period of notice from 20 to 40 working days for mortgaged land, and from 10 to 30 working days for mortgaged goods.

There is growing demand for government support for commercial rents

Both commercial tenants and commercial landlords are impacted by restrictions on trade at Alert Level 4 and many will continue to be affected once we move into Level 2. Commercial landlords will be in differing situations – some will be mortgage free with low operating costs, others may be highly leveraged with high operating costs.

The impact of a loss of income will be shared at varying rates between landlords, businesses, banks and the Government. The share will depend on contractual terms, negotiations and government interventions.

Treasury has provided a report on support options for small and medium size enterprises (COVID-19 - Support for SMEs T2020/845). The paper includes a recommendation to agree to accelerate work on incentives for commercial property rental renegotiations. The paper also highlights new and existing supports that are available to businesses.

The Property Law Act proposal is likely to lead to demands for a wider package to support commercial rents

Fast and clear short term actions are particularly valuable to buy time in order to develop and implement a more enduring solution. The proposed eviction and mortgagee protections provide time for negotiations and help prevent short term disruption, especially during level 4 where the focus is on public health.

This aide memoire identifies and expands on support measures from T2020/845 that are most applicable to supporting commercial rents. The benefit of pairing one or more of these with the eviction protection proposal is that:

- the result will be more equitable for landlords, who bear the cost of the eviction protection (somewhat offset by the mortgagee restriction)
- a diverse, multi-measure approach would help with the fact that, at this stage, we don't have a good picture of where support is most needed
- support measures can address the loss of income, which an eviction protection does not resolve
- support measures can help move commercial rents to sustainable levels for the future.

The disadvantage of such a package is the fiscal cost and overruling existing contractual arrangements, with the incentives this creates. There may be other disadvantages related to the ability to implement additional measures.

Commercial Rental Sector Context

The New Zealand commercial property stock was estimated to be worth approximately $224 billion in 2018, with annual sales of approximately $17 billion. Provisional work undertaken with PWC has estimated the size of the sector to be $185bn with an implied gross rent of $15 billion - $ 17billion per year.

The price of commercial space is very variable with Auckland prime retail CBD rentals at $1,750 - $4,300 per square metre per annum, through to $200 - $475 per square metre in Henderson.

A standard rental clause gives tenants grounds to forgo a fair proportion of rent if they cannot access their tenancy. The fair proportion in the 'no access' clause is usually a 50-100% discount. However, not all forms of lease directly cover this situation and estimates of the extent of the coverage of the clause vary widely. Many examples are emerging of companies who have stopped paying rent under the clause, rent re-negotiations effectively completed under the clause and also examples of companies proposing rent discounts and negotiating with landlords despite having contracts without the 'no access' clause.

Business Interruption (Loss of earnings) Insurance has an industry standard "Notifiable Disease" exemption. Only a very small minority of companies purchase any form of cover that spans local closure due to an infectious disease. Commercial landlords will be in differing situations – some will be mortgage free with low operating costs, others may be highly leveraged with high operating costs.

A number of Iwi have significant interests in commercial property amongst their post-settlement assets.

In the current environment there is uncertainty about future rent levels and both landlords and tenants may find it difficult to find the new market rate without significant disruption.

Commercial Rent Support Options

Options from the SME paper (TR T2020/845) with close links to supporting commercial rents include:

1. **Commercial property eviction protection** for a period linked to time in level 4, a 40 working day provision as proposed by the Ministry of Justice. This supports commercial tenants at the expense of landlords, and buys time for negotiation. Performs well as short term support with fast implementation for tenants, but poorly on equity grounds if used alone.

2. **Rental renegotiation incentive.** A time limited subsidy that replaces a percentage of what landlords concede to their tenants in a fast rent renegotiation. The advantages of this approach include that it supports a transition to the medium term, provides a light touch and equitable way to subsidise landlords' losses across different places and industries, without spending on tenancies not in distress (e.g. supermarkets).

   It may be complex to communicate, and would require an arm of government to receive and pay invoices. We are currently unsure on the ease and speed of implementation but will work to provide some certainty on this question. A payment supporting half of rents (by value) to reduce by half with a 50% incentive would cost in the region of $177m a month (illustrative only).

   This option could involve one round of negotiations to cover time in level 4 and a short period afterwards – with the potential to backdate to the start of level 4, and a second round to cover the period afterwards. It would be possible to decide sequentially.

3. **Provide credit support to commercial landlords.** The Business Finance Guarantee scheme can be expanded to property firms along with other parameter changes such as targeting smaller firms. Advantages are the ability to target support, and the costs of the scheme are recovered over time. Disadvantages are that the period of economic stress may be quite long meaning repayment may take some time and an increase in total Crown exposure.
4. **Commercial property direct subsidy.** Providing grants (linked to a percent of loss) to distressed business to enable them to meet direct rental costs. Under this option commercial landlords and tenants have little incentive in the short term to renegotiate rents to reflect market circumstances. This option is likely to be the most costly option depending on scale for government. Supports the short term and can be implemented fast, potentially inequitable for taxpayers. A payment covering half or commercial rents by value, at 80% support could cost in the region of $567m a month (illustrative only).

For further work

There are trade-offs between broad and targeted measures. Broad measures will support viable firms that will be central to the recovery, but will also support firms that may not survive when these measures are withdrawn in the recovery phase. More targeted measures may be too slow and difficult to implement in a timely fashion.

Broader SME supports such as the existing supports or a grant scheme avoid direct intervention on commercial rents. This risks a short term shock as businesses close or relocate if the supports are not adequate to cover rental costs, with employment impacts, and forces fast decision making on lease terminations. However such an approach retains responsibility on landlords and tenants to negotiate with reference to agreed contracts and their own interests in continuity.

A temporary eviction protection provides a short term solution that can be implemented fast, but implemented alone could be inequitable for landlords, and does not address who bears the loss of income.

Consistent with the advice set out in the SME paper (TR T2020/845) and given implementation uncertainty, we suggest accelerating work on three measures that can be strongly linked to helping resolve the issue of commercial rents (recommendation a of COVID-19 - Support for SMEs T2020/845):

- Incentives for commercial property rental renegotiations
- Re-examining the scope of the Business Finance Guarantee to provide a broader coverage of firms (covering commercial landlords)
- Grant scheme to reduce the risk of widespread insolvency. With bespoke deals for the largest companies.

Next Steps

With an indication that you are interested in incentives for commercial property rental renegotiations Treasury can work with MBIE to provide advice on the implementation speed and feasibility of the commercial property rental renegotiation incentive concept.

Corwin Wallens, Senior Analyst, Housing and Urban Growth, s9(2)(k)
Geraldine Treacher, Manager, Housing and Urban Growth, s9(2)(k)

COMMERCIAL-IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Radio New Zealand: Time-Limited Funding

Date:	6 April 2020	**Report No:**	T2020/863
		File Number:	CM-1-3-66-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** to the recommendations	Monday 13 April 2020
Minister of Broadcasting, Communications and Digital Media (Hon Kris Faafoi)	**Agree** to the recommendations	Monday 13 April 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Eva Parker	Graduate Analyst, Commercial Performance	s9(2)(k) [redacted]	N/A (mob)	✓
Maureena van der Lem	Manager, Commercial Performance		s9(2)(g)(ii) [redacted]	

Minister's Office actions

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Radio New Zealand: Time-Limited Funding

Purpose of Report

1. Radio New Zealand (RNZ) was allocated a two-year time-limited annual operating funding increase of $7.25 million in Budget 2019. This report outlines the implications of RNZ not receiving this time-limited funding after 2020/21, and confirms the minimum level of funding required to ensure RNZ is able to continue its current service offering.

2. As such, this report revisits RNZ's declined Budget 2020 bid, in light of the change in circumstances due to COVID-19. This report seeks agreement in principle from shareholding Ministers to increase RNZ's baseline by the amount of the time-limited funding: $7.25 million per year from 2021/22 onwards.

3. The Ministry for Culture and Heritage was consulted on this report and agrees with its contents and recommendations.

Budgets 2019 and 2020

4. RNZ's baseline funding is $35.356 million. In Budget 2019, RNZ received a time-limited annual operating funding increase of $7.25 million for 2019/20 and 2020/21, as well as a $3.50 million equity injection, to fund capital spending, over three years ($1.80 million for 2019/20, $1.05 million for 2020/21 and $0.65 million for 2021/22).

5. RNZ submitted a Budget 2020 bid to seek an extension to the $7.25 million annual operating funding increase for 2021/22 and 2022/23 to allow it sufficient time to plan beyond the expiry of its current funding. This bid was declined; at the time of consideration it made sense to finalise the future shape of a single public media entity through the Strong Public Media policy work before deciding on the ongoing funding.

Implications for RNZ

6. The Budget 2019 time-limited funding increase was intended as a measure to support RNZ while the Strong Public Media policy work was undertaken.

7. The response to COVID-19 is having detrimental effects in an already vulnerable media sector, and significant implications for the New Zealand economy. As a result, the timeline s9(2)(f)(iv) [redacted] for the Strong Public Media policy work may change, and RNZ's time-limited funding will expire in June 2021, well before decisions from the policy work can be implemented.

8. s9(2)(b)(ii) [redacted]

9. s9(2)(b)(ii) [redacted] RNZ is experiencing pressures on its commercial revenue as its customers seek relief from AM transmission charges ($1.2 million in revenue per annum).

10. s9(2)(g)(i)

11. It is our understanding that Ministers do not intend to reduce RNZ's funding by $7.25 million a year from 2021/22, and were planning to either extend the time-limited funding, or make it ongoing, at the appropriate time. Given the impacts of COVID-19, our view is that time is fast approaching.

Next Steps

12. It is important that RNZ's current funding level is maintained to enable it to plan, build on recent years' progress, and continue to contribute to the Government's public media outcomes while the Strong Public Media policy work evolves.

13. We recommend shareholding Ministers agree in principle to increase RNZ's annual operating funding by $7.25 million a year, to $42.606 million a year, from 2021/22 onwards.

14. If shareholding Ministers agree, officials will prepare a paper for you to present to Cabinet, for consideration and seeking funding as part of the 11 May non-urgent package (COVID-19 related) or after the Budget moratorium from the Between Budget Contingency.

Recommended Action

We recommend that you:

a **note** RNZ was allocated a two-year time-limited annual operating funding increase of $7.25 million in Budget 2019 to support it while the Strong Public Media policy work was undertaken

b **note** that RNZ's current funding environment has been exacerbated by COVID-19 in a short time frame and, as a result, is in a less certain operating environment

c **agree in principle**, subject to subsequent agreement by Cabinet, that the time-limited RNZ funding increase agreed in Budget 2019 of $7.25 million in each of 2019/20 and 2020/21 be extended to continue into 2021/22 and outyears, bringing RNZ's ongoing annual baseline funding to $42.606 million

Agree/disagree
Minister of Finance

Agree/disagree
Minister of Broadcasting, Communications and Digital Media

d **direct** officials to prepare a paper for shareholding Ministers to present to Cabinet, for consideration and seeking funding by the most appropriate mechanism as, either (i) part of the 11 May non-urgent package (COVID-19 related) or (ii) after the Budget moratorium from the Between Budget Contingency

Agree/disagree
Minister of Finance

Agree/disagree
Minister of Broadcasting, Communications and Digital Media

Maureena van der Lem**Manager, Commercial Performance**

Hon Grant Robertson
Minister of Finance

Hon Kris Faafoi
Minister of Broadcasting, Communications and Digital Media

SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: All-of-Government paper on the Managed Economy

Date:	7 April 2020	**Report No:**	T2020/911
		File Number:	SH-1-6-1-3-3-15

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to sponsor the attached AoG paper for consideration by the COVID-19 Cabinet Committee	8 April 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
David Smol (attached paper author)	Advisor, COVID-19 AoG Strategy, Policy and Coordination Unit	N/A (wk)	s9(2)(g)(ii) [redacted]	
Silkie Whitworth	Senior Analyst, COVID-19 Economic Response	s9(2)(k) [redacted]	[redacted]	
Bryan Chapple	Deputy Secretary, COVID-19 Economic Response	[redacted]	[redacted]	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: All-of-Government paper on Managed Economy

Executive Summary

Context

The attached paper has been drafted by David Smol on behalf of the All of Government (AOG) Strategy and Policy Group. The AOG Group provides leadership across the policy response to COVID-19.

Taking a worst-case view, the paper seeks to identify areas in which Government may need to take a more direct role in the operation of parts of the economy, in order to:

- maintain supply of essential goods and services to support a base level of material well-being for all**;** and
- maintain social cohesion and societal support for the potentially extreme restrictions on normal freedoms that are necessary to protect lives.

The paper was drafted in consultation with the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, the Ministry of Foreign Affairs and Trade, the Ministry of Transport and the Treasury.

The paper is proposed to be considered by the Ad-hoc Cabinet Committee on the COVID-19 Response (CVD) this Thursday. A related paper is intended to be considered on Thursday at CVD, which proposes options and scenarios for moving between Alert Levels. The papers can be assessed simultaneously, however the actions considered in the Managed Economy paper relate to issues that could occur under any Level.

Proposals

Many of the suggested actions are already in train, and others (e.g. developing backstop provisions to enable rationing and price control) may never be required. This paper is intended to make Ministers aware that agencies are considering scenarios that could occur, and of what further actions may be needed. It is mostly a noting paper, with one recommendation to:

> **"Direct** officials in the National Crisis Management Centre Strategy and Policy Team, in partnership with economic agency leads, to provide further advice on potential interventions for Cabinet by 17 April, or sooner if required for specific risks."

Prior to tabling the paper (which Treasury officials would draft in the appropriate format) at the next CVD, **there are some choices for you to consider**:

- Whether you would like Ministers **to note** the actions in the paper, and therefore direct officials to provide further advice yourself, **or** whether the direction should come from the full Cabinet Committee.
- **Whether to broaden the scope of the paper** to include ways in which the Government could intervene in supply of essential **public health goods and services**, for example the provision of pharmaceuticals and medical devices. This would likely **delay** a Cabinet discussion: Treasury officials are already considering options, but formal consultation across agencies would be required.

Recommended Actions

We recommend that you:

a **agree** to sponsor this paper at the next possible Covid-19 Cabinet Committee meeting

Agree/disagree

b **indicate** whether the paper should be a noting paper, or whether agreement should be sought from the Ad-hoc Cabinet Committee on the COVID-19 Response, and

Noting paper/Seek agreement

c **direct** All of Government officials to expand the paper to consider additional interventions in the supply of essential public health goods and services, noting this would delay the Cabinet paper.

Agree/disagree.

Bryan Chapple
Deputy Secretary
COVID-19 Economic Response

Hon Grant Robertson
Minister of Finance

Annex: All-of-Government paper on Managed Economy

Executive Summary

Ministers will shortly review New Zealand's COVID-19 public health strategy, including the alert level. Decisions that are made will have implications for the economy and the policies required to sustain a base level of material wellbeing for communities in New Zealand, including vulnerable groups.

Under COVID-19 Levels 3 and 4, normal market mechanisms are not sufficient to ensure the provision of essential goods and services for New Zealanders. Loss of passenger revenue, for example, makes air freight unaffordable for both exporters and importers so the Government is financially supporting the availability of freight routes. Restrictions on movement within New Zealand are constraining the normal functioning of the labour market.

In many cases, it will be possible to use semi-market instruments, such as commercial contracts, to maintain the supply of essential goods and services. However, these sorts of instruments will not necessarily always be sufficient.

To prepare for a worst-case scenario, officials recommend that Ministers consider having additional powers available to intervene in decisions that are normally the preserve of individuals and businesses. Any such powers should be time-limited, subject to appropriate checks and balances, and used to transition back, as quickly as possible, to a market-led recovery.

Good information, including real-time and lead indicators of economic resilience, will be critical to informing decision-making by Ministers to support the functioning of critical parts of the economy through the coming months.

Purpose of this report

The public health response to COVID-19 in New Zealand and internationally will impact on the way the Government stewards the economy over the next 12-18 months.

Restrictions on economic activity and partial or full closure of borders, particularly for people movements, mean that some of the market-based elements of New Zealand's economy will not function as normal, necessitating a more managed economy.

This report seeks to identify areas in which Government may need to take a more direct role in the operation of parts of the economy over the short (14-28 days), medium (1-3 months) and long (3-18 months) term, in order to:

- maintain the supply of essential goods and services to support a base level of material well-being for all; and
- maintain social cohesion and societal support for the restrictions on normal freedoms that are necessary to protect lives.

Government has already taken a range of steps to mitigate risks to the economy through the early stages of the COVID-19 response.

This report takes a worst-case view, identifying additional programmes and powers that could be needed if severe restrictions on, and disruptions to, economic activity continue for a sustained period.

Economic policy will adjust through the phases of the crisis

At this stage, the Government is maintaining the normal operation of the economy to the extent possible for the duration of Level 4, while prohibiting non-essential services (other than if working from home). This approach is being supplemented by a large and growing number of interventions, including for businesses, workers, tenants, the financial system and freight flows.

Many restrictions will continue as and when the country moves to Level 3.

Most countries have similar restrictions in place, resulting in reduced domestic economic activity, lower exports and lower imports, which impact directly and indirectly on New Zealand.

In managing reduced domestic activity and trade flows, governments around the world are focusing on essential goods and services, notably medical supplies and food. Subject to public health restrictions, maintaining New Zealand's capacity to export food and select medical supplies will underpin our ability to continue to import essential supplies.

A few countries, notably China, are ramping up economic activity, but face the risk of further waves of COVID-19.

The scale of the economic challenge for New Zealand is very large. A partial restart of non-essential economic activity should be possible under Level 3 and more so under Level 2. But employment will likely remain well below levels seen in recent decades, and for a considerable period.

The aggregate level of economic activity over the next 9-18 months will almost certainly be too low to sustain current levels of wage subsidy and of business support, while also managing national debt levels. Many businesses will fail. The financial system will remain under pressure and vulnerable to further shocks.

Recovery will likely get underway while borders are still at least partially shut. Given the imbalances that will have built up, the restart and then recovery will require a combination of careful management of the macroeconomy, infrastructure projects (for which preparation has begun) and support for an unleashing of entrepreneurial activity.

The economy that emerges over time will be different than the pre-COVID-19 economy and is an opportunity for step change in areas such as innovation, sustainability and net zero carbon.

This report focuses on how Government can mitigate risks to the supply of essential goods and services during the economic response and early states of economic restart. Maintaining this supply is fundamental to the success of the COVID-19 health response and to starting the subsequent economic recovery.

Risks to the supply of essential goods and services

Potential risks include the following:

A breakdown in elements of supply chains for essential goods and services – reasons could include:

- financial stress for businesses providing essential supplies, because of lost revenue from the balance of their business, and

- the non-availability of critical inputs, whether imported or domestically sourced.

Ongoing closure of the border to people movements with a consequent need for a market-led, government-enabled reengineering of New Zealand's international air freight linkages.

International supply chain challenges – New Zealand's inclusion in international shipping routes may be reduced if our imports of non-essential goods are limited and our exports are significantly reduced. If trade remains severely restricted over the medium-term, significant resource reallocation within the domestic economy may be needed to sustain supply chains for essential goods and services.

Workforce shortages for essential businesses, through a combination of people becoming unwell, people refusing to work due to concerns about health risks, childcare concerns, restrictions on people movements around the county and reduced access to migrants.

Level 4 proving insufficient, necessitating a more extreme form of lockdown, for example a narrower definition of 'essential', stronger restrictions on movement and deliveries only permitted for essential supplies.

Extended regional lockdowns, where regions or towns with a high incidence of COVID-19 may be locked down for a longer period, and possibly in a more extreme way, necessitating controlled delivery of essentials (food and beverage, pharmaceuticals, health and social care).

Risks to ongoing societal acceptance of restrictions

These risks could arise from perceived inequities, including unequal distribution of necessities, shortages of critical supplies and perceived price gouging. They could arise nationally or regionally, and for Maori, rural and for other vulnerable communities.

Potential risk mitigations

Supporting the ongoing operation of businesses in supply chains for 'essentials'

The wage subsidy provides support for businesses across the board. A working capital guarantee scheme has also been developed to help maintain the flow of credit to small-to-medium firms (between $250k and $80 million revenue).

Treasury is working on a facility to provide financial support on a case-by-case basis to a small number of large, "economically significant" firms that will be important in the recovery. Individual government agencies are considering financial support within their sectors, for example with the Ministry of Transport's air freight package.

An apparent gap in this support structure is for firms providing goods and services critical to the response that are at risk of failure, despite the above assistance. For example, the firms may not be large or economically significant enough to warrant tailored solutions yet may be too large for the guarantee scheme to provide adequate support to continue operations.

Where services provided by such firms are critical to provide the necessities of life for New Zealanders and the market is not substituting for these failures, alternative measures may need to be considered. Such measures might include commoditised products, sector-wide measures or agencies directly contracting for services.

Officials are considering such interventions. Care will be required to ensure that any additional interventions are disciplined, clear rationales and thresholds are met, support is kept to the minimum necessary and the interventions are perceived as fair (for example that similar support is available for businesses in similar circumstances).

Repurposing facilities and reengineering supply chains

Current supply chains for essential goods and services in New Zealand rely, to varying degrees, on imports of a wide range of components, machinery and finished products. Disruption of international economic activity, and the likelihood that border restrictions will remain in place for 12-18 months, will require some restructuring of these supply chains.

We are already seeing intense pressure on supply chains for critical health supplies such as ventilators and PPE. The market internationally is responding to these pressures (for example with General Motors and Ford making ventilators).

New Zealand retailers of fast-moving consumer goods source a range of produce and products from offshore. Imports enable year-round supply of some primary produce that is also grown locally. The restrictions on economic activity in most countries, and the disruption to air freight, mean that New Zealand is unlikely to be able to source the normal range of food, beverage and other products, and temporary shortages will become more likely.

Officials are monitoring supply chains to enable early identification of risk of shortages and of mitigation measures. The focus will be on essential staples.

In some critical areas, New Zealand may want or need to (rapidly) become more self-sufficient, to the extent practicable.

Over the medium term, market signals should incentivise redeployment of existing resources and capabilities. New Zealand manufacturers are already seeking, for example, to repurpose some facilities to provide personal protective equipment. But uncertainty over timeframes and the nature of the post-lockdown period will limit businesses' willingness to invest for repurposing. The Government may need to underwrite some of the risk, likely on a case-by-case (and exceptional) basis. This could be potentially be integrated into the Government's programme of business support if emerging evidence suggests a compelling need.

Repurposing of some facilities and capabilities could require resource consents. Officials are preparing advice on means to expedite consenting processes (for example for infrastructure projects) as recovery gets underway. The scope of this work could be extended if consenting issues are constraining the economy's ability to adapt in the period of COVID-19 restrictions.

Rationing and price control

In competitive markets, prices adjust to balance supply and demand. Consumers' ability to purchase essential (and other) goods and services is determined by price levels and disposable incomes.

Given the restrictions on economic activity in New Zealand and internationally, a worst-case scenario might require the Government to consider some combination of rationing and price control to ensure as much as possible that everyone in New Zealand has access to sufficient essential goods and services.

Rationing

Some medical supplies are already controlled/rationed, via Pharmac, pharmacies and the health system more generally. These existing controls could be ramped up if additional control is required.

Other than for some medical supplies, officials are not aware of rationing in other countries and consider the probability of wider rationing in New Zealand to be low.

Supermarkets are already limiting the purchase of certain products (partly in response to panic buying) and suppliers are adjusting their product lines in some instances to limit variation but maximise quantity. Formal food rationing could be considered in the future because of sustained shortage of staples or because of a more extreme form of lockdown, most likely at a sub-regional level.

It may be prudent for government to work with supermarkets and other critical partners on options to implement more extensive rationing of staples. This could be based on a rapid scaling-up of existing arrangements, for example online ordering, physical delivery and administered prices. Alternative arrangements would have to be found for those not online. Consumers would pay for their rations, with existing income support mechanisms helping those otherwise unable to meet the cost.

Price gouging

The Prime Minister is leading communication aimed at discouraging price gouging at this time of national crisis.

Perceived price gouging at the consumer level could destabilise support for a lockdown and deprive some groups of access to essentials like food and beverage, medical supplies, housing, utilities and ICT.

Demand for housing and utilities has reduced so price gouging is less likely in these areas. Energy networks are already subject to price control.

Demand for some ICT services has increased. Officials are monitoring the sector's response to this increased demand and work on potential challenges in more isolated areas was already underway before COVID-19.

The Government has prohibited rent increases and evictions, which should work in the short-term but will likely create tensions if a high alert level persists.

The Commerce Act is not designed to enable short-term price controls during a pandemic. Attempting to sustain regulation of individual items of food while supermarkets are otherwise functioning relatively normally would be impracticable.

The Minister of Commerce has established a "pricewatch" email address, through which consumers can raise concerns about price gouging. Officials' current intent is to review the responses, raise issues with the subjects of the concerns, understand the reasons for the prices and feed this information back to consumers. The only legal sanction available is if businesses misrepresent the reasons behind price-setting, which is potentially an offence under the Fair Trading Act.

Implementing short-term price controls on specific essential goods and services would be very difficult to do and would likely cause unintended consequences. Nonetheless, officials are doing preliminary work on how a backstop price control power during the COVID-19 response might be designed (which could also require some form of rationing) should Ministers decide they want the option.

The scope for price gouging will be influenced, at least at the margin, by decisions on the definition of essential services. A broader definition, enabling more businesses to operate, would enable competition to exercise more of a constraint on prices in some sub-sectors.

Officials will monitor developments from a consumer perspective over the coming weeks and months. If some form of lockdown endures, some consumers are likely to face inter-connected challenges, such as higher-than-normal prices for some products and loss of, or reduced access to, credit.

Securing domestic production of essential goods and services for the domestic market

There is potential for conflict between business interest and the public good if, for example, a New Zealand-based business decides to export medical products or primary produce that also are in demand locally.

Such situations are likely to be relatively rare and would require a case-by-case approach aimed at negotiating optimal outcomes, taking into account the interests of the business, New Zealand's relationship with other countries and the national interest in accessing essential goods and services.

Selectively banning export of 'essentials' would be difficult to do and would risk retaliatory action by trading partners. Any such action by the Government would likely require new powers. Officials are doing preliminary thinking about how such powers could be designed, should Ministers decide they want the option.

Maintaining critical air and sea freight movements

Cabinet has agreed a formal structured air cargo programme which brings together an understanding of critical imports (for example medicines) and high value exports that are air freighted, as well as the location of key ports/access points. It is a market-based approach but provides Government assistance in the form of a grant or subsidy to underwrite any differences between the costs of flying a plane and what air cargo operators get market value for from moving the freight.

This helps mitigate risk for operators. It has a fast track scheme to deal with immediate issues over the coming fortnight and a larger air freight package available for the short term for which proposals will be awarded in April for the next 6-9 months. Bids into this scheme will reveal what, if anything, may be needed in the near future in terms of additional or supplemented aviation routes. Helpfully, even without support from the scheme, airlines have announced new freight lines over the last week. At this stage therefore, the situation for air freight has stabilised, though needs to be kept under review.

Sea freight has been functioning relatively normally but some challenges are emerging, including congestion, reduced numbers of containers (because of reduced imports) and risks of port closures (domestically and internationally). However, some ports are open fully again and keen to move goods. There is a good line of sight and a range of risks and mitigation measures are in place as far as is possible at this point in what is an evolving situation.

Despite this, Ministers should be aware that if international restrictions increase, exposing unexpected fragility in sea routes, they may need to consider an approach to sea routes that is similar to that undertaken for airfreight. A worst-case scenario would involve chartering/requisitioning vessels to provide domestic and international sea freight capacity.

At this stage, officials are confident that the existing mechanisms and instruments in place can mitigate most of the key risks. There remains a possibility, however, that while the bulk of New Zealand needs (both critical imports and exports) may be addressed, a proportion may not. In this case, Ministers may need to be prepared to consider more 'managed trade' options where New Zealand's position as a net food exporter and provider of high-tech medical equipment is brought into play to secure vital medical supplies (equipment and medicine).

This has already occurred in an ad hoc and informal manner with Singapore - a net food importer, a regional hub and a supplier of medical equipment and medicines. Consideration may need to be given over time to more formalised arrangements in particular and limited instances, and with other partners including the EU, China and India. Ministers would be closely consulted on any decisions to proceed along these lines.

There may also be opportunities to partner with Australia to bulk-up procurement orders for medical supplies, and to supplement or add aviation routes. Given the fundamental shift in trade policy that such approaches imply, a time-bound framework (linked to the current crisis) is being developed to assess the utility of individual approaches and arrangements.

Maintaining supply of essentials to vulnerable communities

Maintaining supply of essentials to vulnerable communities is critical for those communities and to maintaining societal support for a sustained period of full or partial lockdown.

Particular challenges for vulnerable communities could relate to accessing medical services, the distribution of essential goods like food (for people who are house-bound, for example, and for remote rural communities) and income constraints, particularly if people lose jobs and prices rise for some essentials.

Officials are monitoring the supply chain to vulnerable communities and will prepare advice to Ministers on any need for further action, which would likely be based on adapting existing support mechanisms and using existing support providers as much as possible. This work has a particular focus on working with Maori communities to ensure appropriate support mechanisms are in place.

Addressing workforce constraints

Employment will reduce significantly as a result of the public health initiatives to close the border and restrict economic activity. The Government has put in place a range of supports during the lockdown period, to sustain employment where possible and to provide additional income support where necessary.

Critical skill shortages are a risk, with potential causes including:

- increased demand for health services
- people refusing to work because of concerns about their personal health
- high levels of sickness
- people needing to care for children while schools and ECE are closed
- domestic travel restrictions, constraining the matching of skills to need.

The Government has already taken some steps to support the workforce for essential goods and services, including:

- visa arrangements that are sufficiently flexible to enable non-New Zealanders still in the country to continue to work in priority areas
- starting to support redeployment of private sector workers to support essential public services (for example Healthline and contact tracing)
- facilitating industry-to-industry discussions where workers can potentially be redeployed (for example forestry workers redeploying to the horticulture sector)

- working to ensure that government support mechanisms (such as the wage subsidy) are not a barrier to redeployment.

Of necessity, actions to date have been relatively ad hoc. Officials are preparing advice to Ministers on a more proactive approach.

Current legal settings and government support arrangements reflect trade-offs that governments and Parliament have made in ‘normal’ circumstances. Temporary changes to some settings may provide net benefit during the COVID-19 response. These could potentially include:

- targeted additional incentives to work in critical public sector roles, if necessary and feasible (which would depend on prospects for eliciting increased supply rather than driving up cost)
- relaxing occupational regulation to enable less qualified people to perform essential tasks (and accepting the associated risks)
- support for short-term training that is required to keep essential services running
- enabling temporary changes to employment relationships, for example so that a business and the associated employment can be sustained through the period of COVID-19 restrictions
- considering exceptional cases for addressing short-term shortages of critical skills through immigration
- support for matching people to vacancies, particularly while intra- and inter-regional restrictions on people movement remain in place
- ensuring good information to support medium-term decision making by businesses and workers.

Officials are developing advice to Ministers on a range of labour market options to support the COVID-19 economic response, restart and recovery.

Establishing monitoring, intelligence and rapid response capabilities

Good data and intelligence will enable early warning of emerging risks. Officials have a wide range of information-gathering arrangements in place already. The National Crisis Management Centre is coordinating work to identify any gaps and to better enable an integrated view of emerging issues across the economy. This work is a high priority.

Officials are also building a rapid-response capability, leveraging both public and private sector resources, the purpose of which is to understand the reasons for emerging problems, take problem-solving action wherever possible (some of which might require seeking rapid approval for expenditure) and signal a potential need for new powers if necessary. This work would be underpinned by a hierarchy of potential interventions and trigger points for their deployment.

Legal powers

Most of the economy-related risks to essential supplies and to societal support for lockdown identified in this report are best addressed through information, suasion, and enabling and creating incentives for voluntary action.

Nonetheless, this report has identified a number of areas central to maintaining supply of essential goods and services through the response period where new legal powers could be required in extreme circumstances. If such a need were to arise, it would likely present at short notice, so the more preparatory work officials have been able to do, the better.

Accordingly, officials are considering how new powers might be designed (including checks and balances), for consideration by Ministers if and when appropriate:

- to enable short-notice price regulation of specific goods or services, with associated power to allocate/ration the good or service in question (including in the circumstance of an extreme form of regional lockdown)
- to require continued operation by the provider of an essential good or service (a hypothetical example being if one of the main supermarket chains decided to close for a period)
- to prohibit the export of an essential product or service that is in scarce supply in New Zealand.

All of the above would be difficult to implement, and should only be contemplated as a last resort.

Officials are also preparing advice on possible temporary law changes to support the functioning of the labour market through the response period.

Officials will monitor whether and how governments in other countries with broadly similar systems are seeking additional powers to support the provision of essential goods and services through the period of economic restrictions.

Recommendations

Officials recommend that Ministers:

Note that ongoing supply of sufficient essential services for all New Zealanders is necessary to maintain a basic level of material wellbeing through the period of COVID-19 restrictions, to maintain societal support for those restrictions and to leave New Zealand as well-positioned as possible for subsequent economic recovery;

Note that at Levels 3 and 4 of the COVID-19 Alert System, large parts of the economy are not operating normally;

Note that while most essential services can be supplied via market mechanisms some will not, and that more non-market arrangements will be needed the longer Levels 3 and 4 are in place;

Note that officials have put in place a range of data, intelligence, monitoring and reporting functions to enable early identification of emerging risks to the supply of essential services, and are developing a more integrated picture across interdependent supply chains;

Note that, building on the portfolio of existing and likely interventions, officials will continue to develop options for potential use in the following areas:

- support mechanisms for at-risk businesses in supply chains for essential services;
- targeted support for repurposing of facilities and reengineering of supply chains;
- developing backstop provisions to enable rationing and price control, including in the event of an extreme form of lockdown;

- support for market-based arrangements for air and sea freight that enable ongoing import of essential goods and services, matched where possible by high value exports, and the development of a framework for assessing the utility of ad hoc arrangements with particular countries;
- maintaining the supply of essential goods and services to vulnerable communities;
- addressing potential causes of workforce shortages for businesses in supply chains for essential services.

Note that officials are doing further work on options to resolve risks that arise and that discussions with firms, moral suasion or semi-commercial contractual arrangements are likely to be sufficient to resolve most issues;

Note that in some cases, the normal approaches may not be sufficient and that officials are developing potential options for additional powers, for future consideration by Ministers;

Direct officials in the National Crisis Management Centre Strategy and Policy Team, in partnership with economic agency leads, to provide further advice on potential interventions for Cabinet by 17 April, or sooner if required for specific risks.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Alternative Economic Scenarios

Date:	8 April 2020	**Report No:**	T2020/927
		File Number:	BM-3-6-1

Action sought

	Action sought	**Deadline**
Hon Grant Robertson Minister of Finance	**Note** the Treasury's economic projections based on possible COVID-19 alert level scenarios over the next twelve months	None

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**		**1st Contact**
Peter Mawson	Principal Advisor, Forecasting	s9(2)(k)	N/A (mob)	✓
Peter Gardiner	Manager, Forecasting, Modelling and Research		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: Alternative Economic Scenarios

Executive Summary

The impact of COVID-19 and related response measures on the New Zealand economy is highly uncertain. **To reflect this uncertainty this report considers several alternative paths** that the economy may take. These paths vary based on different assumptions about the time spent at different COVID-19 alert levels. **Alternative assumptions with regard to the level of fiscal expenditure are also made** and act to limit the extent of economic impact, including unemployment.

The first five scenarios, roughly approximate the different COVID-19 health response strategies, while the assumed fiscal response measures vary from the approximate $19 billion of support that had been announced at the time base forecasts were finalised, to around $70 billion of support in scenarios where the economic impacts are even more severe.

Falls in annual GDP are greatest in **the year to March 2021**, and vary from a **decline of around 10%** in the base, to closer to a third in the 'Suppression' scenario which involves tight restrictions throughout the year.

Peaks in the unemployment rate vary from 8% in the 'Elimination' scenario **to nearly 20%** in the 'Suppression' scenario. In both scenarios, substantial fiscal support reduces the peak rates relative to what otherwise may occur.

Indicative estimates for the possible peak in net core Crown debt vary from approximately 35% of GDP to 70% of GDP.

The **scenarios and associated fiscal support levels are highly stylised**. The timing and delivery mechanism through which support is ultimately provided will also be important in determining the overall economic impact.

Recommended Action

We recommend that you:

a **note** the Treasury's economic projections based on possible COVID-19 alert level scenarios over the next twelve months

b **note** that the scenarios included in this report have informed the advice to Cabinet on reviewing New Zealand's Level 4 alert status

c **note** that the Treasury will report separately to you on how you may wish to make public a subset of the information contained in this report

Peter Gardiner
Manager, Forecasting, Modelling and Research

Hon Grant Robertson
Minister of Finance

Treasury Report: Alternative Economic scenarios

Purpose of Report

1. Alongside the base Budget 2020 economic outlook forecast reported to you in T2020/814, this report considers 6 alternative scenarios. In these scenarios we adjust the time spent at different alert levels and the amount of fiscal support.
2. The Budget 2020 economic forecasts assumed that New Zealand would remain at the Level 4 COVID-19 alert level for approximately 1 month and the Level 2 alert level for a further 11 months. Approximately $19 billion of COVID-19 related fiscal support was included.
3. The first 5 scenarios in this report broadly approximate the strategic health response options that Ministers have been considering. A final scenario differs from the others in that it assumes a slower pace of global recovery.
4. For simplicity, we focus on the cumulative amount of time spent in different alert states rather than being precise about when we may oscillate between different levels.

Next steps

5. The Treasury intends to publish a simplified presentation of these economic forecast scenarios next Tuesday. We will provide you with a copy of this report prior to publication.

Key assumptions

6. Table 1 summarises the key assumptions we have made for each scenario. While these broadly align with strategic health response options, there remains a high degree of uncertainty regarding the precise duration and timing of different periods spent at each alert status. It is assumed that:

   - at alert level 2 the economy operates at levels 10-15% below normal
   - at alert level 3 the economy operates approximately 25% below normal, and
   - at alert level 4 the economy operates approximately 40% below normal.

   These estimates are also the subject of considerable uncertainty.

Table 1: Key scenario assumptions

Scenario	***COVID-19 Alert***	***Fiscal response***	***Other***
Base **BEFU 2020**	Level 4 – 1 month Level 2 – 11 months	Approx $19 billion	
Scenario 1 **'Elimination'**	Level 4 – 1 month Level 3 – 1 month Level 2 – 10 months	Approx $40 billion	
Scenario 2 **'Sustained stamp out'**	Level 4 – 3 Months Level 2 – 9 Month	Approx $60 billion	
Scenario 3 **'Suppression'**	Level 4 – 6 months Level 3 – 6 months	Approx $70 billion	Allows for negative impacts from multiple changes in Alert states
Scenario 4 **'Mitigated spread'**	Level 4 – 3 months Level 3 – 3 months Level 2 – 6 months	Approx $70 billion	
Scenario 5 **'Unmitigated spread'**	Level 4 – 1 month Then alerts lifted	Approx $30 billion	
Scenario 6 **'Weaker world'**	Level 4 – 1 month Level 2 – 11 months	Approx $19 billion	World annual average real GDP growth is lower than base by 3.5% in calendar 2020 and 4% in 2021

Results

7. Table 2 summarises the broad results from the scenarios.

8. Annex 1 presents this these scenarios on a March year basis, which was used in the Cabinet paper: Covid-19: Preparing to Review New Zealand's Level 4 Status[1].

Table 2: Scenario results

Year to June		2019	2020	2021	2022	2023	2024	5yr difference*
Real GDP (AAPC)	Base	2.8	-3.4	-2.4	8.5	5.1	3.7	
	Elimination	2.8	-5.2	-0.1	8.5	4.5	3.7	
	Sustained stamp out	2.8	-8.0	0.8	10.3	4.6	3.7	
	Suppression	2.8	-8.0	-21.1	26.9	12.2	6.2	
	Mitigated spread	2.8	-8.0	-9.4	22.8	5.2	3.8	
	Unmitigated spread	2.8	-3.4	-3.6	10.6	4.6	3.7	
	Weaker world	2.8	-3.5	-4.8	6.3	6.6	5.7	
Unemployment rate (Jun qtr)	Base	4.0	6.8	8.0	5.8	5.1	4.6	
	Elimination	4.0	9.0	5.7	5.2	5.1	4.6	
	Sustained stamp out	4.0	9.5	6.0	5.4	5.3	4.9	
	Suppression	4.0	9.5	18.2	10.2	7.0	5.5	
	Mitigated spread	4.0	9.5	8.1	5.1	4.9	4.4	
	Unmitigated spread	4.0	6.8	6.9	5.6	5.0	4.6	
	Weaker world	4.0	6.8	10.1	8.6	6.7	5.2	
CPI inflation (APC)	Base	1.7	1.2	0.7	1.4	1.7	2.0	
	Elimination	1.7	1.2	1.1	1.2	1.5	1.9	
	Sustained stamp out	1.7	1.1	1.1	1.2	1.4	1.7	
	Suppression	1.7	1.1	-0.2	0.7	1.3	1.6	
	Mitigated spread	1.7	1.1	0.2	1.3	1.5	1.9	
	Unmitigated spread	1.7	1.2	0.3	1.5	1.8	2.0	
	Weaker world	1.7	1.1	-0.5	-0.6	-0.1	0.6	
Nominal GDP ($billion)	Base	303	298	293	327	352	374	0
	Elimination	303	292	295	329	352	374	-2
	Sustained stamp out	303	283	289	326	349	370	-26
	Suppression	303	283	226	291	332	360	-151
	Mitigated spread	303	283	260	325	350	372	-54
	Unmitigated spread	303	298	289	328	351	374	-4
	Weaker world	303	297	277	297	322	347	-105

*difference relative to base

[1] As the scenarios generally assume some form of Alert level system being in place for 12 months, the results for the year to March 2021 show the largest annual impacts.

Elimination scenario

9. The 'Elimination' scenario assumes that New Zealand gradually reduces it alert level over the next few weeks. It is assumed that after four weeks at alert level 4, a similar period is spent at alert level 3 prior to a sustained period at lower alert levels. Border controls remain in place for a year.

10. Real GDP growth falls to around -12% in the year to March 2021 (Figure 1), a larger decline than in the BEFU base reflecting the stricter restrictions in the second month of the June quarter. However, higher assumed levels of fiscal support (at approximately $40 billion, total support is about double that in the base) means that quarterly growth is predicted to be faster than in the base from the September quarter. This is estimated to see the unemployment rate peak near 9% which is below the 10% peak in the base forecast (Figure 2).

11. Overall nominal GDP is similar to the base forecast, however higher fiscal spending contributes to an indicative estimate of the peak in core Crown net debt of around 45% of GDP[2].

Figure 1: Real GDP growth

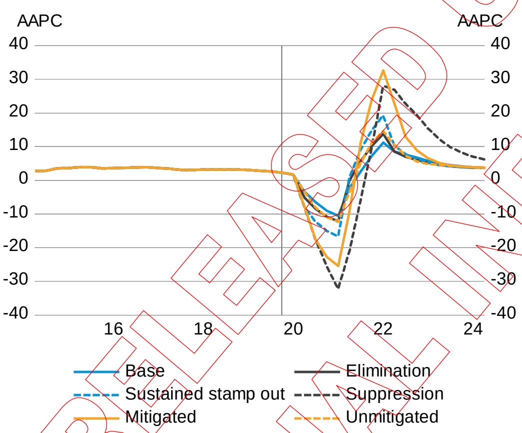
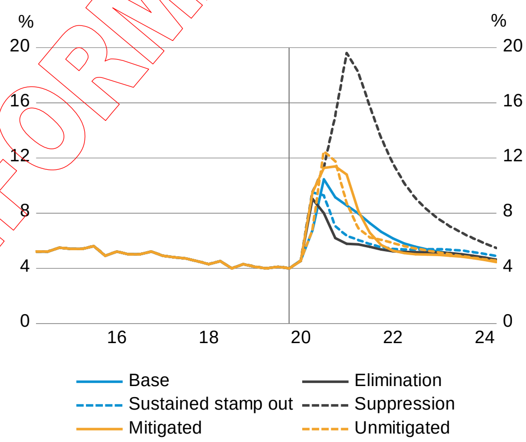


Figure 2: Unemployment rate



Sustained stamp out scenario

12. Under the 'Sustained stamp out' scenario, the longer time under level 4 restrictions (3 months in total) results in lower real GDP than in the base and higher unemployment in the near term. Real GDP growth falls to around -17% in the year to March 2021 (Figure 1) and the unemployment rate peaks near 10% in June 2020 (Figure 2).

13. While initially weaker than the base case, stronger growth in activity and lower unemployment result from the substantial extra fiscal support. Lower activity in the June 2020 quarter is the main driver of weaker nominal GDP, which is around $26 billion lower over the forecast period. This weaker outlook for nominal GDP drives lower tax revenue lower, and together with additional fiscal expenditure that is around $40 billion higher than in the base, sees net debt peak at around 50% of GDP, compared to an indicative estimate of around 35% in the base.

[2] All net debt estimates in this note are indicative and are based on outputs from our economic model – Matai. These estimates are less precise simplifications than the usual fiscal forecast or Fiscal Strategy Model (FSM) estimates, which are based on more complete and comprehensive fiscal information, but consequently are less timely. Early estimates from the FSM suggest a base estimate for net debt of around 40% of GDP. This estimate will continue to be refined as updated expenditure data becomes available. Given the considerable uncertainty around the outlook, the difference between 35% and 40% net debt is likely to be within realistic error margins.

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Figure 3: Inflation

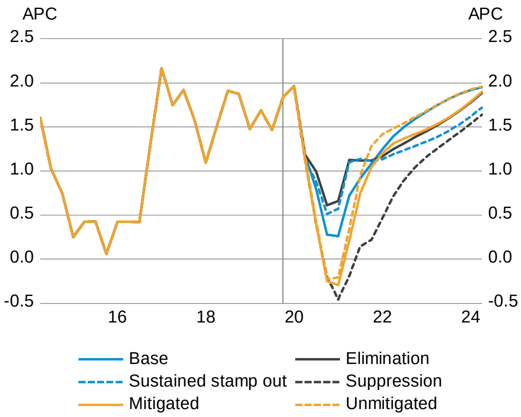
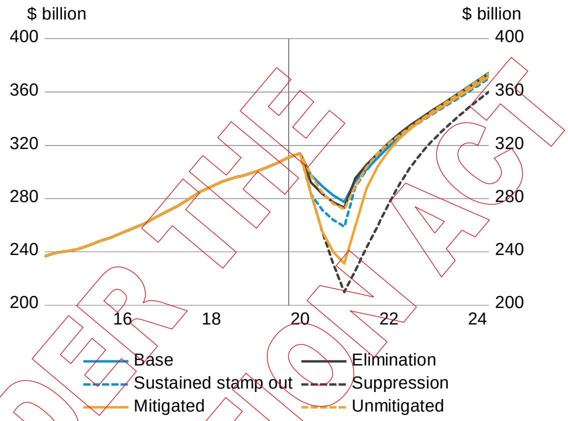


Figure 4: Nominal GDP



Suppression scenario

14. The 'Suppression' scenario generates extremely large drops in GDP and increases in unemployment. This reflects that restrictions on activity remain severe over an entire 12 month period. Real GDP falls by nearly 1/3 over the year to March 2021 (Figure 1) and unemployment peaks near 20% by the start of 2021 (Figure 2).

15. Relative to the base, fiscal support is expanded by around $50 billion, and this prevents a more severe economic deterioration. In this scenario we capped the total fiscal response at $70 billion, which was insufficient to prevent substantially higher unemployment. Weaker real activity and prices combine to see cumulative nominal GDP around $151 billion lower than in the base, resulting in a sizable reduction in tax revenue. This, together with the additional fiscal support, results in net debt peaking at around 70% of GDP.

Mitigated spread scenario

16. The 'Mitigated spread' scenario includes restrictions that are more restrictive than in the base and 'sustained stamp out' scenarios, with 6 months spent at either level 3 or 4. This generates larger drops in GDP and increases in unemployment than in these two cases, but not to the extent that occurs in the 'Suppression' scenario. Real GDP growth falls to around -25% in the year to March 2021 (Figure 1) and unemployment peaks over 11% in December 2020 (Figure 2).

17. Relative to the base, fiscal support is expanded by around $50 billion, and prevents a more severe deterioration. Weaker real activity and prices combine to see cumulative nominal GDP around $54 billion lower than in the base. Lower tax and higher spending results in net debt increasing to around 60% of GDP.

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Unmitigated spread scenario

18. The 'Unmitigated spread' scenario includes level 4 restrictions for the same period of time as in the base. In addition, wide spread COVID-19 transmission leads to elevated morbidity and mortality which reduce peoples' ability and willingness to supply labour and consume. To partially offset this, as well as responding to increased health service demands, an additional (approximately) $10 billion of fiscal spending is assumed.

19. While not under level 2 alert restrictions, it is unlikely that activity would rebound further than in the base scenario, given international tourism will remain severely constrained. Overall GDP growth falls by more than in the base but to a lesser extent than in the other scenarios.

20. Unemployment peaks above 12%, reflecting a mix of weaker demand from households, who initially have reservations about going about their usual business, as well as less fiscal stimulus than scenarios 1 to 4. In the context of current assessments, nominal GDP falls by a modest $4 billion and net debt peaks at close to 40% of GDP.

21. While the economic and fiscal impacts may not look as severe as in some other scenarios, such a strategy could come at considerable cost. This may include considerable loss of life relative to other scenarios, a health sector pushed beyond capacity thereby endangering health outcomes beyond the initial COVID-19 threat. In addition the economic impacts may be underestimated if large sections of the population were to self-isolate as a response to the widespread outbreak of COVID-19.

Weaker world scenario

22. In contrast to the four scenarios above which consider the impact of longer periods of domestic restrictions partly offset by higher fiscal support, the weaker world scenario illustrates the impact if the recovery from the initial period of weakness is slower. This could be caused by a softer global economic environment than anticipated.

Caveats

23. As with the base forecasts, there is considerable uncertainty attached to any point estimate. The scenarios involving extended lengths of time at Level 4 assume substantial additional fiscal support. In addition, this support is assumed to be effective at limiting the impacts on unemployment. As the time in which people and firms face restrictions on their activities increases, there is a risk that a 'tipping point' is reached with a surge in firm failure rates.

Economic cost of restrictions

24. Relatively tight restrictions, while beneficial from a public health perspective, come at considerable cost. Several estimates of the fiscal costs are illustrated above. A relatively crude estimate of the overall cost to the economy is provided by considering two scenarios in which the length of the restrictions is the main factor that is changed[3]. To do this we re-estimate the 'Sustained stamp out' and 'Mitigated' scenarios without the additional fiscal support (the $19 billion of support in the base remains). The changes relative to the base forecast can be interpreted as the marginal cost of extending restrictions. Figures 5 and 6 provide estimates for GDP growth and the unemployment rate respectively.

Figure 5: Real GDP growth

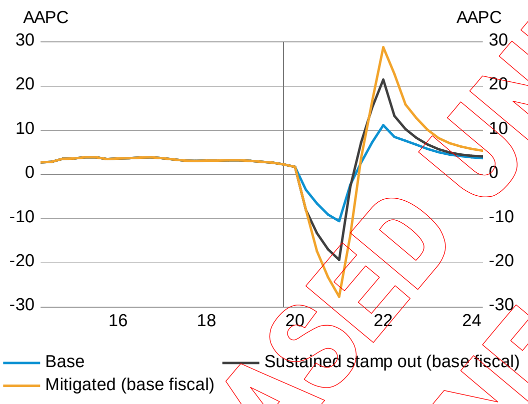
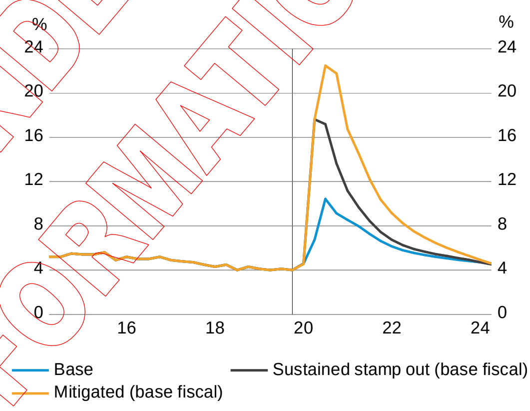


Figure 6: Unemployment rate



25. Nominal GDP, the key driver of tax revenue, is estimated to be a cumulative $53 billion lower over the forecast period as a result of extending level 4 restrictions from 1 month to 3 month, and over $120 billion lower if extended to 6 months.

[3] Due to time constraints we do not have the equivalent estimates for the 'Suppression' and 'Unmitigated' scenarios.

Annex 1: Scenario results on a March year basis

Year to March		2019	2020	2021	2022	2023	2024	5yr difference*
Real GDP (AAPC)	Base	3.1	1.7	-10.6	11.2	5.8	3.9	
	Elimination	3.1	1.7	-12.2	13.8	5.2	3.8	
	Sustained stamp out	3.1	1.7	-16.7	19.3	5.4	3.8	
	Suppression	3.1	1.7	-32.3	28.0	15.4	7.0	
	Mitigated spread	3.1	1.7	-25.5	32.7	6.6	3.9	
	Unmitigated spread	3.1	1.7	-12.3	14.6	4.8	3.8	
	Weaker world	3.1	1.7	-12.1	8.0	6.8	6.0	
Unemployment rate (Jun qtr)	Base	4.1	4.6	8.5	6.2	5.2	4.7	
	Elimination	4.1	4.5	5.8	5.2	5.1	4.8	
	Sustained stamp out	4.1	4.5	6.3	5.4	5.4	5.0	
	Suppression	4.1	4.5	19.6	11.6	7.6	5.8	
	Mitigated spread	4.1	4.5	10.8	5.3	5.0	4.6	
	Unmitigated spread	4.1	4.6	8.7	5.8	5.1	4.6	
	Weaker world	4.1	4.6	10.1	9.1	7.2	5.5	
CPI inflation (APC)	Base	1.5	2.0	0.3	1.2	1.7	1.9	
	Elimination	1.5	2.0	0.7	1.2	1.5	1.8	
	Sustained stamp out	1.5	2.0	0.6	1.1	1.3	1.6	
	Suppression	1.5	2.0	-0.5	0.5	1.2	1.5	
	Mitigated spread	1.5	2.0	-0.3	1.2	1.5	1.8	
	Unmitigated spread	1.5	2.0	-0.2	1.4	1.7	1.9	
	Weaker world	1.5	2.0	-0.6	-0.6	-0.2	0.4	
Nominal GDP ($billion)	Base	300	314	277	319	346	369	0
	Elimination	300	314	273	322	347	368	-2
	Sustained stamp out	300	314	259	319	344	365	-25
	Suppression	300	314	210	276	324	354	-148
	Mitigated spread	300	314	231	316	345	366	-54
	Unmitigated spread	300	314	272	322	346	368	-4
	Weaker world	300	314	266	291	316	341	-98

*difference relative to base

BUDGET SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Wage Subsidy Scheme - next steps

Date:	9 April 2020	**Report No:**	T2020/864
		File Number:	SH-3-0-6 (COVID 19)

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Indicate** your preferences for further advice. **Refer** this report to the Ministers of Social Development, Economic Development, Workplace Relations and Safety, and Revenue.	14 April 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Mary Llewellyn-Fowler	Senior Analyst, Welfare And Oranga Tamariki	s9(2)(k) [redacted]	N/A (mob)	✓
Jordan Ward	Acting Manager, Welfare And Oranga Tamariki		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: Wage Subsidy Scheme - next steps

Executive Summary

The Wage Subsidy Scheme (WSS) was designed as a temporary (3 month) response to the severe economic disruption resulting from COVID-19. In contributing to firms' wage costs during the lockdown, the WSS maintains attachment between firms and their employees – helping firms remain viable and protecting individuals from redundancy. The scheme also supports incomes so individuals can meet their essential needs even when they cannot work. These objectives were designed to allow the economy to hibernate through the period of disruption while ensuring it is well-placed to restart and recover once containment measures are eased.

Since applications opened on 17 March, almost $8.2b has been paid to 1.3 million employees or self-employed people.

Applications for the WSS will end on 9 June, at which point New Zealand is still expected to be facing economic disruption that will likely continue for many months. Decisions are therefore needed on what, if any, further support is provided to affected individuals and firms after this point. While these decisions are not required immediately, early signals of the direction of travel will provide certainty for firms and individuals, and ensure options for replacement can be analysed, developed and implemented in time. These early signals could then be followed with more detail prior to the end of the current WSS.

A major challenge to decision-making is that we cannot know with any precision what the public health or economic situation will be when the WSS ends in June. The amount and type of economic activity will be determined by the public health alert level, and the economic outlook will be influenced by how long each level lasts.

In general, the longer we are at higher alert levels, the larger the impact on firm revenues, and the more firms we would expect to reduce employment or exit (notwithstanding support measures in place). Even in the best case scenario (successful elimination), border restrictions will remain in place after the more severe domestic containment measures have been eased. This will have severe impacts on some key export sectors, e.g. tourism and international education.

As we look beyond the three month horizon of the WSS, we recommend the following objectives guide your decision-making:

i. maintaining attachment between firms and their employees

ii. facilitating the efficient reallocation of people made redundant

iii. supporting incomes to help individuals meet their essential needs

iv. fiscal sustainability

The balance between these objectives may change depending on the health and economic trajectory. For example, while maintaining attachment may be a priority in a shorter lockdown (e.g. 1-3 months under alert level 4), in a longer lockdown the focus may need to shift to providing more direct support for individuals' incomes.

We have considered the following options for providing support to individuals and firms following the end of the WSS. All of these have operational implications that may constrain choices, particularly as delivery agencies are facing high resource pressures in the current environment.

i. Extending the WSS in its current form

ii. Extending the WSS in an amended form

iii. Introducing other interventions to support firms and individuals (which could either complement or replace the WSS) e.g.:

- Measures to indirectly support firms' wage costs
- Active labour market policies
- Increases to benefit rates and payments

This report sets out our preliminary, high-level thinking on these options. We can provide further advice if desired, noting that any consideration of structural changes would need substantial work in order to allow for thorough analysis of the interactions with other issues e.g. firm support, labour market and tax arrangements, and fiscal costs.

Recommended Action

We recommend that you:

a **note** that applications for the WSS will end on 9 June, and that while decisions on next steps are not required immediately, early signals of the direction of travel will provide certainty for firms and individuals, and ensure options for replacement can be analysed, developed and implemented in time.

b **indicate** if you would like further advice on:

i. Extending the WSS in its current form *Agree/disagree*

ii. Extending the WSS in an amended form *Agree/disagree*

iii. Introducing other interventions to support firms and individuals (which could either complement or replace the WSS) e.g.:

- Measures to indirectly support firms' wage costs *Agree/disagree*
- Active labour market policies *Agree/disagree*
- Increases to benefit rates and payments *Agree/disagree*

c **note** that delivery agencies are facing high resource pressures in the current environment which may constrain choices.

d **refer** to the Ministers of Social Development, Economic Development, Workplace Relations and Safety, and Revenue.

Agree/disagree

Jordan Ward
Acting Manager, Welfare and Oranga Tamariki Team

Hon Grant Robertson
Minister of Finance

Treasury Report: Wage Subsidy Scheme - next steps

Purpose

1. This report responds to your request for advice on next steps following the end of the Wage Subsidy Scheme (WSS) in June 2020, providing preliminary options for your consideration.

2. It follows the joint report you received on Tuesday 7 April which addressed options for temporary support for low-to-middle income families experiencing sudden drops in income and struggling to meet essential costs.

Context

The WSS was designed as a temporary (3 month) response to the severe economic disruption resulting from COVID-19

3. The WSS is one aspect of the Government's broader economic response to COVID-19, and is complemented by a range of other measures to support individuals, firms and the macro-economy.

4. In contributing to firms' wage costs during the lockdown, the WSS:

   - maintains attachment between firms and their employees, which helps firms remain viable and protects individuals from redundancies; and

   - supports incomes so individuals can meet their essential needs, even when they cannot work.

2. These objectives are designed to allow the economy to hibernate through the period of significant disruption while ensuring it is well-placed to restart and recover once containment measures are eased (e.g. once we move from Level 4 to Level 2).

3. The scheme, by design, does not cover other ongoing costs that firms incur over and above wages. A range of other firm support initiatives have been, or are being, developed to support firms with these costs, including:

   - The Business Finance Guarantee

   - The tax relief measures announced on 17 March

   - Additional consultancy support services for businesses (delivered through the regional business partners network (RBPN) and local Chambers of Commerce)

   - Additional administrative flexibility for Inland Revenue in respect of statutory tax deadlines for taxpayers

   - A change to the tax loss continuity rules that will make it easier for firms to raise new capital without losing their existing tax loses

   - Implementation of a tax loss carry-back scheme that would allow a large number of businesses to access their tax losses as cash

4. Since applications to the WSS opened on 17 March, almost $8.2b has been paid to 1.3 million employees or self-employed people.

5. While benefit numbers are still increasing (there were 5,766 more Jobseeker Support recipients at the end of March than at the end of February), Treasury forecasts that the WSS will prevent unemployment increasing as much as would otherwise have been the case. And by quickly putting money into the economy, the WSS has been effective from a macroeconomic support perspective.

6. Nevertheless, the current WSS is a blunt and expensive tool. Eligibility is broad and the full time weekly rate is $585.80 (compared to the Jobseeker Support (single) benefit of $250.74 per week). It also has a number of design issues which are discussed under option one below.

Decisions are needed on next steps for the WSS …

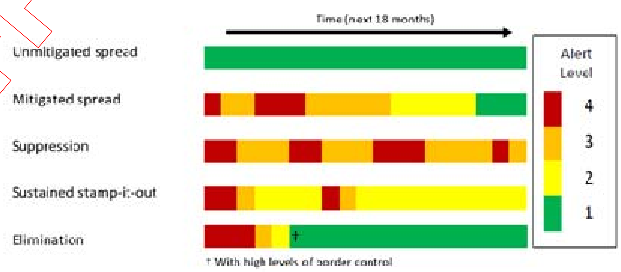
7. Applications for the WSS will end on 9 June, at which point New Zealand is still expected to be facing economic disruption that will likely continue for many months. Decisions are therefore needed on what, if any, further support is provided to affected individuals and firms after this point.

8. While these decisions are not required immediately, early signals of the direction of travel will provide certainty for firms and individuals, and ensure options for replacement can be analysed, developed and implemented in time. These early signals could then be followed with more detail prior to the end of the current WSS.

… in the context of considerable uncertainty around the public health and economic outlook

9. A major challenge to decision-making is that we cannot know with any precision what the public health or economic situation will be when the WSS ends in June. The amount and type of economic activity will be determined by the public health alert level, and the economic outlook will be influenced by how long each level lasts.

10. In general, the longer we are at higher alert levels, the larger the impact on firm revenues, and the more firms we would expect to reduce employment or exit (notwithstanding support measures in place). Even in the best case scenario (successful elimination, as per the MoH chart below), border restrictions will remain in place after the more severe domestic containment measures have been eased. This will have severe impacts on some key export sectors, e.g. tourism and international education.



11. For the purposes of thinking through how support options may differ by health and economic outlook, we have considered the following four scenarios, the first three of which are in line with those developed by the Treasury's forecasting team (based on MoH health scenarios).

12. Under all four scenarios, firms will be operating in an environment of weak domestic demand and global recession, which translates into a much lower level of economic activity. The forecasting team assumes that under alert level 2 the economy operates at levels 10-15% below normal; at alert level 3 approximately 25% below normal; and at alert level 4 approximately 40% below normal – though notes these estimates are the subject of considerable uncertainty.

Short lockdown	L4: 1 month (to end April 20)	L2: 11 months (to March 2021)
Medium lockdown	L4: 3 months (to end of June 20)	L2: 9 months (to March 2021)
Long lockdown	L4: 6 months (to end of Sept)	L3:6 months (to March 2021)
Variable lockdown	Levels vary by month and/or region	

13. Under a **short lockdown** in which level 4 is lifted at the end of April, many firms will be able to re-open and return to near-full operation relatively quickly (i.e. late April onwards). However, some sectors will continue to be unable to operate or face considerable limitations (e.g. tourism, international education, entertainment). While some displaced individuals may be able to move quickly into new work, MSD forecasts that around 200,000 will move into the welfare system over the next year. These people will need to move sectors or upskill before being finding a job.

14. Under a **medium lockdown** in which level 4 is lifted at the end of June, only essential services firms will be able to operate for three months, with others effectively frozen. Even with the WSS in place, some firms will become insolvent as will not be able to generate sufficient revenue to cover their non-wage cash costs (such as rent and insurance). Compared to the short lockdown, more people will move into the welfare system

15. Under a **long lockdown** in which level 4 is lifted at the end of September, only essential services firms will be able to operate for six months and high number of others will face problems with solvency. Following the lifting of level 4, level 3 restrictions remain in place for the following 6 months. With mainly essential services firms operating for a year, many firms will face problems with solvency. The number of people moving into the welfare system will be significant, and they will likely spend even longer there than in shorter lockdown scenarios.

16. Under a scenario where **lockdown varies** by month and/or region, firms will be unable to plan properly due to uncertainty, and some may remain frozen even when lockdown ends. Employees may not be able to work during periods out of lockdown given this uncertainty. Under this scenario a key consideration will be providing certainty of support whilst also enabling firms to make operational changes when moving in and out of lockdown.

The balance between different objectives will change as the economic situation changes

17. As discussed above, the objectives of the original WSS were to *maintain attachment between firms and their employees* (with benefits to both), and to *support incomes to help individuals meet their essential needs*, even when they cannot work.

18. As we look beyond the three month horizon of the WSS, we recommend the addition of two further objectives to help guide decisions on the provision of further support:

i. *Facilitating the efficient reallocation of employees to other areas of the economy*. This objective acknowledges that some firms will not remain viable – either because of underlying weaknesses that have been exacerbated by the shock, or because they operate in sectors which may not be able to restart for some time (e.g. tourism). In these situations, maintaining attachment may be less important than supporting people to move into more viable parts of the economy.

ii. *Fiscal sustainability*. Options should also be fiscally sustainable. The Treasury previously reported to you on the macroeconomic context for the COVID-19 response (T2020/784 refers). Our recommendation is for fiscal policy to be expansionary for the duration of the economic shock. Debt will need to rise substantially, and we expect it will rise in excess of 50% of GDP. We recommend prioritising spending to cushion the impact of the containment phase. Supporting households and businesses through this period will maintain labour market attachment and keep some firms solvent, which will support the long-term recovery and help limit the size of the output gap. After the shock the Government will need to have a path back to surplus. Ensuring new expenditure is time-limited will make returning to surplus much easier. Fiscal space should also be retained for a stimulus once the containment period is over, to help the economy recover.

19. The balance between these objectives may change depending on the health and economic trajectory. For example, while maintaining attachment may be a priority in a shorter lockdown, under a longer lockdown it may become less feasible and the focus may need to shift to providing more direct support for individuals' incomes.

Options

20. In light of the scenarios and objectives described above, we have considered the following options for providing support to individuals and firms following the end of the current WSS. All of these have operational implications that may influence final choices, particularly as delivery agencies are facing high resource pressures in the current environment.

i. Extending the WSS in its current form

ii. Extending the WSS in an amended form

iii. Introducing other interventions to support firms and individuals (which could either complement or replace the WSS) e.g.:

- Measures to indirectly support firms' wage costs
- Active labour market policies
- Increases to benefit rates and payments

21. The following table provides an indicative summary of how these options relate to each other and could / should be deployed under the four scenarios above:

<table>
<tr><th rowspan="3">Scenario</th><th colspan="4">Options for support from end of WSS (June 2020)</th></tr>
<tr><th>At L4</th><th>At L3</th><th>At L2</th><th>Explanation</th></tr>
<tr><td colspan="4">Recommend to have a gradual shift from more comprehensive support through the wage subsidy and time-limited income support during the lockdown phase (where you are more heavily prioritising income support and attachment compared to your fiscal objective), through to progressively more targeted forms of the subsidy and a stronger focus on active labour market policies to support recovery and labour market reallocation (and leaving fiscal headroom for these stimulus measures) as lockdown gradually decreases.
The longer the period of readjustment, the more there is a need to rebalance from supporting all affected firms, and from supporting workers primarily via their employers, to targeting support to some firms, and supporting the increase in displaced workers and households directly.</td></tr>
<tr><td>Short lockdown</td><td>1 month (March – April)
Current WSS</td><td>N/A</td><td>11 months (April – March)
Amended WSS for 3 months from June + additional income support + ALMPs</td><td rowspan="2">• During a short term of 3 months labour force attachment can be somewhat prioritised over fiscal objectives. The WSS can be broadly implemented to best support labour force attachment.
• Once policies could be in place for longer (such as under L2) fiscal objective needs to become considered more in order to leave fiscal headroom for stimulus measures. Recommend for the next 3 months the WSS is amended to target attachment to those hardest hit under L2. Complement this targeting with amendments to Firm Support to support labour force attachment where possible.
• In L2 we will have more certainty around the need for reallocation in the labour market so right time to start significantly investing in ALMPs for newly displaced workers, especially considering that most types of ALMPs only make sense during a recovery phase rather than during a lockdown.
• Additional income support for the large numbers of unemployed to provide income support to those who have faced an income shock.</td></tr>
<tr><td>Medium lockdown</td><td>3 months (March – June)
Current WSS</td><td>N/A</td><td>9 months (June – March)
Amended WSS for 3 months from June + additional income support + ALMPs</td></tr>
<tr><td>Long lockdown</td><td>6 months (March – June)
Current WSS + amended WSS</td><td>6 months (June - March)
Additional income support</td><td>N/A</td><td>• As above for a broad attachment objective for first 3 months.
• As above as policies are likely to be in place longer the fiscal objective needs to become considered more in order to leave fiscal headroom for stimulus measures. Recommend for the next 3 months the WSS is amended to target attachment to those hardest hit under L2. Complement this targeting with amendments to Firm Support to support labour force attachment where possible.
• Some workers will have become displaced during L4 and investment in ALMPs could start increasing during L3 (where possible under L3 restrictions).
• Additional income support for the large numbers of unemployed to provide income</td></tr>
</table>

				support to those who have faced an income shock.
Variable lockdown	Continual movements between all Alert Levels which cannot be forecast. **Amended WSS + additional income support + ALMPs**			• The uncertainty to employers and workers caused by the variable lockdown means they will operate as if in a constant state of lockdown and need support as such. However the duration of time in variable lockdown makes a continuation of the current WSS fiscally unsustainable and leaves significantly less fiscal headroom for later stimulus measures • Amended WSS supports attachment where possible, additional income support for the large numbers of unemployed who have faced an income shock, and ALMPs support reallocation during times when this is possible

Option one: extend the WSS in its current form

22. The WSS has been well suited to the sudden nature of the COVID-19 shock, and compares favourably with other schemes, on some dimensions (see annex 1 for a set of international comparisons).

23. However, the WSS is still a relatively untargeted mechanism. This makes it an inefficient way to achieve attachment and income support objectives and reduces fiscal headroom available for other measures during lockdown and recovery. The following graph illustrates the cumulative costs of the scheme extended for a further 24 weeks under long and short lockdowns:

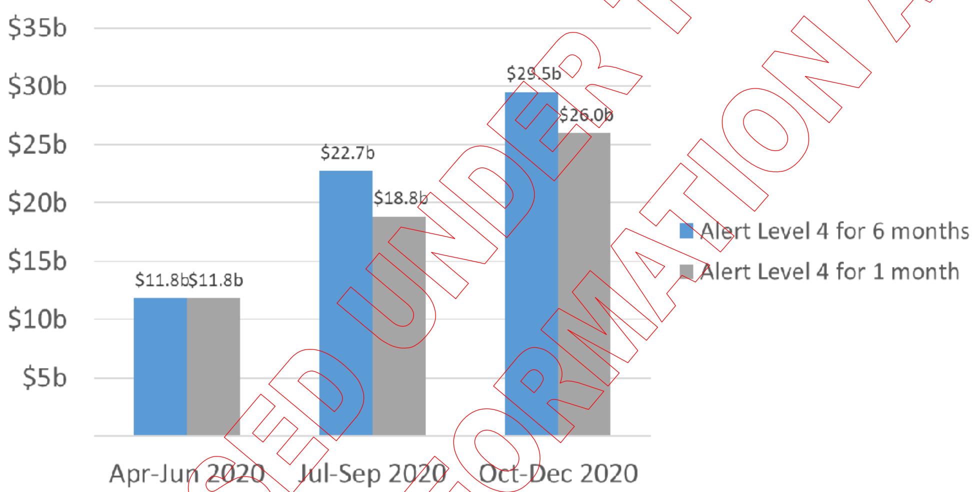


Figure 1 Indicative cumulative fiscal cost of wage subsidy under current settings, with 24 week extension

Particular issues with current WSS settings include:[1]

i. The 30% revenue drop test is not a good proxy for likelihood of staff lay-offs, and cannot be comprehensively enforced under the high-trust model.

ii. The 12-week lump sum payments means the scheme cannot adjust rapidly to changes in alert levels or business circumstances.

iii. There is a risk of supporting firms that would have become unviable, even in the absence of COVID-19, and in doing so inhibiting the reallocation of employees to more efficient firms or those seeing increased demand – which would ultimately reduce productivity growth and hinder the economy.

iv. The flat-rate payments for full-time and part-time FTEs do not reflect income by others in the employee's household (and allow multiple payments for people with multiple jobs).

24. Moreover, since the WSS began on 17 March, other measures have been introduced or proposed to support businesses to maintain solvency and liquidity in the face of the immediate shock and to develop plans for operating at different alert levels. These

[1] The WSS is also adding complexities to some employment relationships e.g. due to uncertainty about how it interacts with employment relationships, and disagreements about some aspects of the policy design (notably recent union lobbying around perceived employer "double-dipping").

include the Business Finance Guarantee (BFG), and a proposed package of further financial support (detailed in paragraph 31 below). These measures means firms are no longer solely reliant on the WSS.

25. For these reasons, we do not recommend extending the current scheme in existing form.

Option two: extend the WSS in an amended form

26. The WSS could be extended in an amended form to address the issues discussed above, and improve its ability to support your objectives. For example, it could be better targeted at lost earnings or firm viability, the rate could be reduced, or the scheme cap could be re-introduced. In the case of a short or medium lockdown, extending the scheme at lower cost would reduce the shock of 'cliff-edges' for firms and workers that are still adjusting when the current scheme ends

27. It is important to note that the current WSS is open for applications until 9 June. While there is a clear case for changes to settings after 9 June should New Zealand no longer be on alert level 4, it may be challenging to make significant restrictive changes to the scheme before that date, and for little practical effect:

   i. *Consistency with announced settings:* the current scheme has been communicated as being open until 9 June. Firms may reasonably expect that they will be able to apply under current settings until that date.

   ii. *Few firms likely to impacted:* we expect a vast majority of eligible firms wanting to apply for the wage subsidy to have already applied by 23 April (the earliest date that New Zealand will shift off alert level 4) because the lump-sum payment incentivises early uptake. This means there are likely to be relatively few firms entering the scheme for which any modified rules would be relevant to.

28. Key settings relevant to targeting the scheme and reducing costs are:

   - Subsidy amount (currently flat-rate $585.80 for each full-time; $350 for part-time; corresponding to approx. 60% median wage)
   - Frequency of payments (currently 12-week lump sum)
   - Eligibility criteria (currently 30% revenue drop; must retain staff)

29. Options that would better target the WSS include introducing a:

   a *Top-up for reduced income,* for example by topping up wages (to a cap of $585.80 as per current rate) for workers on reduced income (such as due to reduced hours). This provides more tailored payments that reduce the marginal cost of labour for firms that need it, while supporting adequate incomes. This approach would add significant complexity and provide implementation challenges for MSD, but it may be possible to deliver it as an 'in-work tax credit' by Inland Revenue.

   b *Lower, proportional rate*, for example a 25% subsidy on wages, capped at 25% of the median wage, paid fortnightly to an employer and covering all employees (with no requirement to pass-on the subsidy or retain employees). This would be administratively simpler than a top up payment (though still not possible with MSD's systems). It would also be agnostic to worker movement between firms.

   c *Explore linking eligibility to access to other proposed business COVID support schemes, as an indicator of business viability,* for example the tax loss carry back or Business Finance Guarantee Scheme (BFG) proposals. MSD has indicated that this could be achieved simply through a self-declaration of access to other schemes. However, the details of these business support schemes are not yet finalised, and officials have not had time to model the reduction in wage subsidy eligibility that would result or work through the implications for interactions between schemes. It is likely that this would disadvantage smaller enterprises and self-employed people, who are less likely to have the sophistication or scale to access these other schemes, so limiting this requirement to larger firms might be appropriate. In the case of a link to the BFG, outcomes would depend on the commercially-driven decisions of banks, which will not necessarily align with the government's broader employment attachment and income support objectives.

As targeting is administratively more complex, we have also considered other more simple options, including:

d *Reducing rates and removing revenue drop test*, for example to 25% of the median wage. This would be administratively simple and improve the fiscal sustainability of the scheme while covering a broader population, but would be less helpful to income adequacy objectives. Higher rates could move this trade-off but cost proportionally more. A 45% rate has approximately the same cost as the current scheme[2].

e *Excluding the self-employed and sole traders* (who make up approximately 15% of current scheme cost). The WSS's attachment objective is not relevant to these groups (as there is no employment relationship to be preserved), and its income support objective could be achieved through the welfare system (though at a lower rate). We understand that other measures to support SMEs, that would help meet the costs of sole-traders and self-employed individuals, are also being considered.

f *Making payments monthly*, which would allow the scheme to target payments to firms and individuals in need, depending on the prevailing circumstances each month.

g *Reintroducing a per-firm cap* to target small firms that might find it harder to access finance. This would need to be informed by better information on the likelihood of redundancies and the effectiveness of government credit interventions.

h *Narrowing eligibility to particular sectors* such as those considered strategically important, or most likely to warrant support in the recovery.

30. Indicative costs for a 12 week extension of the scheme with these options are as follows[3]:

	Long lockdown (Level 4, 6 months)	**Short lockdown** (Level 4, 1 month)	**Comment**
Current Wage Subsidy	$10.9b	$7.0b	Cost falls slightly under extension with long lock down due to redundancies
Targeting options			

[2] The $585.80 rate under the current scheme is 60% of median wage, but applies to a smaller group of firms than in this reduced rate proposal, which presumes a universal payment (ie. no revenue drop test and 100% uptake).
[3] Costings are order of magnitude estimates as they are strongly dependent on assumptions around firm behaviour, economic conditions and uptake.

BUDGET SENSITIVE

a) Top-up for reduced income (to $585 cap)	$6.9b	$2.6b	
b) Lower proportional rate (25%, capped at 25% median wage)	$6.6b	$6.6b	Cost does not vary significantly by scenario as this is a universal payment for simplicity (no revenue drop test); Higher rates would cost proportionally more. A 45% rate has approximately the same cost as the current scheme.
c) Link eligibility to other COVID-19 business support(s)	Not modelled		
Blunter, cost-saving options			
d) Reduce rate ($254 Full time/$152 part time = 25% median wage)	$4.7b	$3.0b	
e) Exclude self-employed/sole traders	$9.5b	$6.1b	
f) Make payments monthly	$10.9b	Not modelled	Effect uncertain due to multiple possible scenarios, and unpredictable firm response to Alert Level volatility
g) Reintroduce a cap ($150K per employer)	$6.8b	$4.3b	
h) Narrow to particular sectors	Not modelled		Cost likely proportional to size of economic sector targeted

Different WSS options may be preferable in different lockdown scenarios

31. *Short lockdown:* if an amended wage subsidy is continued at alert levels 1 and 2, the preferred approach is a low-rate, low fiscal cost scheme to minimise distortion, enable labour market reallocation, reduce cliff-edges for firms and at the end of the scheme, and support strategic sectors affected by border restrictions at lower alert levels (options b, d, g, h).

32. *Medium or long lockdown:* due to its high cost and inefficiency, we recommend the WSS is reserved in its most generous forms for use at alert levels 3 and 4, which pose the most severe and direct restrictions on economic activity and risks to employment. Even in these cases, we would suggest a more targeted subsidy than currently to provide fiscal headroom for a prolonged period in alert level 3 or 4, and to enable some labour market reallocation to occur..

33. *Variable lockdown*: in the case of cycling between alert levels, settings that increase firm flexibility are desirable (options a: top-ups for reduced income; and b: fortnightly payments). These theoretically reduce the deadweight associated with the scheme, although it is not yet clear if firms and workers will actually significantly change their behaviour in response to volatile alert levels.

Operational constraints

34. Operational considerations may place constraints on the options for significantly amending the scheme, beyond simple, blunt changes. We can provide further advice on these issues.

35. Because of the time needed to work through operational requirements and trade-offs, It may not be possible to commit to more complex targeted options in announcements before 23 April.

36. MSD delivers the current wage subsidy, but significant manual processing is putting severe pressure MSD resourcing for other core activities. Extending the scheme will continue this pressure on MSD, at a time when increased benefit claims will be putting further pressure on its operations. MSD is unlikely to be able to deliver more complex targeting options such as variable rates, top-ups by June. The lowest risk operational option for an extended MSD scheme is to make repeat payments (which could be at a lower rate) to all recipients of the current scheme. This would incur significant risk of overpayments for firms which have laid off staff.

37. IR could potentially design a more complex subsidy scheme, such as the 'top-up' option. However, the cumulative impact of COVID-related changes to tax systems may require IR, at a minimum, to sequence the delivery of initiatives and that it may be unable to handle related customer contacts as a result. Adding the administrative burden of an amended wage subsidy to IR systems would add to these risks and may jeopardise its ability to implement, amongst other things, the timing of automated tax refunds and proposed changes to business tax settings. IR would be particularly concerned if the proposal required it to collect information that it does not currently collect through existing payroll or other reporting mechanisms.

38. IR can provide further advice on the feasibility, timelines and trade-offs required in implementing options presented in this paper that Ministers wish to explore further.

Option three: introduce other interventions to support firms and individuals

39. When deciding whether to amend or end the WSS, there are a number of complementary interventions that should also be considered. In some cases these can partly substitute for the WSS (such as option 3a). In other cases they will complement a WSS, by helping to support reallocation (such has options 3a and 3b), and / or income support (such as option 3c).

3a - Measures to indirectly meet firms' wage costs (by supporting solvency and liquidity)

40. Supporting business solvency and liquidity is critical to maintaining employment levels of firms that are not able to operate properly (i.e. firms that have sufficient liquidity can use cash to preserve their relationships with their most critical employees). Ensuring firms remain solvent through the crisis will also support job creation in the short and medium term once their operations resume.

41. Achieving this requires support to replace lost revenue for firms and help them meet both their wage, and non-wage fixed costs.

42. Decisions around the WSS and firm support measures are therefore intrinsically linked. Looking beyond when the current WSS is scheduled to end in June, and given the interconnections with firm support, it is useful to consider strategically what the best mechanisms are to achieve your objectives in a coherent and streamlined way.

43. As currently designed, the firms support policies put in place aim to complement the WSS by supporting the non-wage costs (i.e. they assume the firm can access the WSS if needed). Ministers could choose to keep this interconnection by amending the wage subsidy and also make complementary changes to the level of support for non-wage costs, or replace the WSS with a broader subsidy for firms.

Replacing the WSS with a broader subsidy for firms

44. It could be possible to use some of these firm support measures to support labour force attachment in replacement of the Wage Subsidy scheme. Such measures would essentially replace the wage subsidy entirely with a broader subsidy for firms to help them meet both their wage, and non-wage fixed costs. In effect, changing the form of subsidy provided.

45. This would affect the flexibility firms have in deciding how to use the total subsidy. This may improve targeting of support toward more productive and hard to replace employees, and help free firms up to make decisions that preserve the business. For example, a firm is more likely to choose to make lower-skilled employees redundant,

and focus the residual cash on maintaining their attachment with highly skilled employees, and other fixed costs.

46. The key trade-off is that by removing the WSS and expanding firm supports may not support wider labour force attachment to the desired degree (i.e. firms are likely to let more employees go as a result of this shift in support). Increasing firm level supports is also unlikely to address the challenge of those employees that do transition off the WSS, are made redundant, and/or experience significant income drops.

47. Moreover, we expect the firm level support would need to be relatively significant in terms of fiscal cost in order to effectively address the solvency issues firms are facing.

Amending firm support to complement any amendments to the WSS

48. You have been briefed on a business assistance package that is currently being developed. The measures are designed to be broad in application, but are particularly focussed on medium and large firms of economic significance, and SMEs.

49. The draft business assistance package currently includes proposals for:

   i. Implementing additional consultancy support services for businesses through the regional business partners network (RBPN) and local Chambers of Commerce.

   ii. Providing Inland Revenue with additional administrative flexibility in respect of statutory tax deadlines for taxpayers.

   iii. a change to the tax loss continuity rules that will make it easier for firms to raise new capital without losing their existing tax loses.

   iv. Implementation of a tax loss carry-back scheme that would allow a large number of businesses to access their tax losses as cash.

50. These policies are broadly designed to support firms during a lockdown and to help meet some of the non-wage cash costs firms will be facing (such as rent and insurance payments). These policies as currently crafted are therefore complements to the WSS.

51. In designing or expanding further firm supports to also cover wage costs, we would recommend that the form of support incentivises employers to maintain attachment with their most productive employees. This will support efficient re-allocation and should increase productivity over the medium-term.

52. Policies are being developed to support medium and large firms of economic significance are more focused on commercial policies rather than direct funding support. Broader policy responses to support firms may also be later developed.

53. If a decision is made to progress with an amended WSS we recommend you consider whether further work should be done to scope possible changes needed in support for firms to complement the amended WSS.

3b - Active labour market policies

54. Active Labour Market Policies (ALMPs) typically focus on employment brokerage (including job search assistance), work focused education and training (including job readiness), and employment opportunity creation. In New Zealand, ALMPs are usually targeted at individuals, with some government-funded job creation. ALMPs complement income support measures to support people to find, and stay, in employment.

55. New Zealand has an existing base of ALMPs, the majority of which are delivered through MSD to benefit recipients,-people affected by seasonal work lay-offs, and people affected by business closures (where an affected business engages with MSD).

56. The existing array of ALMPs continue functioning at all COVID-related alert levels. During alert level 4, continuing ALMPs include online training, online and phone-based job matching services, and MSD's work brokerage service and Rapid Response Teams, both of which continue by phone. Other programmes will be reactivated as changes in the alert levels allow.

57. MBIE sponsor a smaller range of policies and pilots that are targeted to particular populations or demographic groups, regions and/or industries. The education system provides employment related education and training, including vocational training, micro-credentials and core skills for adult learners.

58. As ALMPs are designed to reallocate labour supply, these will not be effective by themselves at supporting labour force attachment during the shutdown of the economy. They are best suited to complement any income support measures taken as part of the recovery phase.

59. Many of the people and businesses in need of support in the recovery will not have interacted with government for this help before and may have different needs to those who have been recipients of these services before COVID-19. However, there were similar impacts during the global financial crisis and the lessons on how to deliver these programmes and services at that time could be drawn on to support both consideration of the programmes to be delivered and how we best deliver to them to this group.

60. In response to the COVID crisis, Government has already made additional ALMP investment through the appropriation of $100 million for redeployment support, including allocation of $28.205 million to support forestry worker redeployment in Tairāwhiti and $6.2 million to support redeployment of forestry workers on a national scale (including Canterbury and Northland) [CVD-20-MIN-0014 refers]. Officials will provide further advice about the existing programme of activity, any additional investment that may be needed, once there is more clarity about the economic recovery pathway.

3c - Increases to benefit rates and payments

61. There are a range of income support measures that could be introduced alongside or after the WSS ends. These measures could assist with:

    i. Income smoothing: providing temporary support for low-to-middle income families that experience sudden drops in income and struggle to meet essential costs;

    ii. Income adequacy: addressing concerns around adequacy of current system to allow families to meet essential costs, particularly in the context of COVID.

Income smoothing

62. Officials presented joint advice to Ministers on 7 April on options to better support low-to-middle income people who experience a significant reduction in their income and struggle to meet essential costs [T2020/920 refers]. Options canvassed in that report included:

- Option 1: Time-limited weekly payment (paid instead of a main benefit)
- Option 2: Time-limited weekly top-up payment (paid alongside existing supports)

- s9(2)(f)(iv)

63. MSD has done further work to refine the implementation timeframes of options 1 and 2 since 7 April (previously estimated to be 2-3 months) as indicated in the previous advice. These payments could be implemented in around 4 weeks (option 2) and 6 weeks (option 1) if some variations are made to the design of the payments. MSD is continuing to develop these options and further information can be provided to Ministers.

64. Temporary (rather than permanent) increases to benefit rates and payments would be more appropriate responses in the short term, particularly if targeted to those with reduced income. There may be inflationary pressures on some prices, which will be disproportionately felt by low income households. People's abilities to adjust their circumstances, in light of any reduction in income, are also more limited during the containment phase. Tax credits and personal tax rate reductions are other potential mechanisms for income smoothing.

65. Note that the implementation timeframes for some of these interventions mean that decisions are required relatively soon if they are to be in place at the current end of the wage subsidy scheme. Extending the WSS could provide more time to get these interventions in place.

Income adequacy

66. The advice in this paper regarding income adequacy is preliminary, and further detailed analysis on options is required, including implementation timeframes, impacts and constraints.

67. The Government's Welfare Expert Advisory Group (WEAG) provided analysis that showed many individuals and families receiving a main benefit are unlikely to have enough income to meet essential costs, and some low-income working families are unlikely to have enough income for a modest level of participation in NZ society. The analysis suggests that these deficits are particularly substantial for certain groups including single adults without children, and couples (with and without children).

68. The analysis commissioned by WEAG used six example families, and identified the costs of spending on core or basic items (e.g. rent, power, food and transport). Experienced budget advisors reviewed the assumptions made in the analysis. The analysis showed that income from benefits was not enough to meet the costs of core or basic items.

69. Officials' view is that while the WEAG's analysis is robust, and provides a well-supported case for the inadequacy of current income support settings for both beneficiaries and some families in low-wage paid employment, the approach taken (using sample families) was necessarily limited in scope. Some aspects of the WEAG analysis are open to challenge (though this does not undermine the central conclusions). Further work is needed to understand the scale of the issue [T2019/2023 refers], and the income support rates that officials would recommend in the long-term.

70. The Government introduced a $25 per week permanent increase to main benefits on 1 April 2020. While this will provide a significant increase to the living standards of low income New Zealanders, adequacy issues remain. For example, WEAG recommended a $100 per week increase to the rate of Jobseeker Support (single), and significant increases to the Family Tax Credit (for families with children).

71. Income adequacy issues are likely to be felt more widely as more people make use of the benefit system. The fiscal costs of further increases to benefits to address income

adequacy are substantial, and the impacts on work incentives are also important and would need to be considered further (i.e. the 'iron triangle' of adequacy vs cost vs work incentives).

72. There are two broad options available to address adequacy that you may wish for further advice on:

    i. Temporary increases to benefit rates; and/or

    ii. Permanent increase to benefit rates.

Temporary increases to benefit rates:

73. This option would introduce a time limited 'COVID supplement' for all main benefit recipients for the next 6-12 months.[4] This approach is similar to that taken by the Australian Government. The advantage of this approach is that it supports both existing and new benefit recipients, giving new benefit recipients time to adjust to a lower income, while also supporting existing beneficiaries through reducing demand for hardship assistance to some degree[5]. This would be similar (in that the payment rate is temporarily higher than current benefit rates), but less targeted than most of the income smoothing options[6] proposed in joint advice on Tuesday [T2020/920 refers]. A challenge to any temporary increases to benefit rates is in returning to the earlier rates. Some individuals are likely to face significant challenges in readjusting their expenses to a lower income.

74. Temporary increases in assistance can best be delivered quickly by creating a separate top-up payment (similar to option 2 in the April 7 advice and extended to all beneficiaries), rather than temporarily increasing rates in legislation. Top-up payments would also avoid people being financially disadvantaged through the change (by having no flow-ons to other assistance in the income support system) and would be significantly easier to 'turn-off', both operationally and legislatively.

Permanent increases to benefit rates:

75. This option would increase benefit rates on a permanent basis (other options include permanent increases to the Family Tax Credit). The fiscal cost will be highly dependent on both the scale of the increase, and the numbers expected to be on benefit and for what duration. The main distinguishing feature of this option however is its permanence and therefore caution is needed with respect to the impact it would have on your long-term fiscal position.

76. Further work would be needed on longer term structural changes to consider interactions with other support (eg firm support), labour market and tax arrangements, and your long-term fiscal position.

77. The current uncertainties over the economic situation would lean towards making temporary and shorter-term decisions now, providing time to determine what scenario we are in and to consider the wider interactions of any longer-term structural changes.

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[4] For example, our preliminary calculation using BEFU 2020 benefit forecasts suggest that around $600m might fund a supplementary payment to all beneficiaries of either $25pw for 12 months, $50pw for 6 months, or $100pw for 3 months. The costs of equivalent increases to benefit rates would differ due to flow on impacts to other payments.

[5]The effect on hardship assistance is uncertain. Unless the increase is substantial, the effects on hardship assistance may be minimal, but an increase large enough to eliminate hardship requirements for most MSD clients is likely to have various trade-offs (e.g. fiscal cost and relativity to wages).

[6] Note however that options 2 and 3 in that Tuesday 7 April advice could also be extended to current beneficiaries.

Preserving a level of fiscal headroom retains some future choices for other government interventions including future fiscal stimulus (which might be delivered via the benefit system). If Ministers want to address the income adequacy of benefits now, Treasury recommends a temporary increase in assistance. This would provide a least-regrets approach: support could subsequently be made permanent, or withdrawn, once the medium to longer term economic and fiscal picture becomes clearer and interactions with the labour market have been explored.

Next steps

78. Following your feedback, officials will develop further advice on any of your preferred options from the following set:

    i. Extending the WSS in its current form

    ii. Extending the WSS in an amended form

    iii. Introducing other interventions to support firms and individuals (which could either complement or replace the WSS) e.g.:

    - Measures to indirectly support firms' wage costs
    - Active labour market policies
    - Increases to benefit rates and payments

Annex 1: wage subsidy schemes – international comparisons

NZ Wage Subsidy Scheme – key features:	• $585.80pw for full time. • ~60% of median weekly wage • Paid as a 12-week lump sum to employer • Scheme = 3 months • Working hours can be reduced by up to 100% (by agreement between employee and employer). • Estimated fiscal cost NZ$8 – 12 billion (3-4% GDP). • Includes self-employed. • Firms will be eligible if they suffered or are projected to suffer at least a 30% decline in revenue compared to last year for any month between Jan 2020 and the end of the scheme in June 2020. • Employers must declare that they have taken active steps to mitigate the impact of COVID-19 (e.g. engaged with their bank/financial advisor).	
Country	**Key similarities compared with NZ scheme**	**Key differences compared with NZ scheme**
Australia	• Includes NGOs and self-employed • Firms with turnover over $1 billion must have a turnover decline of 50%. • Working hours can be reduced by up to 100% by agreement between employee and employer. • Paid to employers to pass on.	• Fortnightly payment • ~70% medium wage • 30% revenue decline eligibility test • Scheme = 6 months
UK	• Must be paid 80% of furloughed employees' usual monthly wage costs, up to up to £2,500 a month • Scheme = 3 months • Includes charities. • Paid to employers to pass on.	• Only for furloughed workers • Any employees placed on furlough must be furloughed for a minimum period of 3 consecutive weeks.
Ireland	• Scheme = 3 months • Paid to employers (N.B. through retrospective reimbursement to employers).	• Subsidy is based no 70% of weekly average take home pay for each employee up to a max of EU 410. • Firms must demonstrate a 25% revenue decline due to COVID-19.
Singapore	• Initially (for April) the scheme provides government co-funding of 75% of the first S$4,600 of each local worker's monthly wage for all sectors. • Paid to employers to pass on • Include self-employed.	• Scheme is sector specific after April (75% for aviation, 50% for food services and 25% for all other sectors). • Scheme = 9 months • Paid in 3 12 weekly lump sum payments.

Canada	• Objective: prevent further job losses, encourage employers to re-hire workers previously laid off as a result of COVID-19. • Scheme = 3 months • Eligibility: firms must have a drop in revenue related to COVID-19 of at least 30%. • Includes self-employed and non-profit organisations and charities.	• Subsidy provides employers with 75% of the first $58,700 a person earns ($847) per week).
Germany	• Temporary employers are also eligible.	• Provides 60-67% of lost wages • Scheme = 12 months (can be extended) • Initially implemented in the GFC, expanded in response to COVID. • Firms must demonstrate that demand for goods/services will be at least 10% of employees must be affected by a loss of earnings of more than 10% of their monthly gross salary. • Scheme's applicability o a NZ setting is difficult based on the difference in social security settings (ie Germanys Unemployment Insurance).
Denmark	• Paid to employers to pass onto employees. • Employers cannot terminate employees while receiving the salary compensation.	• The scheme is only for employees who are not working. • 90% of wages up to a maximum of DKK 30,000 per month per covered full-time employee. • Firms eligible where would otherwise terminate either at least 30% of their staff, or at least 50 employees.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Southern Response *Dodds* case timing

Date:	14 April 2020	**Report No:**	T2020/998
		File Number:	CM-1-3-112-1 (Planning and Monitoring)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** with Southern Response's position that the appeal be heard by the Court of Appeal on an in-person basis	15 April 2020
Minister for Greater Christchurch Regeneration (Hon Dr Megan Woods)	**Agree** with Southern Response's position that the appeal be heard by the Court of Appeal on an in-person basis	15 April 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
David Stanley	Principal Advisor, Commercial Performance	s9(2)(k) [redacted]	s9(2)(g)(ii) [redacted]	✓
Shelley Hollingsworth	Manager, Commercial Performance			

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: Southern Response *Dodds* case timing

1. This report advises you of a development in the *Dodds* court proceedings and seeks your agreement to Southern Response Earthquake Services Limited's (Southern Response's) intended next steps in relation to that development.

2. Southern Response's appeal of the High Court decision in *Dodds v Southern Response* is due to be heard on 5th and 6th May 2020.

3. The Court of Appeal advised on 9 April 2020 that in terms of its Practice Notice for priority hearings during the Alert Level 4 shutdown, this case does not appear to be one that meets its urgency criteria. Therefore, the Court is proposing to adjourn the appeal to a later date, with that date to be determined once the Alert Level has been lowered.

4. The Court has advised that it will consider proceeding on the scheduled date with remote participation of the parties and judges (video conferencing) if there is a pressing reason for that. The Court does note, however, that while it is trialling remote technology, it is unclear whether this will be fully developed by 5 May 2020.

5. If Southern Response or the Dodds consider there to be a pressing need for the case to proceed on 5th and 6th May, the Court has asked them to respond by 5pm Wednesday 15 April 2020.

6. While we do not yet know what position the Dodds will take, we understand that in prior discussions with Southern Response's legal counsel, the Dodds have indicated their preference to proceed on the set dates even if by video conference.

7. We have discussed this matter with Crown Law and we understand from them that the Queen's Counsel and legal team representing Southern Response in the case consider that the appeal would be disadvantaged were it to take place by video conference link.

8. There are a number of substantial legal issues which include complex inter-connections and nuances which are more difficult to effectively discuss by video conference than in person. This challenge is likely to be accentuated by Southern Response's legal counsel being split between Auckland and Christchurch, especially if the Court's remote technology is not fully developed – as it indicated is possible.

9. The reason for this appeal is so that the Crown and Southern Response can gain greater clarity on important legal matters so that they can potentially be applied to a large number of Southern Response customers who may be in a similar legal position to the Dodds s9(2)(b)(ii) [redacted] and there are, therefore, substantial fiscal implications arising from any Court of Appeal decision, especially its clarity and comprehensiveness. s9(2)(f)(iv) [redacted]

10. While there is clearly a trade-off between timeliness and potential decision quality, it is unclear how much time will be lost – although it appears likely to be only a few weeks. This, therefore, appears unlikely to prevent a decision in *Dodds* occurring prior to any Supreme Court decision in Southern Response's other significant proceedings (*Ross v Southern Response*). We understand from legal counsel that the Supreme Court is seeking to arrange a fixture in the week of 15 June and has sent out a notice inviting responses on that date range. We note that there is likely to be a long lead-time yet before substantive issues are heard in *Ross*.

11. It is possible that the delay might be measured in a few weeks as most of the written submissions have already been filed (with the last ones expected by the end of this

week) and no witnesses need to be presented. However, this will depend on the Court's schedule and changes in alert levels. We understand that current available dates for a 2-day hearing are 17 and 18 September 2020, but Southern Response's lawyers have advised that the Court of Appeal might make available extra hearing time in light of the current situation.

12. s9(2)(f)(iv) [redacted] the information currently to hand in terms of the risks associated with videoconferencing and possible rescheduling timeframes, we consider that the best path is for the hearing to occur in person.

13. The Crown took over the conduct of this case s9(2)(b)(ii) [redacted] As shareholding Ministers of Southern Response, we are seeking your concurrence with Southern Response's intention not to press for a hearing on 5th and 6th of May and to advise the Court of the reasons why it considers the hearing should occur in person.

14. If you prefer that Southern Response submit that there are pressing grounds for a hearing to occur by video conference on 5th and 6th May, we will advise the company accordingly – and would need to do so well before the close of business on 15 April 2020 to enable Southern Response to inform the Court prior to 5pm that day.

Recommended Action

We recommend that you **agree** with Southern Response's position that the appeal be heard by the Court of Appeal on an in-person basis and that the company not press for a hearing by remote conferencing on 5th and 6th of May 2020.

Agree/disagree.
Minister of Finance

Agree/disagree.
Minister for Greater Christchurch Regeneration

Shelley Hollingsworth
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Minister for Greater Christchurch Regeneration

COMMERCIAL-IN-CONFIDENCE

T2020/883: Commercial Performance COVID-19 State of Play as at 15 April 2020

To: Minister for State Owned Enterprises (Rt Hon Winston Peters)

Minister of Finance (Hon Grant Robertson)

Associate Minister of Finance (Hon David Parker)

Associate Minister for State Owned Enterprises (Hon Shane Jones)

From: Shelley Hollingsworth, Manager, Commercial Performance

Juston Anderson, Acting Manager, Commercial Performance

This report provides an update on current issues in relation to commercial entities and multiple objective entities within the Crown portfolio, with a focus on the impacts of COVID-19. Please tick a box if you would like more information on a topic.

1. New and notable issues

More info?	Entity / Issue	Update
☐	**Commercial rents** *(Amanda Wilson)*	Following a recent decision made by KiwiRail to defer all planned rent increases due to take effect in May 2020, we wrote to the Chief Executives of all of the State owned Enterprises (SOEs) and Airports to bring this sensible commercial approach to their attention and to seek information on their approach also. Orillion, Quotable Value, AsureQuality and MetService do not have commercial rents, the ones that do and have responded are noted below. **NZ Post -** NZ Post is not looking to increase commercial lease or sub-lease rents over the short-term and is in the process of negotiating a limited period of rent relief to around s9(2)(ba)(i) & s9(2)(b)(ii) **Christchurch Airport -** Christchurch Airport has considered rent forgiveness in the terminal for the next 3 months and will initiate a rent deferral program elsewhere on the campus as it looks at how best to support key retailers and tenants. **Dunedin Airport –** No concessions have been offered and there are no plans to increase rents. **Hawkes Bay Airport –** Hawkes Bay Airport has reduced rent for the washbay facility and car rental companies by 30% and is further negotiating with rental car companies. Airfield and terminal lease agreements have been maintained. **Transpower –** Transpower has forgiven payments due by its commercial tenants in April 2020 and has invited them to discuss concerns around future payments. Transpower has not offered any concessions on its leases or residential tenancies. Should any concerns regarding payments be brought to its attention, Transpower will assess each request on its merits.

More info?	Entity / Issue	Update
		Landcorp – Landcorp leases a number of pieces of land to a range of parties from farmers to energy and telecommunications companies and regional and district councils. Landcorp is taking a case-by-case approach to each of its leases, this includes any pending rent reviews or requests for rent relief. Majority of its lease holders are essential workers and able to continue at this time. One lease holder has approached Landcorp seeking rent relief and it is working through a deferred rent option with that party. Landcorp has also moved one of its subleases (in a commercial building) to a rolling monthly tenancy at the request of the tenant. We are still working with Airways Corporation of New Zealand and Kordia to understand their approach to commercial leases at this time.
☐	**Crown Infrastructure Partners** *(Mark O'Regan)*	Crown Infrastructure Partners (CIP) is supporting the Infrastructure Reference Group (IRG) in the identification of shovel-ready projects in New Zealand. The cost of the work is currently being covered by CIP's cash, much of which came from a $90m Ultra-Fast Broadband (UFB) drawdown in Q3, 2020. CIP has provided the following high-level figures, indicating the likely operating costs associated with supporting the IRG: • If the support work stops shortly after the issuing of the IRG report on 8th May – s9(2)(b)(ii) and s9(2)(ba)(i) • If the support work continues to 30 June 2020 after Cabinet consideration of options – s9(2)(b)(ii) and s9(2)(ba)(i) and • If the support work continues to December 2020 on the basis Cabinet has decided that CIP should undertake direct funding of projects sanctioned by Government – s9(2)(b)(ii) and s9(2)(ba)(i) Management has three main concerns associated with supporting the IRG: • That funding used to support the IRG's work may not be replaced later, jeopardising the delivery of previously agreed outcomes. CIP's cash is pre-assigned for specific purposes (e.g. UFB deployment, operating expenditure associated with the delivery of the Infrastructure Funding and Financing model); • Management wants to ensure that spending to support IRG work aligns with Ministerial expectations for use of CIP's funding; and • Management is cognisant of the company's core purpose as reflected in its constitution, and is keen for CIP's new role to be reflected in it. The Treasury intends to provide shareholding Ministers with a briefing on these matters by 23 April 2020.

☐	**MetService Commerce Commission investigation** *(Catalina De Mendoza)*	s9(2)(b)(ii) and s9(2)(ba)(i) [redacted] The Commission has requested some further information from MetService, which MetService plan to provide. The Commission may then seek to interview specific MetService staff to progress the investigation. We will continue to work closely with MetService and keep you updated.
☐	**KiwiRail – Preferred site for new multi-user ferry terminal** *(Ann Webster)*	We are preparing a response for Shareholding Ministers to a letter from the Chairs of the two shareholding Councils in CentrePort (Horizons Regional Council and Greater Wellington Regional Council). The letter advises of the Councils' formal support for Kaiwharawhara as the site for a new multi-user ferry terminal. Other sites were not supported because of the impact for CentrePort. The letter observes that the new Wellington ferry terminal will require the cooperation of all parties and significant funding, both for the terminal/marine facilities and the related transport infrastructure. In September 2019, KiwiRail reported to shareholding Ministers that the Kaiwharawhara site was not its preferred location as GNS Science had advised that in a major earthquake on the Wellington Fault, there was a risk of complex faulting across a wider area than previously thought. As a result, additional engineering works would be required that could significantly increase construction costs, while a major earthquake could still leave the terminal inoperable and with the potential for lives to be lost. KiwiRail's revised Interislander ferry replacement business case for Budget 2020 is based on an extended stay at Kaiwharawhara and includes funding for investment in ferries and associated landside infrastructure.
☐	**Crown Research Institute sustainability** *(Mark O'Regan)*	The Treasury is working with MBIE (the primary monitor) to understand the impact of COVID-19 on the Crown Research Institutes. Early indications from these entities suggest commercial revenues are being negatively impacted, s9(2)(b)(ii) and s9(2)(g)(i) [redacted] and may result in liquidity issues. Some CRIs, like Plant & Food Research and GNS, receive a significant portion of their revenue from commercial contracts. With commercial revenues in decline due to the impact of COVID-19 these CRIs are facing potential liquidity issues in the short term. Other CRIs, like AgResearch and ESR, are in the process of planning for significant capital projects. [redacted] s9(2)(b)(ii) and s9(2)(g)(i) [redacted] MBIE and Treasury officials are working to enable the CRI's to access the Wage Subsidy Scheme in the short term and MBIE is leading advice on options for further CRI support. Treasury will provide advice on this once the policy work has been completed by MBIE.

☐ **Transpower**

(Maruta Kanepa)

Transpower has written to shareholding Ministers and the Minister of Energy and Resources raising two matters. The letter was for information only and Transpower is not seeking any decisions from Ministers, nor do we think any action by shareholding Ministers is required at this point.

The first matter raised is steps Transpower is considering to support its service providers and contractors who maintain the national grid. Treasury has no concerns with what Transpower is considering; the proposals seem sensible, and are issues for the board to consider, rather than Ministers. Transpower has said it will keep Ministers informed.

The second matter is the risk of directly connected industrial consumers and distribution companies coming under financial pressure. For industrials the immediate risk is a decline in their revenue due to Alert Level 4. For distributors the risk is non-payment or delayed payment by electricity consumers, putting pressure on electricity retailers, and in turn pressure on the distribution companies, and then Transpower. Transpower advises that this has led to direct requests to Transpower for relief from its transmission charges. Transpower's view is that to do so would put it under financial pressure. s9(2)(g)(i) [redacted] In our view the credit risk is relatively low in the electricity industry compared to other industries. Around 86% of electricity customers are served by the five largest generator/retailers who have strong balance sheets.

s9(2)(g)(i) [redacted]

☐	**Electricity Corporation of New Zealand (ECNZ) – Update on winding-up ECNZ** *(Aaron Gill)*	On 31 March 2020, the Chair wrote to shareholding Ministers regarding two issues which are delaying the wind-up of ECNZ. One of the remaining issues is providing titles at Whakamaru Dam to Mercury NZ. This issue has been subject to litigation and most recently the Supreme Court decision in *Paki v Attorney-General*. In its letter ECNZ notes "the bed of the Waikato River on which Whakamaru Dam is located remains vested in the Crown". s9(2)(g)(i) [redacted] In any case, as ECNZ notes in its letter, ECNZ still needs to transfer two other easements to Genesis before it would be in a position to be wound-up. We intend to advise ECNZ that we will engage on the Whakamaru Dam issue later in the year.
☐	**Tilt Renewables** *(Juston Anderson)*	Tilt Renewables has announced a $267m capital return to its shareholders, funded from roughly half of the sales proceeds from its Snowtown II wind farm in Australia. The capital return will be via a pro-rata share buyback which will take approximately 15 weeks to complete. This is relevant for the Crown as Mercury NZ is a 19.97% shareholder of Tilt, and so stands to receive around $53m as its share of the buyback. We previously signalled this capital return as a possibility in December 2019 (T2019/4000 refers). We will ask Mercury NZ what it intends to do with the proceeds. Tilt said a pro-rata share buyback "is fair to all shareholders as it achieves a return of capital on a pro rata basis, leaving the relative voting and distribution rights of all shareholders unaffected". s9(2)(g)(i) [redacted]

2. Treasury Commercial Portfolio – COVID-19 Impacts

Sections 2 and 3 have been completed in a "SITREP" format, based on the Commercial Performance COVID-19 State of Play of 1 April 2020. All new or amended text is shown in red and any changes to the COVID-19 RAG (Red, Amber, Green) ratings are noted with an arrow.

Key messages:

- A number of entities are starting to experience financial pressures as a result of COVID-19. With the best information we have at this stage, it appears that the majority are able to manage these pressures at least in the short term within their existing financial resources. This may change depending on the severity and duration of the pandemic, the length of the lockdown periods, and the impacts on the economy. Note that this briefing does not address any COVID-19 impacts on Air NZ, separate briefings have been/will be provided on this company.
- The transport portion of the portfolio is currently most exposed, with passenger numbers decreasing across both the aviation sector and rail tourism, short term and long term impacts are expected.
- In the services portfolio, NZ Post is affected by lower volumes. MetService is experiencing immediate impacts in the aviation forecasting segment, which are expected to carry in to FY21.
- With regards to media, TVNZ (like many companies in the sector) is experiencing significant reductions in advertising revenue.
- Ōtākaro faces longer-term impacts in the event that key projects are delayed.
- Other parts of the portfolio have, at this stage, little or no exposure to the direct impacts of COVID-19: e.g. the electricity sector (unlikely to face any material impact).
- AsureQuality's future projections have become clearer s9(2)(b)(ii) and s9(2)(g)(i) [redacted]
- A number of the entities are reporting that they are reviewing and/or implementing Business Continuity Plans. The impacts noted below do not include the further operational risks that would arise if numerous staff of one or more companies contracted the virus. We will provide advice at the time in this event.
- We will continue to monitor the effects across the sector and report any updates on a fortnightly basis (and on a case-specific basis where required).

Fiscal impacts:

- The Commercial Portfolio pays around $800m of dividends p.a. to the Crown. Accounting for the impact of COVID-19, Treasury is currently forecasting dividends of approximately $729m in FY20 (9% decrease).
- The decline is small relative to the profound impact of COVID-19 for two reasons:
  - approximately 75-80% of total dividends are paid by the listed electricity companies and Transpower. Their dividend payments are unlikely to be affected by COVID-19; and
  - the majority of portfolio dividends are paid in the first half of the financial year. Only the interim dividend, paid in the second half, is affected in FY20.
- Predicting dividends beyond FY20 is challenging given the pace at which the economic effects of COVID-19 are unfolding. Assuming the listed electricity companies and Transpower maintain dividends at historic levels, and all other companies suspended their dividends entirely, the Crown would receive slightly over $600m in FY21 (approximately 25% less than historic levels).

Employment

- The majority of companies are not expecting any impacts or changes to their workforce currently. There are a number of companies which have advised that should the impacts of COVID-19 be prolonged they will need to complete a review of their workforce to ensure that they are best positioned to operate in a new and potentially scaled back environment.

- The majority of companies have also sought or plan to seek the wage subsidy should it be required.
- The most notable company responses are listed below:
  - *Airways Corporation of New Zealand* has announced a reduction in its workforce totalling s9(2)(b)(ii) and s9(2)(ba)(i) [redacted] Airways has accessed the wage subsidy, however, this will only allow Airways to continue paying employees for a limited period of time due to the costs associated with having a highly skilled workforce (approximately [redacted] per annum). s9(2)(b)(ii) and s9(2)(ba)(i) [redacted]
  - *Dunedin Airport* has received the wage subsidy and is ensuring that s9(2)(b)(ii) and s9(2)(ba)(i) [redacted] volumes not improve.
  - *Television New Zealand* is currently considering options which could see an approximately s9(2)(b)(ii) and s9(2)(ba)(i) [redacted]
  - *Christchurch Airport* s9(2)(b)(ii) and s9(2)(ba)(i) [redacted] It has also applied for the wage subsidy s9(2)(b)(ii) and s9(2)(ba)(i) [redacted]
  - *Radio New Zealand* is not expecting any impacts in the short-term, s9(2)(b)(ii) and s9(2)(ba)(i) [redacted] The greatest risk to staff numbers will depend on whether RNZ's $7.25m per annum time-limited funding is extended beyond FY21. Ministers have agreed in-principle to the extension of this time-limited funding.
  - *Hawke's Bay Airport* has received the wage subsidy s9(2)(b)(ii) and s9(2)(ba)(i) [redacted]
  - *Education Payroll* is not planning to reduce any permanent or fixed term employees. However, s9(2)(b)(ii) and s9(2)(ba)(i) [redacted]
  - *Quotable Value* has no current plans to reduce its workforce, s9(2)(g)(i) [redacted] QV has received the wage subsidy but is uncertain that its revenues will actually reduce by 30%. QV will hold a provision in case its revenues do not fall and needs to be returned.
  - *Orillion* is not anticipating any impacts at this stage s9(2)(b(ii), s9(2)(ba)(i) & s9(2)(g)(i) [redacted]
- All companies will keep shareholding Ministers apprised of any changes under the no surprises policy.
- In addition, the Treasury will be writing to all SOEs, Mixed Ownership Model (MOM) and Airport Chairs to draw their attention to the public sector pay restraint announcement made on 15 April 2020. We have sought responses from each company on what actions they are considering in terms of exercising restraint in the next financial year, in particular with regard to executive remuneration and board fees.

Negative scenario modelling:

- To get a consistent approach to the modelling provided by the companies for this update we issued a negative scenario for them to consider. Unless stated otherwise, our analysis and ratings are based on the outcomes of this scenario for each of the companies. This is a stress-testing exercise.
- We have assumed that we are not at the peak of the COVID-19 crisis; things will get worse before they get better and so the negative scenario is based on:
  - Alert Level 4 remaining in place for at least three months (commencing on 25 March 2020).
  - A period of low economic activity extending through to mid-2021 followed by slow recovery not returning to 2019 levels of activity until mid-2025.
  - At the economic low point, annual real GDP being 15% to 20% (lower than 2019).
- Under this scenario, entities were asked to consider:
  - The downturn would be felt across the economy, not just in specific sectors – although food and beverage services[1], construction and domestic manufacturing[1], accommodation, air travel, and other tourism, are likely to be the most negatively affected.
  - There would likely be significant second-round effects as lower household income and activity means lower demand.
  - Risks that should also be factored in include financial markets being disrupted and not functioning effectively at times (meaning funding lines and equity capital are difficult to obtain).
- The entities most at risk are detailed, in order, of those most at risk of requiring financial support.

[1] Not production of food domestically nor food retailing

RAG (Red, Amber, Green) Ratings of exposure to COVID-19**:**
Red **–** Entities are likely to require support from the Crown
Amber **–** Entities may require support from the Crown
Green **–** Entities are unlikely to require support from the Crown.

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MOST AT RISK ENTITIES DUE TO COVID-19 IMPACTS (based on stressed-testing scenario, unless noted)			
Entity	**RAG Rating**		**Exposure/brief commentary**
New Zealand Post (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)**	[redacted] s9(2)(b)(ii) & s9(2)(g)(i)	• **Revenue impacts:** NZ Post estimates revenue receipt collection to decrease by [redacted], [redacted], recovering to revenues [redacted] below plan by September. NZ Post is categorised as an essential service provider and is required to maintain network operations during the COVID-19 Level 4 Alert. However, volumes moving though the domestic network are limited to essential goods only (around [redacted] of NZ Post's [redacted] largest corporate customers are considered essential). International volumes are significantly reduced due to limited air freight capacity, while NZ Post's international depot is required to remain open for essential supplies. [redacted] More work is underway to test assumptions. • **Cost flexibility:** There is limited ability to significantly reduce costs in the short-term, particularly if there is a desire to retain NZ Post's approximately 5000 employees and contractors. NZ Post is eligible for the wage subsidy scheme, which would subsidise an estimated [redacted] (for the time this remains available). NZ Post has now applied for the wage subsidy scheme. Variable costs savings such as petrol and fleet maintenance could reduce NZ Post's payments to contractors. In the medium-to-long-term, NZ Post may need to consider resizing the business to adjust to the market environment following the Level 4 Alert period. [redacted] • **CAPEX Plans**: In its worst-case scenario, NZ Post has reduced monthly capex from [redacted]. Projects that enhance customer service and contactless delivery (e.g. improving track and trace technology) are considered absolutely essential. We would expect non-essential capex to be deferred to enhance liquidity, given the uncertainty of the economic situation ahead and the impact on the business. NZ Post has signalled there are a number of 'off-ramps' available for its Network Strategy Investment, which could be utilised as the appropriateness of continuing with the $154m investment becomes more apparent. NZ Post has included total capex for the Network Strategy Investment of $16m to December 2020 in its model, which it believes strikes the balance between minimising cash burn and maintaining momentum on the project. The Chair has signalled that government support would also be used to fund the network strategy investment. • **Balance sheet capacity & liquid resources**: NZ Post currently has [redacted] cash and cash equivalents (excluding treasury cash). It has moderate debt levels (largely the $200m in listed notes) [redacted] NZ Post's only other significant asset is its 53% shareholding in KiwiGroup Holdings (KGH) (with an estimated commercial value of around $900m at 30 June 2019). However, there is limited ability to divest this arrangement in the short term, particularly given the new market environment as a result of COVID-19. KGH is not considered a liquid asset to NZ Post in the short-to-medium-term.

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			• **General comments:** It is possible that after the lock down ends and non-essential retail outlets open, a heightened demand for online shopping will remain, and therefore, for NZ Post's courier services. However it is unlikely, at least initially, that this potential upside would outweigh the broader impacts of a recessionary environment for an unknown time period. Additionally, NZ Post is signalling that Covid-19 may create a step-change in demand for mail services. • **Key communications**: The Chair of NZ Post wrote to Ministers on 27 March 2020 outlining the Board's concerns regarding the impacts of COVID-19 on the company's financial position. The Chair signalled that without confirmation from the Crown in the next fortnight of support totalling [redacted], the Board would need to take rapid steps to reduce the company's costs, likely permanently affecting the capability, capacity, and future of the organisation. s9(2)(b)(ii) and s9(2)(g)(i) [redacted] The Treasury was already aware of the issues raised in the letter and will continue working closely with NZ Post on this matter. In the next few days we will be providing shareholding Ministers with advice on Crown funding support options for NZ Post. Ministers have now received the Treasury's advice on support options (T2020/831) and have signalled their preference for equity support. The Treasury will provide advice to Ministers on options for equity support on 17 April 2020. The Treasury continues to engage closely with the Board and management as we prepare our advice.
Television New Zealand (TVNZ) (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i)	[redacted]	*The negative scenario does not include potential policy and competitive responses. These responses could have a significant impact on actual outcomes.* s9(2)(g)(i) [redacted] *The Ministry of Culture and Heritage (MCH) is preparing a Cabinet paper for the Minister of Broadcasting, Communications and Digital Media, Hon Kris Faafoi, for consideration by CBC on Wednesday 15 April. The paper includes recommendations for short-term interventions and notes further work is required on more substantial options to improve the long-term sustainability of the media sector.* • **Revenue impacts:** Sectors most severely impacted: Retail, Travel, Entertainment, Leisure, Automotive, Real Estate and Transportation, representing [redacted] of TVNZ's annual advertising revenue. Under the negative scenario, TVNZ is expecting to receive approximately [redacted] of its FY20 Q4 revenue as contracted customers reduce and withdraw from advertising. • **Cost flexibility:** TVNZ has already undertaking downsizing steps. It identified cost savings of [redacted] over the three months, [redacted] TVNZ expects that [redacted] of the cost savings in Q4 FY20 will continue into Q1 FY21. TVNZ has included wage subsidies in Q4 FY20 of $4.6m. TVNZ is currently considering options which could see an approximately [redacted] decrease in its current workforce (around [redacted] people) • **Cash impacts**: Cash is likely to deplete to [redacted] at the end of FY20. [redacted].

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			• **CAPEX plans:** TVNZ has removed [redacted] from its capex plan. [redacted] • **Balance sheet capacity and liquid resources:** TVNZ has a high level of balance sheet flexibility/optionality. TVNZ currently has no debt and has an undrawn $20m BNZ loan facility for liquidity. [redacted]
Hawke's Bay Airport (HBAL) (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i)	[redacted]	• **Revenue impacts:** HBAL is expecting a [redacted] reduction in revenue by the end of FY20 ([redacted] lower than budget). This is due to lower aeronautical revenue, and reductions in aeronautical and passenger related revenue streams (e.g. car park). HBAL has forecast a decrease in revenue of [redacted] for FY21 ([redacted] lower than budget). This forecast includes a gradual improvement in the seat capacity to [redacted] of pre-COVID levels by the end of FY21. • **Cost flexibility:** HBAL's costs are mostly fixed. The reduction in revenue will flow directly through to profitability. In FY20, HBAL expects a decline of [redacted] in EBITDA ([redacted] reduction) and a NPAT loss of [redacted]. FY21, HBAL expects an EBITDA [redacted] and NPAT of [redacted]. • **CAPEX Plans:** HBAL has advised that all non-essential capex has been deferred. It intends to complete its Terminal Expansion Project [redacted] as it is essential and construction has already started with completion due by mid-2021. We will continue testing this intention with the company. The project will be temporarily shut down until Level 4 restrictions are lifted. • **Balance sheet capacity & liquid resources**: Changes in the operating environment resulting in pressures on banking covenants and lack of headroom facilities. HBAL has a facility with [redacted] The airport doesn't have non-core assets that could be sold. • **Update on HBAL's staff and salaries:** HBAL has applied for the Government's wage subsidy, and has received $49,207 [redacted] of the salary cost (for the 12 week period to 30 June 2020). [redacted] • **General Comments:** s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)(g)(i) [redacted] • **Upcoming advice:** Treasury will send a detailed analysis on the impacts of COVID-19 on the three airports co-owned by the Crown and councils (Christchurch International Airport Ltd, Dunedin International Airport Ltd and Hawke's Bay airport) by end of this week (Treasury Report T2020/840 'Impact of COVID-19 on Crown-owned airports').

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KiwiRail Holdings Limited (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i)	[redacted]	*KiwiRail has provided its scenario modelling based on a series of trajectory between 0 – 60% revenue reductions. This is what the following analysis is determined on.* • **Revenue impacts:** KiwiRail is losing approximately [redacted] per week while in lockdown conditions. A steep decline in available cash is forecast in May 2020 due to seasonal impacts. • **Cost flexibility:** Cost reduction options are being explored but these will not cover revenue losses and there is a limit to what can be downsized without safety, revenue or operational impacts. The major operating cost is labour [redacted]) so any potential reductions are likely to impact on people. KiwiRail has continued to pay all employees during the lockdown period but may need to assess options if the lockdown continues. • **CAPEX Plans:** Within existing resources, KiwiRail's only option to maintain cash flows is to cut its appropriation funded capex for Working Capital to Support a Resilient and Reliable Rail Freight Network, which could result in the Crown's capital expenditure being absorbed by operating losses and further network decline. We have recommended that shareholding Ministers agree to release an equity injection of \$81.8 m for shares, noting that we will work with KiwiRail to ensure proper use and transparency of the Crown's funding, including by developing support options based on the full COVID-19 impacts on KiwiRail and seeking clarity about the extent of capital work carried out. • **Balance sheet capacity & liquid resources**: KiwiRail currently has a [redacted] loan facility [redacted]. Borrowing against newer capex investments (such as replacement ferries) might be possible. However, such borrowing is already planned to fund their purchase. • **General Comments**: KiwiRail is likely to require support from Crown as it has no ability to absorb losses of the magnitude it faces due to COVID-19. Its support needs will increase the longer the situation continues. s9(2)(g)(i) [redacted] We are beginning work to assess KiwiRail's need and develop support options. • **Key communications**: We met with KiwiRail on 1 April 2020 to begin work to understand its likely financial outlook and needs. KiwiRail has advised that it is preparing an impact assessment for FY20 and projections for FY21 as part of finalising its March quarter results, based on which it will provide an update.

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Airways Corporation of New Zealand (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i)	[redacted]	*The Crown has taken steps to support the aviation industry and Airways by providing Airways with financial support of $70 million. In light of further reductions in air traffic volume, Airways will likely need further financial support in July. The Treasury is liaising with Airways in determining the amount, timing and form of further financial support provided by the Crown.* • **Revenue impacts:** During Level 4, Airways revenue is expected to be [redacted] per month and moving forward it is expected to be [redacted] per month until February 2021. Airways has indicated that, if Level 4 is extended, it will likely need additional operating capital as early as July/August 2020. [redacted] • **Cost flexibility:** Airways is reducing its headcount by [redacted] which will result in reducing operating costs by [redacted]. Airways has applied for the Government's wage subsidy. The salary expense under normal circumstances would be [redacted] per annum, because the workforce is highly skilled (e.g. Air Traffic Controllers). For this type of workforce, the wage subsidy would only be able to assist Airways to pay salaries for a limited time. [redacted] • **CAPEX Plans –** All non-essential capex has been postponed. Airways is currently incurring [redacted] capex on a monthly basis, as this is crucial for air traffic safety and cannot be postponed. • **Balance sheet capacity & liquid resources**: [redacted] • **Key communications**: The Airways' Chair wrote a letter to shareholding Ministers on 17 March 2020 outlining the liquidity and [redacted] The shareholding Ministers have addressed these concerns via equity injection of $70m on 31 March 2020 [T2020/699 and T2020/744 refers]. • **Recent updates**: Airways is considering withdrawing air traffic services at seven regional aerodromes, where there are limited or no commercial flights operating due to COVID-19 travel restrictions. Air traffic connectivity (and safety of air traffic) will still be maintained, even if Airways does not provide air traffic services in some airports. Airways withdrawing services does not require the airports to close. Civil Aviation Authority (CAA) visual flight rules apply and aircraft will be able to land safely in those airports even if there is no air traffic control tower. If volumes are low, this is not a problem as aircraft traffic will continue based on visual flight rules. s9(2)(g)(i) [redacted] It is important to note Airways will still be providing its services when aircraft enter controlled air space.

COMMERCIAL-IN-CONFIDENCE

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Ōtākaro	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i)	[redacted]	• **Revenue impacts:** An extended three month lockdown period would delay the opening of the Te Pae Convention Centre from October 2020 to s9(2)(j) [redacted] reducing forecast revenue by [redacted] bookings. • **Cost flexibility:** Ōtākaro has limited scope to reduce costs due to existing construction and convention centre operator contracts in place. This is compounded by increased costs associated with: construction claims for extension of time and cost (between approximately [redacted]), and extension of pre-opening costs for Te Pae Convention Centre (approximately [redacted]). In addition, Ōtākaro has a fixed 'life', with current funding due to expire in 2023 when its mandate has been delivered. Delays to projects like the Metro Sports Facility could require an extension of Ōtākaro's operations by s9(2)(b)(ii) and s9(2)(g)(i) [redacted] • **Balance sheet capacity & liquid resources**: All of Ōtākaro's borrowings are held with the Crown. Sale of assets through Ōtākaro's land divestment programme is an ongoing process, s9(2)(b)(ii) [redacted] when selling remaining assets. Lower market confidence could potentially impact its ability to divest, resulting in [redacted]. • **General Comments**: Ōtākaro may seek assurance in the medium term that its s9(2)(g)(i) [redacted]
Dunedin International Airport (DIAL) (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i)	[redacted]	• **Revenue impacts:** DIAL is expecting a [redacted] reduction in revenue by the end of FY20 ([redacted] lower than budget). In FY21, DIAL forecasts a reduction of [redacted] ([redacted] lower than budget). This is due to lower aeronautical revenue, and reductions in parking, rents and passenger related revenue. • **Cost flexibility:** DIAL's costs are mostly fixed but it has identified savings in operating expenses. In FY20, DIAL expects a decline of [redacted] in EBITDA ([redacted] lower than budget) and a [redacted] in NPAT ([redacted] lower than budget). In FY21, DIAL will likely make a loss of [redacted] and its EBITDA is expected to reduce by [redacted] ([redacted]). • **CAPEX Plans:** In the short-term, DIAL will put on hold all Capex with the exception of the [redacted] balance remaining on the Terminal Expansion Project. In FY21, DIAL forecasts capex of [redacted] ([redacted] lower than budget). • **Balance sheet capacity & liquid resources**: DIAL has [redacted] in cash and it has available [redacted] of its bank facility ([redacted]) to cover its cash flow requirements. Its current net gearing ratio is [redacted]. In FY20, DIAL is expecting to increase its debt by [redacted] to cover cash flow requirements. In FY21, DIAL is forecasting to increase its debt to [redacted]. [redacted]

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			• **Update on DIAL's staff and salaries** [redacted] DIAL has applied for the Government's wage subsidy and it has received the payment. Other measures taken by DIAL include: [redacted] • **Upcoming advice:** The Treasury will send a detailed analysis on the impacts of COVID-19 on the three airports co-owned by the Crown and councils (Christchurch International Airport Ltd, Dunedin International Airport Ltd and Hawke's Bay airport) by 17 April 2020 (Treasury Report T2020/840 'Impact of COVID-19 on Crown-owned airports').
Christchurch International Airport (CIAL) (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i)	[redacted]	• **Revenue impacts:** CIAL is highly exposed to COVID-19. It is expecting a reduction in revenue of [redacted] ([redacted] lower than budget) for FY20 and [redacted] ([redacted] lower than budget) for FY21. This is assuming that domestic and international passengers will essentially decline to zero over the next 3 months, and a slow recovery to approximately 80% pre-COVID-19 levels by the end of 2021. Whilst CIAL has some significant contracted revenue streams (e.g. lease rentals), these will be reduced in the next 3 months through rent forgiveness. • **Cost flexibility**: CIAL's costs are mostly fixed. The reduction in revenue is likely to flow through to profitability. For FY20, a decline of [redacted] in EBITDAF ([redacted] reduction) and NPBTF ([redacted] reduction) is expected. In FY21, CIAL will likely make a loss of $24m and its EBITDAF will experience a reduction of [redacted]. • **CAPEX Plans:** All non-essential operational capex will be halted or deferred throughout the period. • **Balance sheet capacity & liquid resources**: CIAL has [redacted] of cash and undrawn loan facilities available to draw on over the next 0-3 months. CIAL current gearing ratio is 33%, which is below the maximum target of 40%. [redacted] • **General comments**: [redacted] CIAL has applied for the Government wage subsidy and the application is close to being approved. [redacted] No other decisions have been taken as yet. • **Upcoming advice:** The Treasury will send a detailed analysis on the impacts of COVID-19 on the three airports co-owned by the Crown and councils (Christchurch International Airport Ltd, Dunedin International Airport Ltd and Hawke's Bay airport) by end of this week (Treasury Report T2020/840 'Impact of COVID-19 on Crown-owned airports').

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Landcorp (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i) [redacted]	[redacted]	*Landcorp has forecast its worst case scenario based on the current milk futures prices of $6.35 per kgms and Global Financial Crisis red meat prices. They are not expecting prices to fall this low, but this is what they see as the worst case scenario.* • **Revenue impacts:** Current impacts are predominantly in the livestock business, s9(2)(b)(ii) [redacted] s9(2)(b)(ii) [redacted] s9(2)(b)(ii) [redacted] Livestock revenue is predicted to decrease by [redacted] (from the October reforecast) in FY20. The majority of the impact is forecast to be felt in FY21 with an approximate [redacted] decrease in livestock revenue from original FY21 budget anticipated (if worst the case scenario occurs). Total FY20 revenue is predicted to be [redacted] lower than the October reforecast, however, [redacted] above the original budget. FY21 revenue is expected to decrease by [redacted] (worst case scenario). • **Cost flexibility:** Landcorp's cost structure is much higher than its farming peers, due to the head office function and s9(2)(g)(i) [redacted]. s9(2)(b)(ii) and s9(2)(g)(i) [redacted] s9(2)(b)(ii) and s9(2)(g)(i) [redacted] • **CAPEX Plans –** [redacted] • **Balance sheet capacity & liquid resources**: [redacted]. s9(2)(g)(i) [redacted] s9(2)(g)(i) [redacted] • **General Comments**: Landcorp is expecting to make a [redacted] in FY20 and an EBITDAR of approximately [redacted] (down from the October reforecast of $73-78m but still up on the original forecast of $61m). Landcorp is forecasting to make a [redacted] loss and an EBITDAR of just [redacted] in FY21 (based on what they deem as a worst case scenario). s9(2)(b)(ii) and s9(2)(g)(i) [redacted] s9(2)(b)(ii) and s9(2)(g)(i) [redacted]

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MetService (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i) [redacted]	[redacted]	• **Revenue impacts:** MetService's aviation forecasting segment s9(2)(b)(ii) [redacted] is highly impacted by COVID-19. It is also expecting advertising revenue to reduce due to declining economic conditions. MetService is forecasting a decrease in revenue of [redacted] for FY20 ([redacted] lower than budget) and FY21 revenue to be around [redacted] lower than plan. [redacted] • **Cost flexibility:** MetService's costs are mostly fixed in the short and medium term. The reduction in revenue flows through to profitability and impacts negatively on cash flow. MetService expects a [redacted] reduction in cash flow from operations for FY20. No dividend is expected; it has already been delayed due to uncertainty around seismic strengthening and the Commerce Commission investigation. [redacted] • **CAPEX Plans:** MetService has annual capex of $9m, not including less frequent, large investments like new radars. MetService could defer some capex in operations infrastructure, IT, and product development, but highlight that this would diminish the effectiveness of the network and thereby the quality of forecasting operations. The Otago Radar installation, which started a few weeks ago has been put on hold until September at the earliest. Seismic strengthening of MetService's building [redacted] may be delayed depending on the length of the pandemic. s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] • **Balance sheet capacity & liquid resources:** MetService has a strong balance sheet; with a current gearing ratio of [redacted] cash, giving the company short term flexibility. The gearing ratio is expected to increase significantly as a result of COVID-19 impacts, particularly if capex cannot be deferred. s9(2)(b)(ii) and s9(2)(g)(i) [redacted] s9(2)(b)(ii) and s9(2)(g)(i) [redacted] No other liquid or surplus assets are available.
Education Payroll (EPL) (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i) [redacted]	[redacted]	• **Revenue impacts:** No adverse revenue impacts as all of EPL's funding comes from the Ministry of Education. • **Cost flexibility:** In the short-term, EPL is required to do additional work to enable the schools payroll processes to continue during the lockdown s9(2)(b)(ii) and s9(2)(g)(i) [redacted] Longer-term, prolonged disruption in the education sector could significantly complicate the payroll process, [redacted] Delay will increase costs, [redacted] • **CAPEX Plans:** [redacted]

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			• **Balance sheet capacity & liquid resources**: EPL has a $13.2m facility with the Crown with $5m available to draw down ($8m has already been drawn). Drawdowns are planned for June and July 2020 to fund the final implementation stages of the EdPay and maintain key technology infrastructure. s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] • **General Comments**: s9(2)(b)(ii) and s9(2)(g)(i) [redacted] s9(2)(b)(ii) and s9(2)(g)(i) [redacted]
Kiwi Group Holdings (KGH) *(NZ Post majority shareholder)* (Essential service)	**Immediate Term (< 3 months)** **Medium term (3- 6 months)** **Longer-term (>6 months)** s9(2)(b)(ii) & s9(2)(g)(i)	[redacted]	• **Revenue impacts:** KGH is anticipating a [redacted] reduction in revenue and [redacted] reduction in NPAT for FY20. It is likely that the bulk of the impacts will be felt in FY21 when a [redacted] reduction in revenue and a [redacted] decrease in NPAT is anticipated. KGH is expecting a net [redacted] for FY21 mainly due to a lower interest margin, higher bad debts and investment losses in a lower equity market. • **Cost flexibility:** Group companies are relatively cost inflexible. KGH is expecting to hold costs at the current levels and to carry its staff through to the end of the 2020 financial year. [redacted] • **CAPEX Plans:** Depending on the duration of the COVID-19 response, KGH will reassess its capex plan, in particular, s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] • **Balance sheet capacity & liquid resources**: KGH is well capitalised and considers it has adequate capital to sustain losses under the negative scenario: Its capital ratio is around 14%, 3.5% above regulatory minimum. 91% of Kiwibank's mortgages have loan to value ratios under 80%, so the bank can sustain some defaults without incurring any losses. In addition, s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] However, there is a risk that ongoing funding could become more challenging if markets become difficult. [redacted] • **General comments:** Based on the information provided by KGH, the group appears suitably positioned to weather the downturn in the short-term unless markets become illiquid. The Reserve Bank's measures to ensure there is sufficient liquidity in the market, including delaying the implementation of the new capital adequacy requirements and implementing a $30 billion Large Scale Asset Purchase (LSAP) programme, have been important in assisting liquidity in the near term. s9(2)(g)(i) [redacted] s9(2)(g)(i) [redacted]

ALL OTHER ENTITIES				
Mixed Ownership Model Companies (stress testing not completed for MOMs)				
	0-3 Months	**3-6 Months**	**6+ Months**	
Genesis Energy (Essential service)	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]			Some exposure to the fall in oil prices via its ownership of 46% of the Kupe oil and gas field, though there are indications that oil prices may stabilise in the near future. Genesis will be exposed to increased customer credit risk and increased bad debts; however at this stage the impact is not expected to be material.
Mercury NZ (Essential service)				Minor impacts. Potential supply chain risks for its Turitea wind farm, but the company advises no such impacts are being felt at present, and it recently landed a significant portion of the materials for the windfarm. Mercury will be exposed to increased customer credit risk and increased bad debts; however at this stage the impact is not expected to be material.
Meridian Energy (Essential service)				Minor impacts. Meridian Energy is exposed to the Tiwai smelter strategic review and it is currently unclear how COVID-19 may affect the smelter or the strategic review (possibly through a global economic slowdown impacting on aluminium prices). Rio Tinto, majority owner of the smelter, previously announced that potline four at the smelter will close to ensure workplace restrictions resulting from COVID-19 can be managed. Rio Tinto stated that the potline closure is not related to the ongoing strategic review. Meridian will be exposed to increased customer credit risk and increased bad debts; however at this stage the impact is not expected to be material.

COMMERCIAL-IN-CONFIDENCE

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State Owned Enterprises				
Kordia (Essential service)	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]			s9(2)(b)(ii) and s9(2)(g)(i) [redacted] Kordia has deferred non-essential capex to approximately [redacted] to maintain cash and reduced sub-contractors to essential only. Further costs will be reviewed depending on work volumes, including operational expenditure. s9(2)(b)(ii) and s9(2)(g)(i) [redacted] s9(2)(b)(ii) and s9(2)(g)(i) [redacted] The Ministry for Culture and Heritage (MCH) advises that the Minister of Broadcasting, Communications and Digital Media, Hon Kris Faafoi, has asked for a Cabinet paper to be prepared, for consideration by CBC on Wednesday 15 April, on potential support for the media sector. We understand a range of options are being considered. As one of the options to provide immediate relief to the media sector, MCH contacted the Treasury to seek advice on potential support for the media sector via temporarily alleviating "government" charges – for example, Kordia's transmission fees [T2020/836 refers].
Quotable Value (Essential service)	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]			QV earnings will be impacted slightly during Alert Level 4, as non-core business revenues will decrease due to: • deferrals to objections work, given inability to physically access sites; and • reduced ratings revenue from banking and insurance panels, given the stalled activity in the housing market. QV is taking the expected steps of removing variable costs to reflect reduced activities and deferring any non-essential capital expenditure. In the negative scenario, EBITA forecasts to 30 June 2020 will reduce by [redacted] compared to forecast, to an estimated [redacted]. QV is not likely to need financial support at this stage, but is signalling it will likely withhold its [redacted] dividend this year to retain a higher cash buffer. QV has now indicated that the s9(2)(b)(ii) [redacted] is considering the need to defer its ratings revaluation, which is scheduled to take place over this calendar year. s9(2)(g)(i) [redacted] s9(2)(g)(i) [redacted] QV notes that its bank would still be willing to lend to QV, if needed, under current circumstances. At this stage it is still unlikely that the Crown will need to extend support, s9(2)(g)(i) [redacted] s9(2)(g)(i) [redacted]

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Transpower (Essential service)	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]	90% of Transpower's revenue is set for the next five years and are not dependant on demand levels, so COVID-19 is unexpected to have a material impact on the business. However, in the event that electricity distributors and/or retailers cannot meet their transmission costs, revenue may be under some pressure as part of the relief being provided to electricity consumers more generally. Transpower has not modelled this potential impact, but is reviewing the status constantly. Treasury is comfortable with this, as the risk of electricity retailers not meeting their transmission costs is low. **Key Communications:** Transpower informed shareholding Ministers on Transpower's response to COVID-19 economically affected businesses on 7 April 2020. On 9 April 2020, Transpower informed officials that it is continually reviewing supply chain implications. Transpower has maximised payments to New Zealand suppliers and prioritised critical service providers, small and medium enterprises (SMEs) and other key vendors such as Tower Painters (who are not able to work under Transpower's essential services definition). Transpower has also reset / moved the payment terms for several SMEs from "20th of the month following" to "next pay run". On 6 April 2020, Transpower processed almost $32m to New Zealand suppliers. Typically, the value of an early April payment run is much less than $25m. The next fortnightly payment for New Zealand suppliers is shaping up to be equally large.
Orillion (Essential service)	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]	Orillion has substantially reduced its operations, with limited staff completing pest control orders when required. Under the negative scenario, [redacted] revenue per month is possible, with cash costs in the order of [redacted] s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted]
AsureQuality (Essential service)	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]	AsureQuality has experienced a decrease in demand across business units, such as [redacted], but it is not expecting a material decrease in EBIT across FY20. After a strong first three quarters, AsureQuality is [redacted] ahead of budgeted EBIT for FY19/20. [redacted] AsureQuality has also increased its debt facilities by [redacted] as a precautionary measure. There are no current impacts on staff and AsureQuality will apply for the wage subsidy scheme should its revenue reduce by 30%. This is not expected at this stage.

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Crown Entity Companies				
Radio New Zealand (Essential service)	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]			As a Lifeline Utility broadcaster, RNZ is prioritising essential service public information channels and news. [redacted] has been approached by media companies seeking relief from its AM transmission charges (2.5% of RNZ's total revenue, $1.2m p.a.). s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] s9(2)(b)(ii), s9(2)(ba)(i) & s9(2)g)(i) [redacted] These pressures are further exacerbated given RNZ's $7.25m per annum time-limited funding has not yet been extended beyond FY21. Ministers are currently considering the extension of this time-limited funding.
Crown Irrigation Investments				No material impacts expected. s9(2)(g)(i) [redacted] s9(2)(g)(i) [redacted] CIIL has sufficient capital and liquidity (including its uncalled capital) to meet its obligations to fund its investments.
Schedule 4A Companies				
Crown Infrastructure Partners	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]			No impacts to CIP revenues from COVID-19 as revenues come from Crown or are accounting-based. CIP currently has significant cash ($122.9 million – high due to a recent capital call from the Ultra-Fast Broadband appropriation). In response to Level 4 lockdown, CIP will reduce short term cash flow, but then expects this will step up to assist in driving recovery post-COVID-19. CIP can operate within current cash reserves until the end of September 2020. The company will use current cash for all programmes to avoid drawing cash from other appropriation buckets (and this will reconcile once business as usual is re-established). CIP prefers this approach over having excess cash in the bank.
The Network for Learning (Essential service)				N4L does not expect any adverse financial impacts over the short or longer-terms, provided Crown funding continues at current levels.
Southern Response Earthquake Services				No current impacts as liabilities relate to historic events. Southern Response Earthquake Services is fully funded by the Crown.

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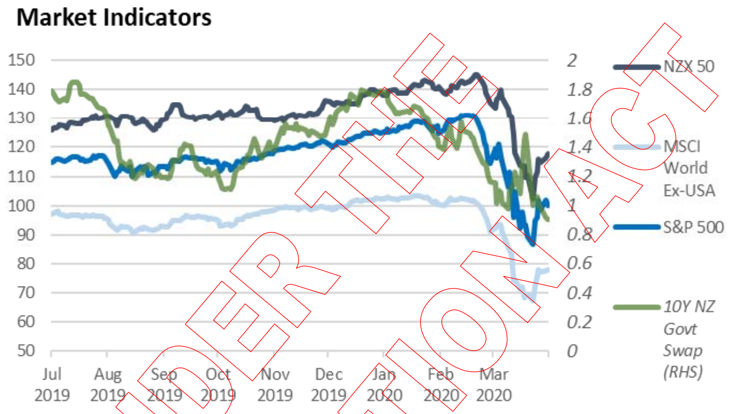
Statutory Entities				
Public Trust (Essential service)	s9(2)(b)(ii) & s9(2)(g)(i) [redacted]			Even under the negative scenario, Public Trust expects a net profit of between [redacted] for 2020 and a net [redacted] for 2021 ([redacted]). s9(2)(b)(ii) and s9(2)(g)(i) [redacted] s9(2)(b)(ii) and s9(2)(g)(i) [redacted]
The New Zealand Lotteries Commission				Lotto is expecting a [redacted] decline in sales over the immediate term; retail outlets are closed but Lotto expect this to be partially offset by an increase in online sales. To the end of FY21 Lotto expect sales [redacted] lower than plan. Lotto are actively seeking cost reductions over Q4, and are in a good position to cover shortfalls with their current prize reserve fund ($57m) and [redacted] of excess profits which will be retained for the immediate term.
Earthquake Commission (Essential service)				No current impacts. s9(2)(j) & s9(2)g)(i) [redacted] s9(2)(j) & s9(2)g)(i) [redacted] Longer-term, there is a possibility that levy revenue could be negatively affected if homeowners decide to stop paying for fire insurance cover for their properties.

3. Crown Financial Institutions (CFIs) – COVID-19 Impacts

Interim Performance Update – 31 March 2020

Market Performance
Global equity markets fell sharply in early-March but rebounded by month-end with a 20% rally from a 3-year low on 23 March.

Large swings became commonplace during this period with volatility reaching levels not seen since the GFC.



Global bond yields have also been volatile but have moved to historically low levels under a 'risk-off' scenario and unprecedented monetary policy.

The investment performance of the individual CFIs as at 31 March 2020 is shown below[1]. The more growth orientated CFIs (NZ Super Fund and Government Superannuation Fund Authority) are driven more by the equity market movements, whereas the performance of more income orientated CFIs (ACC Investments and National Provident Fund) is mixed, with their government bonds investments (NZ GB +3.4% YTD) partially offsetting the negative equity moves.

Fund Performance
The mandate of the CFIs is to take on market risk to deliver against their investment objectives. The Funds have used various economic shock scenario analyses to develop risk and liquidity limits. This assures Boards that there will be effective management through volatile markets, or where action might be required should limits be breached.

While there will be short to medium term impacts due to contracting markets, the Funds are able to use their balance sheet strength to identify and acquire under-valued assets, and gain long-term value. This was evidenced by strong Fund performance in the recovery from GFC. Decisive Monetary Policy and Government action has minimised the distress of markets.

It is not clear at this time what the shape of the recovery will be, but the Government's Funds are operating well. Fortnightly conversations with fund managers have assured monitors that business continuity has been maintained and there has been no significant liquidity event. We understand that there has been no significant shift in investment strategy due to Covid-19, with the Guardians Board recently approving 'no change' to the Benchmark portfolio to anchor Superfund performance.

The performance data, below, is indicative only and provided under 'no-surprises' to support any media queries you may have. The unlisted investments of each fund are not updated at this stage, which will cause some variation with quarterly reports, provided by the end of April.

[1] For additional reference, S&P 500 has increased 6.8% from 31 March to 13 April, meaning fund values have likely appreciated in this time.

Growth Funds

NZ Super Fund:

Percentage	Mar-20	YTD
Fund %	-11.18%	-10.08%
Benchmark %	-11.48%	-10.18%
Relative %	0.30%	0.10%
Nominal	**Mar-20**	**YTD**
Fund $	(4,936m)	(4,467m)
Benchmark $	(5,070m)	(4,516m)
Relative NZ$	134m	49m

Government Superannuation Fund:

Percentage	Mar-20	YTD
Fund %	-7.70%	-11.90%
Benchmark %	-9.70%	-13.30%
Relative %	2.00%	1.40%
Nominal	**Mar-20**	**YTD**
Fund $	(340m)	(552m)
Benchmark $	(429m)	(618m)
Relative NZ$	89m	66m

Liability-Driven Funds*

ACC Investments:

Percentage	Mar-20	YTD
Fund %	-6.10%	-1.08%
Benchmark %	-5.98%	-0.96%
Relative %	-0.12%	-0.11%
Nominal	**Mar-20**	**YTD**
Fund $m	(2,793m)	(444m)
Benchmark $m	(2,739m)	(397m)
Relative NZ$m	(54m)	(47m)

National Provident Fund:

Percentage	Mar-20	YTD
Fund %	-5.40%	-7.20%
Benchmark %	-5.20%	-5.70%
Relative %	-0.20%	-1.50%
Nominal	**Mar-20**	**YTD**
Fund $	(98m)	(135m)
Benchmark $	(95m)	(107m)
Relative NZ$	(3m)	(28m)

**Performance for the liability-driven Funds is relative to the movement in the liability. Per ACC's letter to you and the Minister for ACC on 7 April 2020, ACC has seen a total reduction in its liability of ~$3.9 billion over the month of March and a net $0.6 billion improvement in its solvency position.*

Crown Financial Institutions

The CFIs are not commercial entities in the same sense as the broader Crown commercial portfolio. Typically they have large balance sheets but do require cash flow from the Crown, in some cases, to support payment obligations. The CFIs are entities or companies that are investment vehicles, aiming to maximise returns subject to objectives and risk preferences. In this type of 'risk-off' scenario, the funds will suffer mark-to-market investment losses. These short to medium term investment results, in isolation, do not typically lead to a requirement for Crown support, however this could be the case if:

- the fund lacks sufficient liquidity to meet obligations or execute its business;
- the Crown guarantees investment returns; or
- the Crown is required to provide higher contributions to a fund to meet its objective over the medium/longer term.

Therefore, the scoring method below is slightly different from Commercial entities and Crown companies and are not based on the negative scenario.

Key:	Impact:
	Highly likely to require Crown support or lead to fiscal/budget implications over this time period.
	Potential to require Crown support or lead to fiscal/budget implications over this time period.
	Unlikely to require Crown support or lead to fiscal/budget implications over this time period.

CFI	Timeline	RAG rating	Comments
National Provident Fund (further information provided in the one pager below) (Essential service)	Short Term (<3 months)		• Has sufficient liquidity. • However the Crown guarantees a minimum 4% annual member benefit in 3 of the pension schemes with assets ~$1.0 billion. • It is expected that there will be a call on this guarantee given the current market movements will likely result in a negative return for these schemes to the end of March-2020 (still to be finalised). • NPF has estimated this would be in the range of $22-$40 million, depending on market movement over the remainder of March. This will need to be paid in June 2020.
	Longer-Term (>6 months) s9(2)(b)(ii) & s9(2)(g)(i)		• Has sufficient liquidity. • However the Crown guarantees a minimum 4% return in 3 of the pension schemes with assets ~$1.0bn. • If the investment performance remains below 4% for the next financial year to March-2021, the Crown guarantee would be called again. • This could be for a maximum of $40 million.

		s9(2)(b)(ii) & s9(2)(g)(i)	
Guardians/NZ Super Fund	Short Term (<3 months)		• Has sufficient liquidity, while the fund is likely to contract, there is no need for explicit Crown support.
	Longer-Term (>6 months)		• Has sufficient liquidity, no need for explicit Crown support, however if investment markets remain subdued, performance will be impacted which would have fiscal implications: ○ a lower Fund size will lead to higher future contributions by the Crown as per the legislated contribution formula; and ○ negative performance will reduce or remove the Fund's tax payments, reducing revenue to the Crown.
Government Superannuation Fund Authority (Essential service)	Short Term (<3 months)		• Has sufficient liquidity, while the fund is likely to contract, there is no need for explicit Crown support.
	Longer-Term (>6 months)		• Has sufficient liquidity, no need for explicit Crown support, however if investment markets remain subdued, performance will be impacted which would have fiscal implications: ○ a lower Fund size will lead to higher future contributions by the Crown, the magnitude of the contribution increase is to be determined.
Accident Compensation Corporation (Essential service)	Short Term (<3 months)		• Has sufficient liquidity to maintain claim payments and not require forced asset sales. • Low claim volumes provides a natural offset to lower revenues e.g. through earners income or petrol usage
	Longer-Term (>6 months)		• Has sufficient liquidity, no need for explicit Crown support. However, there are likely to be offsetting impacts should investment markets remain subdued and low economic growth persist (less employed and fewer Kms travelled): ○ a lower Fund size will lead to higher future contributions by levy payers, the next opportunity for consideration is November 2020, thereafter it is November 2021 and every three years following ○ non-earners appropriation increases are capped at 7.5% in any case. This is likely to be fully utilised in the medium term ○ total claim volume is correlated to economic growth - lower growth could see lower claim volumes.
Local Government Funding Authority (LGFA)* (Essential service)	Short Term (<3 months)		• Has sufficient liquidity for the short term. • However market conditions are very testing and while LGFA is less affected than other borrowers it is still difficult. • Due to the heightened market volatility LGFA is recommending councils consider only borrowing what is required for core financing requirements. • Markets are irrational and illiquid and LGFA is having to pass on increased borrowing costs to councils.

s9(2)(b)(ii) & s9(2)(g)(i)

	Longer-Term (>6 months)		Similar to short-term impacts; and • LGFA is relatively comfortable with its ability to refinance (albeit at a cost) its upcoming $980 million bond issue but is becoming more concerned about satisfying the additional council borrowing appetite. • If market conditions remain it is possible that LGFA will need to draw on the $1 billion liquidity facility provided by the Crown. • The Treasury has provided advice to the Minister of Finance regarding the extension of the liquidity facility. LGFA consider that an extension would have a significant boost to market sentiment and reduce borrowing costs for its 67 member councils.
NZ Green Investment Finance (NZGIF)	Short Term (<3 months)		• NZGIF has made no investments and has no market exposure. Alternative asset classes may struggle to access private capital markets in the midst or immediate aftermath of a shock event. • It has sufficient liquidity, no need for explicit Crown support.
	Longer-Term (>6 months)		• NZGIF continues to engage with the market and considers it has a strong pipeline of opportunities. • However market conditions may impact ability to deploy capital in a timely manner.

*LGFA raises debt on behalf of local authorities on more favourable terms than if they raised the debt directly. The Crown holds a 20% shareholding in LGFA and provides it with a $1 billion liquidity facility. LGFA has never drawn on this facility

4. Upcoming Reports/Cabinet Papers

Company	Report No.	Subject	Date
Earthquake Commission	T2020/1008	Review of the EQC Insurance Liability Valuation report as at 31 December 2019.	16 April 2020
Project 20	T2020/995	Alert Level 3,2 and 1 considerations	17 April 2020
NZ Post	T2020/929	New Zealand Post COVID-19 equity support	17 April 2020
Airports	T2020/840	COVID-19 Impact on Crown-owned Airports	22 April 2020
Crown Infrastructure Partners	TBC	Changes to the Crown Infrastructure Partners constitution and use of appropriations	23 April 2020
TVNZ	T2020/862	Television New Zealand Ltd COVID-19 Support	28 April 2020
NZ Post	TBC	Equity Support Documentation and Updated Expectations	29 April 2020
Hawkes Bay Airport	TBC	Options for Support	30 May 2020
Landcorp	T2020/218	Update on Landcorp Farming Limited's performance	On Hold
Crown Infrastructure Partners	T2019/3386	New Multi-Year Appropriation for Crown Infrastructure Partners	On Hold
Solid Energy	T2019/1841	Transfer of Rehabilitation Indemnity for Huntly East Mine to Escrow	On Hold
Landcorp	T2019/1233	Landcorp - Waitangirua Land	On Hold
Commercial Portfolio	T2020/624	Proactive release of Letters of Expectation for 2020/21	On Hold

5. Upcoming Governance and Appointments Reports (SOEs portfolio only)

Company	Report No.	Subject	Date	Minister
Nil.				

6. Official Information Act (OIA) Requests under Action

Company	Report No.	Subject	Date	Minister
Air New Zealand	T2020/1016	Correspondence between Air NZ and Minister Robertson's office regarding Covid-19 and the two loan facilities	29 April 2020	Minister of Finance

Shelley Hollingsworth
Manager, Commercial Performance

Juston Anderson
Acting Manager, Commercial Performance

Rt Hon Winston Peters
Minister for State Owned Enterprises

Hon Grant Robertson
Minister of Finance

Hon David Parker
Associate Minister of Finance

Hon Shane Jones
Associate Minister for State Owned Enterprises

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Treasury Report: Delegation of authority to provide guarantees and indemnities in relation to COVID-19 repatriation flights

Date:	17 April 2020	**Report No:**	T2020/1054
		File Number:	DH-10-0-11 (FY 2019 - 2020)

Action sought

	Action sought	Deadline
Minister of Foreign Affairs (Rt Hon Winston Peters) Minister of Finance (Hon Grant Robertson)	**Note** that the Ministry of Foreign Affairs and Trade is negotiating further repatriation flights in relation to COVID-19, and may need to give guarantees or indemnities as part of these arrangements. **Agree** to delegate authority to the Secretary of Foreign Affairs and Trade to provide guarantees and indemnities in relation to charter flights for stranded New Zealanders, based on the framework in paragraph 4. **Sign and date** the attached delegation instrument.	17 April 2020 This deadline is to secure charter flights for New Zealanders, out of the Philippines, on 19 April.

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Rebecca Mountfort	Analyst, International	s9(2)(k) [redacted]	N/A (mob)	✓
Kate Yesberg	Team Leader, International		N/A (mob)	

Minister's Office actions (if required)

Return the signed report and delegation instrument to Treasury. **Refer** the report to the Minister of Foreign Affairs.

Note any feedback on the quality of the report	

Enclosure: Delegation by Minister of Finance - COVID-19 Charter Flight (Treasury:4265249v2)
Add to worklist

Treasury Report: Delegation of authority to provide guarantees and indemnities in relation to COVID-19 repatriation flights

Recommended Action

We recommend that you:

a **note** that the Ministry of Foreign Affairs and Trade (MFAT) (on behalf of the Crown) will likely be required to give guarantees and indemnities if it enters into charter contracts to repatriate New Zealanders that are stranded in other countries as a result of COVID-19. It is difficult to determine how many such flights will be required.

b **note** that the indemnities and guarantees will not be within the permitted categories of indemnities and guarantees that the MFAT can give under section 65ZE of the Public Finance Act 1989 and the Public Finance (Departmental Guarantees and Indemnities) Regulations 2007.

c **note** that under section 65ZD of the Public Finance Act 1989, the Minister of Finance may, on behalf of the Crown, give a guarantee or indemnity if it appears to the Minister to be necessary or expedient in the public interest to do so.

d **note** that in these circumstances, and based on MFAT's decision making criteria in paragraph 5, providing guarantees and indemnities in relation to repatriation flights is likely to be necessary or expedient in the public interest.

e **note** that to reduce urgent requests of this nature coming to you, we recommend delegating authority to provide indemnities and guarantees in relation to repatriation flights to the Secretary of Foreign Affairs and Trade, which you can do pursuant to section 28(1) of the State Sector Act 1988.

f **agree** to delegate authority to the Secretary of Foreign Affairs and Trade to provide guarantees and indemnities in relation to charter flights for stranded New Zealanders, based on the framework in paragraph 4. Treasury will retain some oversight of the indemnities and guarantees given.

Agree/disagree.

g **refer** to the Minister of Foreign Affairs.

Refer/not referred.

Kate Yesberg
Team leader, International

Hon Grant Robertson
Minister of Finance

Treasury Report: Delegation of authority to provide guarantees and indemnities in relation to COVID-19 repatriation flights

Purpose of Report

1. This report seeks your agreement to delegate authority to the Secretary of Foreign Affairs and Trade to give guarantees and indemnities when entering into airline charter and logistics contracts related to COVID-19 repatriation flights. The framework for delegating these requests is included in paragraph 4.

Framework for delegation

2. As signalled in T2020/958, we understand that MFAT will negotiate additional charter logistics agreements to repatriate New Zealanders stranded in other countries, which are likely to include indemnities and guarantees and will therefore require your approval.

3. To reduce pressure on you, we recommend that you provide a general delegation to the Secretary of Foreign Affairs and Trade. The Secretary (or his delegate) will be able to approve future guarantees and indemnities, pursuant to the section 28 of the State Sector Act 1988 and sections 65ZD and 65ZG of the Public Finance Act 1989. He will be able to:

    a. give in writing indemnities and guarantees as part of any contracts or other arrangements for government-assisted repatriation flights relating to the COVID-19 pandemic, such indemnities and guarantees to be in such form and on such terms and conditions that the Secretary or his delegate thinks fit;

    b. take any action required to give effect to such indemnities and guarantees; and

    c. make any payments required under such indemnities and guarantees, and pay any related expenses incurred by the Crown.

4. However, before a guarantee or indemnity can be granted under this delegation, the Secretary (or his delegate) must first consult with the Treasury, and must be satisfied that:

    a. the guarantee or indemnity is necessary or expedient in the public interest (section 65ZD(1) of the Public Finance Act);

    b. the contingent liability of the Crown under the guarantee or indemnity would not exceed $10 million, which is the threshold where reporting to Parliament would be required (section 65ZD(3) of the Public Finance Act); and

    c. any relevant criteria for government-assisted repatriation flights set by the Minister of Foreign Affairs are met.

5. The criteria agreed by the Minister of Foreign Affairs to inform decisions regarding government-assisted repatriation flights includes the following factors:

   a. individuals are fit for travel according to advice from health authorities;

   b. no commercial flight options to New Zealand are available;

   c. it is unsafe to shelter in place;

   d. 5 Nations partners are evacuating their citizens; and

   e. the New Zealand health system is not overwhelmed.

6. For the avoidance of doubt, for the purposes of this delegation, a government-assisted repatriation flight includes a flight carrying both New Zealanders and passengers of other nationalities.

7. This delegation comes into effect on the date of its execution and continues in force until it is revoked.

Other repatriation flights

8. It is difficult to anticipate future flights that will be required, because this is dependent on the local situation in each country, which is changing day by day. MFAT advises that there are still several hundred thousand New Zealanders overseas. Most of these people are not registered on New Zealand consular databases, and it is impossible to know exactly how many wish to return home or will look to the government for repatriation assistance.

9. However, we are aware that negotiations are underway to return New Zealanders stranded in India and the Philippines.[1] Flights are tentatively scheduled for 19 April and 22 April. As part of the contractual requirements for these flights, both flights may require indemnities and guarantees, although MFAT is currently trying to work around these requirements.

10. According to MFAT's risk matrix criteria for identifying 'red rated or at risk countries' other countries which New Zealanders may require repatriation flights from include: s6(a) [redacted] Other countries possibly requiring support, likely drawing on efforts from our partner countries, include: s6(a) [redacted]

[1] There are approximately 1900 kiwis in India, and 300 in the Philippines. This is based on individuals in the SafeTravel database as being in a country and not necessarily who actually wish to return to NZ.

Future Indemnities & Guarantees

11. s9(2)(b)(ii) and 9(2)(j) [redacted]

Exposure and risk profile

12. It is difficult to determine how many future flights will be required. However, we would expect the financial exposure should the indemnities or guarantees be triggered to be in similar to MFAT's upper estimate of total financial exposure for the Peru flight, which s9(2)(b)(ii) and 9(2)(j) [redacted]

13. MFAT considers the risk profile of these indemnities and guarantees is relatively low. With the exception of passenger actions, the indemnities are within the control of MFAT. MFAT also now has experience organising three other charter flights where the issues described did not occur.

14. We agree with MFAT's assessment. The indemnities and guarantees are likely to be similar to what was agreed for Peru and what we would expect for agreements of this nature, which do not place unreasonable risk on the Crown.

15. However, as described in the delegation framework above, indemnities or guarantees will not be able to exceed $10 million. As flagged above we would expect likely exposure to be significantly below this threshold. Treasury will also review all requests, before they are provided to the Secretary of Foreign Affairs and Trade (or delegate) for their signature.

16. Flight costs for repatriation will be met through baseline funding from Vote Foreign Affairs and Trade.

Your power under section 65ZD of the Public Finance Act 1989 to give indemnities and guarantees on behalf of the Crown

17. Any final charter flight agreements are intended to be legally binding and, on entry, will constitute a commitment by the Crown to provide indemnities and a guarantees, as described in its terms.

18. Section 65ZD of the Public Finance Act 1989 (the Act) empowers you, as the Minister responsible for the administration of the Act, to give an indemnity or guarantee to a person, organisation or government if it appears to you to be 'necessary or expedient in the public interest' to do so, and to give such an indemnity on any terms and conditions that you think fit.

19. Section 65ZG of the Act provides that any money paid by the Crown under a guarantee or indemnity given under section 65ZD and any expenses incurred by the Crown in relation to the guarantee or indemnity may be incurred without further appropriation, and must be paid without further authority, than that section.

20. Section 28(1) of the State Sector Act 1988 gives you the power to delegate the power to give indemnities and guarantees to a chief executive. We recommend that you delegate the power to give future indemnities and guarantees to the Secretary of Foreign Affairs and Trade.

Officials assess that providing guarantees and indemnities for charter flights are likely to be 'necessary or expedient in the public interest'

21. In determining whether to give indemnities and guarantees the decision makers must be satisfied that it is necessary or expedient in the public interest for the Crown to provide the guarantees and indemnities.

22. Given that your delegate, the Secretary of Foreign Affairs and Trade, will be exercising the power to give each indemnity or guarantee, the Secretary, rather than you ,will need to be satisfied that each indemnity or guarantee meets this test. This requirement is reflected in the terms of the delegation (see 4 a) to ensure it is carried out. The Treasury will also be consulted prior to entry into each indemnity or guarantee.

23. While the Secretary of Foreign Affairs and Trade will need to determine whether each guarantee or indemnity is necessary or expedient in the public interest, officials consider that – given the circumstances, and MFAT's decision making criteria for repatriation flights – the guarantees and indemnities sought under this delegation are likely to satisfy the "public interest test" in section 65ZD of the PFA. Annex 1 set out factors that officials consider are likely to be relevant to the assessment of whether the indemnities or guarantees for charter flights are in the public interest in each case.

Other Relevant Information

24. This indemnity request has been prepared in consultation with the Ministry of Foreign Affairs and Trade. MFAT's legal team is comfortable with the proposed delegation instrument.

25. The total maximum value of any future indemnities will be capped at $10 million (although in reality exposure should be significantly lower). Therefore, you do not need to provide a statement to the House.

Next Steps

26. If you agree to delegate the power to give indemnities and guarantees for future COVID-19 repatriation flights to the Secretary of Foreign Affairs and Trade, you will need to sign the attached instrument of delegation.

Annex
Officials' assessment of whether providing the guarantee and indemnities to secure charter flights agreement are likely to be 'necessary or expedient in the public interest'

Public interest

1. The Act does not define 'the public interest'. However, it is generally accepted that the public interest is broadly equivalent to the concept of the public good and can cover a wide range of values and principles relating to the public good, or what is in the best interests of society. In the context of the Act, the public interest should be viewed in a New Zealand context, that is, in the interest of the New Zealand public.

2. The COVID-19 pandemic has had a significant impact on people and the economy, worldwide. In the countries that MFAT has identified as being 'at risk' the situation is changing day by day.

3. Repatriating these New Zealanders safeguards their welfare, which would otherwise be at risk. So we consider that there is strong public interests in taking the measures necessary to return them home, including providing any indemnities and guarantees (subject to an appropriate risk assessment).

Necessary or expedient

4. Charter flights for stranded New Zealanders would only be pursued where there are no viable commercial options for returning to New Zealand.

5. s9(2)(j)

Risks and mitigations

6. The usual risks associated with indemnifying an organisation, particularly in uncertain times, are present. In particular, in this case, because it is unclear how many more flight agreements will be entered into.

7. Future charter flight agreements will likely be undertaken in a compressed timeframe and within a dynamic economic environment.

DELEGATION BY THE MINISTER OF FINANCE – COVID-19 REPATRIATION FLIGHTS

Date: 16 April 2020

From: Minister of Finance

To: Secretary of Foreign Affairs and Trade

COVID-19 REPATRIATION FLIGHTS

1. Delegation

Pursuant to section 28 of the State Sector Act 1988 and sections 65ZD and 65ZG of the Public Finance Act 1989, I, the Honourable Grant Robertson, **MINISTER OF FINANCE**, delegate to the **SECRETARY OF FOREIGN AFFAIRS AND TRADE** (and any person acting in such role from time to time), the authority to:

(a) give in writing indemnities and guarantees as part of any contracts or other arrangements for government-assisted repatriation flights relating to the COVID-19 pandemic, such indemnities and guarantees to be in such form and on such terms and conditions that the Secretary of Foreign Affairs and Trade or delegate thinks fit;

(b) take any action required to give effect to such indemnities and guarantees; and

(c) make any payments required under such indemnities and guarantees, and pay any related expenses incurred by the Crown.

Before giving a guarantee or indemnity under this delegation, the Secretary of Foreign Affairs and Trade or delegate must consult with the Treasury, and must be satisfied that:

(d) the guarantee or indemnity is necessary or expedient in the public interest (section 65ZD(1) of the Public Finance Act);

(e) the contingent liability of the Crown under the guarantee or indemnity would not exceed $10 million, which is the threshold where reporting to Parliament would be required (section 65ZD(3) of the Public Finance Act); and

(f) any relevant criteria for government-assisted repatriation flights set by the Minister of Foreign Affairs are met.

For the avoidance of doubt, for the purposes of this delegation, a government-assisted repatriation flight includes a flight that will be carrying both New Zealanders and passengers of other nationalities.

This delegation comes into effect on the date of its execution and continues in force until it is revoked.

2. Consent to sub-delegation

I, the Honourable Grant Robertson, **MINISTER OF FINANCE**, consent to the sub-delegation by the **SECRETARY OF FOREIGN AFFAIRS AND TRADE** pursuant to section 41 of the State Sector Act 1988 of all or any of the authority and powers delegated by me in this instrument, jointly or severally to the following staff within the Ministry of Foreign Affairs:

(a) Deputy Chief Executives; and

(b) Deputy Secretaries.

3. Secretary to Provide details of Indemnities

The Secretary of Foreign Affairs and Trade must, from time to time, provide me with details of all indemnities and guarantees entered into in accordance with this delegation.

SIGNED by the **MINISTER OF FINANCE**
the Honourable Grant Robertson

____

Signature

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THE TREASURY

Reference: T2020/1034 DE-3-1-0

Date: 17 April 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: None

Aide Memoire: Weekly New Zealand Debt Management Update – 17 April

As requested by your office, this is a weekly report from New Zealand Debt Management. It provides an update on the liquidity outlook, the funding environment, the RBNZ's Large Scale Asset Purchases (LSAP) programme and credit rating developments.

On Wednesday, we had the settlement of our $3.5 billion Syndicated 2031 bond transaction and a further $1 billion of cash proceeds from new Treasury bill issuance. We also repaid $5.8 billion from the maturity of our 2020 bond maturity. s9(2)(i) [redacted]

Liquidity Update

As of the 14th of April, $9.4 billion has been paid out from MSD relating to the wage subsidy scheme. We are still seeing outflows of around $500 million per day leave MSD, although we expect this to slow in the subsequent weeks and are not currently forecasting more than $12 billion to be paid out in subsidies.

There remains a large degree of uncertainty around our contingent liabilities, and the potential drains these would have on liquidity. s9(2)(i) [redacted]

s9(2)(i) [redacted]

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The below forecast does not include any contingent liabilities or loan drawdowns where settlement dates have not been finalised. We are expecting any tax revenue to be offset by expenditure until we receive significant revenue from the IRD on the 7th of May.

s9(2)(i)

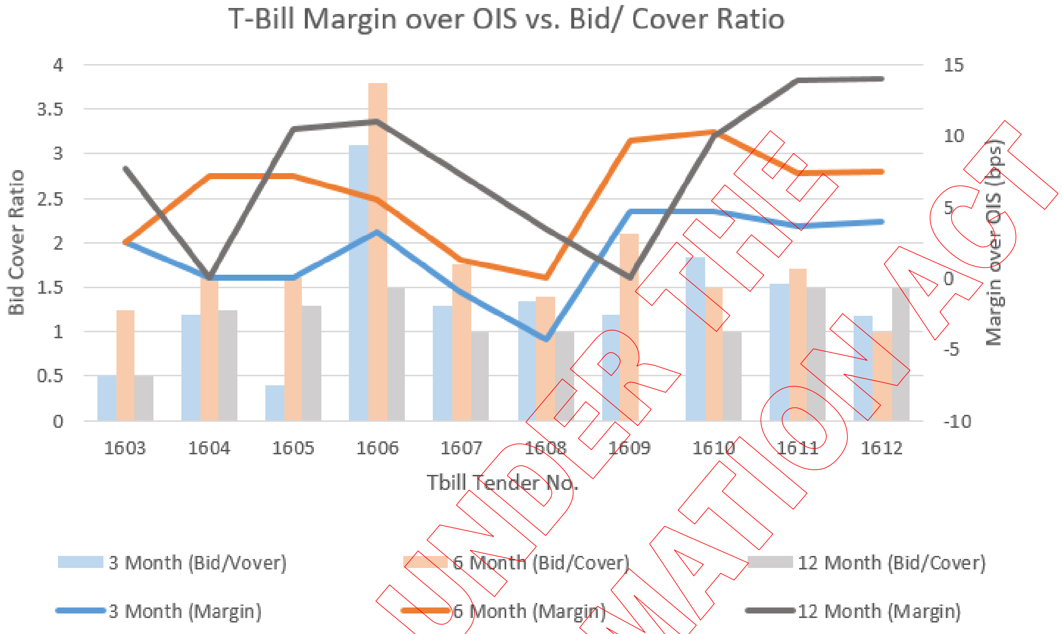
[redacted]

Funding Update

On Tuesday, we successfully issued $1 billion worth of Treasury bills. Demand for this product remains strong and, in discussions with intermediaries, we are seeing new investors come into this market.

In the summary below, a higher Bid to Cover ratio and lower Margin over OIS is generally preferable.

Latest T-Bill Results (#1612)					
Date 14/04/2020					
T-Bills	Volume	Over/Under Allocation	Bid to Cover	Wgt. Avg Yield	Margin over OIS (Bps)
3 Month	400	0	1.2	0.270	4.0
6 Month	400	0	1.0	0.295	7.5
12 Month	200	0	1.5	0.345	14.0



On Thursday, we also successfully tendered $800 million worth of Nominal bonds. Investor demand is still favouring shorter duration in the yield curve. Given the RBNZ LSAP activity, the yield curve has also flattened this week. NZGB Swap spreads have also reverted back to close to pre Covid-19 levels, suggesting the market is capable of digesting our issuance with the assistance of the RBNZ LSAP activity.
In the summary below, a higher Bid to Cover ratio, lower 'Spread to pre tender Mid' and lower 'successful yield spread' is preferred.

Last Govt Bond Results (#720)					
Date 16/04/2020					
Bond	Volume	Over/Under Allocation	Bid to Cover	Wgt. Avg Yield	Spread to Pre tender Mids (Bps)
Apr-2023	350	0	4.25	0.3405	-0.95
Apr-2029	250	0	3.80	0.9582	-0.18
Apr-2037	200	0	1.68	1.3192	-0.58

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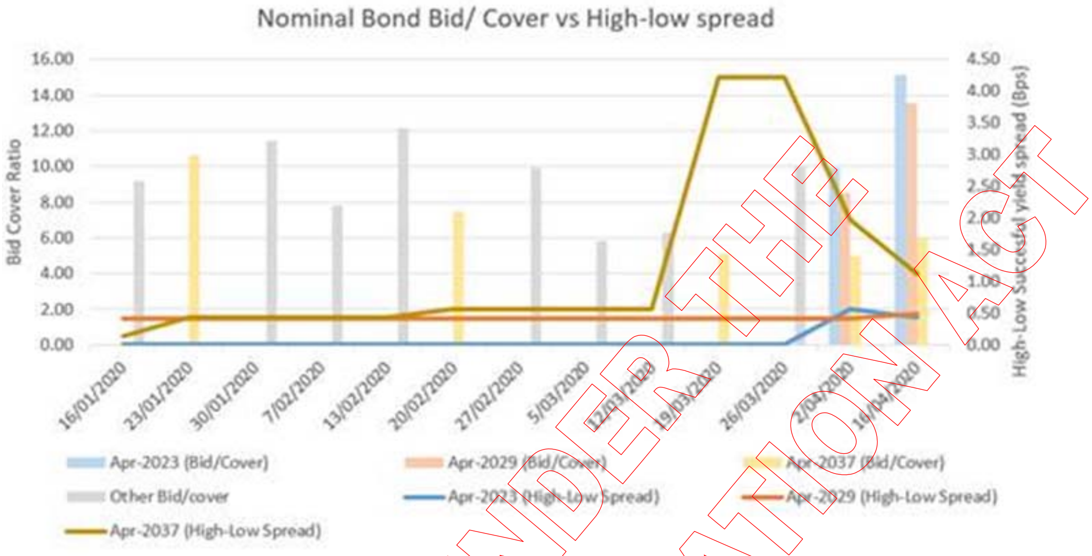

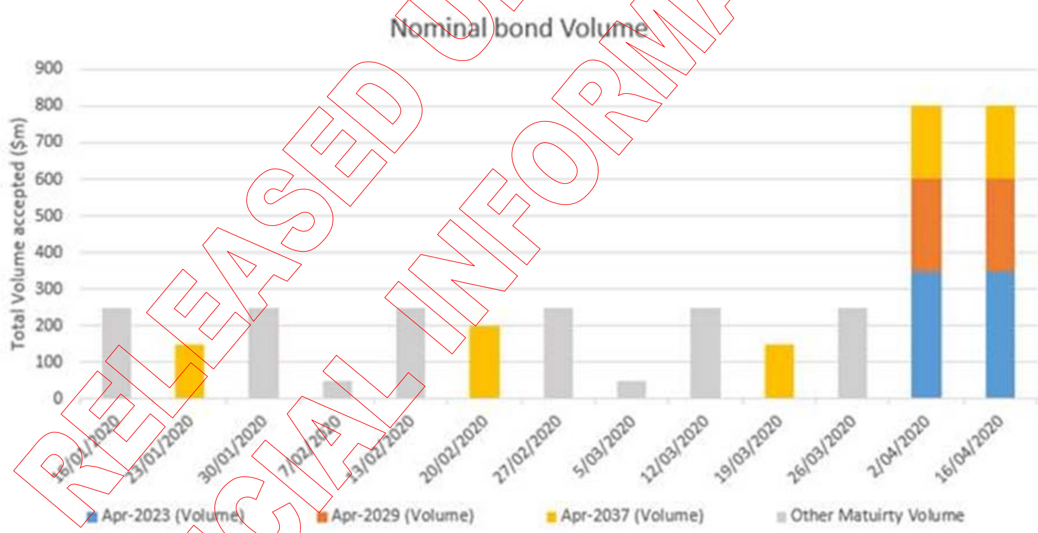

s9(2)(i)

1 ECP - Euro Commercial Paper is an unsecured, short-term debt instrument that is denominated in a currency differing from the domestic currency of the market where it is issued.

2 EMTN – Euro Medium Term Note is a flexible, medium-term debt instrument that is issued and traded outside of USA/Canada.

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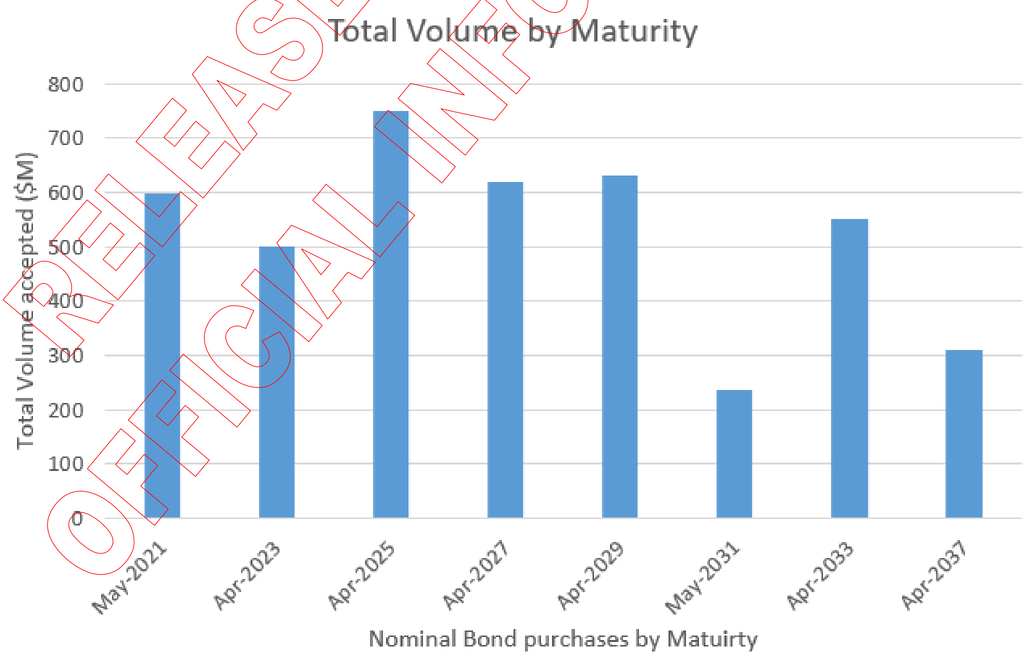
RBNZ Update

This week, the RBNZ announced $1.8 billion worth of LSAP of NZ Government Bonds. On Friday, the RBNZ will buy back $200 million of our 2025 bond, $150 million of our 2027 bond and $250 million of our 2031 bond.
A summary of this week's operations and total volume purchased per maturity is below. Generally, a higher Bid to Cover and a higher 'Yield to Pre tender spread' is preferable.

RBNZ LSAP Results					
Date 15/04/2020					
Bond	Volume	Bid to Cover	Yield	Pre-Tender Mid	Yield to Pre tender spread (Bps)
Apr-2025	200	2.96	0.55	0.54	1.06
Apr-2027	150	3.33	0.77	0.75	2.00
Apr-2033	250	3.30	1.17	1.16	1.00

RBNZ LSAP Results					
Date 14/04/2020					
Bond	Volume	Bid to Cover	Yield	Pre-Tender Mid	Yield to Pre tender spread (Bps)
Apr-2023	200	2.91	0.3	0.29	1.00
Apr-2029	200	2.81	0.91	0.90	1.00
Apr-2037	161	0.91	1.29	1.38	-8.60



Credit Rating Update

There are no material credit rating updates this week.

Global Overview

Credit ratings across sovereigns are generally unchanged. In the current situation, where all sovereigns have a weaker fiscal and economic outlook, it is likely that credit rating methodologies will be calibrated to a new weaker 'credit world'.

In the near term, credit rating downgrades are expected, but they are likely to be concentrated in those sovereigns with a higher probability of default. It is highly unlikely a sovereign's credit rating would be upgraded during the COVID-19 shock, even if the outlook deterioration is small relative to other sovereigns.

New Zealand Overview

Consequently, we expect New Zealand's positive credit rating outlooks with both S&P and Fitch to be removed. The release of the *Budget Update* may be a catalyst. At this stage, we have been given no reason to expect that New Zealand's credit rating will be downgraded.

Rating Updates

S&P Global Ratings AA+/AA positive outlook	Summary: High risk that the positive outlook is removed, possibly after release of Budget. Next scheduled rating review in February 2021.
	No material updates this week **Latest New Zealand Sovereign Credit Update:** 27 February 2020
Moody's Aaa/Aaa stable outlook	Summary: See no near term risk of a downgrade. Moody's will likely release their annual Issuer In-Depth report on 24 or 27 April. You will receive a draft before it is released.
	No material updates this week **Latest New Zealand Sovereign Credit Update:** 2 April 2020
Fitch Ratings AA+/AA Stable outlook/ Positive outlook	Summary: High risk that the positive outlook is removed, possibly after release of Budget. Next scheduled rating review in January 2021.
	No material updates this week **Latest New Zealand Sovereign Credit Update:** 22 January 2020

More information on credit ratings is provided in Annex 1.

Tom Fraser, Strategist - Funding Strategy and Engagement, NZ Debt Management s9(2)(k)

Matthew Appleby, Principal Advisor - Funding Strategy and Engagement, NZ Debt Management, s9(2)(k)

Annex 1 - Rating Agency Background

S&P Global Ratings AA+/AA positive outlook	**Summary** High risk that the positive outlook is removed, possibly after release of Budget. Next scheduled rating review in February 2021. **Background** The positive outlook was placed on the rating in January 2019, as S&P were expecting a general government surplus in the early 2020s. At their latest review in January 2020, S&P noted the rating would be upgraded if high external debt exposures were reduced or if the risks stemming from high house prices have lessened and the government maintains a healthy fiscal position. Over recent weeks, the fiscal outlook has deteriorated such that it will **not** be a driver for New Zealand's credit rating to be upgraded. S&P's view of a reduction in high external debt exposures was related to risks of New Zealand banks being unable to readily access external markets. It is very unlikely that S&P see a reduction in this risk. In addition, three key components of the rating score will most likely drop into the lower rating category: GDP per capita in USD, net general government debt, and change in net general government debt. For S&P, a positive outlook indicates there is a 1 in 3 chance of an upgrade to the rating over the next 18 months to two years. As the current outlook indicates no opportunity for an upgrade to New Zealand's credit rating in the near term, we expect the positive outlook to be removed. We suspect this will be soon after the release of Budget, when S&P have greater information on New Zealand's outlook. s9(2)(g)(i)
Moody's Aaa/Aaa stable outlook	**Summary** See no near term risk of a downgrade. Moody's will release their annual Issuer In-Depth report in mid-April. You will receive a draft before it is released. **Background** Moody's completed their ratings review of New Zealand on 2 April 2020. Their committee meeting took place on 30 March and the associated press release highlighted New Zealand's resilience to shocks. The stable outlook reflects Moody's view that the credit impact of potential downside risks will be mitigated by highly effective institutions and governance. The stable outlook implies that a negative rating action is unlikely in the near term.

Fitch Ratings AA+/AA Stable outlook/ Positive outlook	**Summary** High risk that the positive outlook is removed, possibly after release of Budget. Next scheduled rating review in January 2021. **Background** The outlook on New Zealand's foreign currency rating was upgraded in January this year. The drivers were the recent decline in gross general government debt and its continued downward trajectory over the medium term. Fitch did explicitly note that a negative rating sensitivity (i.e. a factor that would lead to the positive outlook being removed) is persistent budget deficits. For Fitch, a positive outlook indicates there is at least a 50% chance that the credit rating will be upgraded over the next 18 months to two years. Over the past month, New Zealand's fiscal outlook has deteriorated significantly, with Treasury now forecasting persistent deficits across the forecast period. Using Fitch's updated forecasts we estimate their indicative rating at AA- (compared with AA in their January report). Consequently, we expect Fitch to remove the positive outlook on New Zealand's credit rating (Fitch last removed the positive outlook on New Zealand's credit rating in 2015 for only a small change in the fiscal outlook). It is most likely to occur after the release of the *Budget Update*, when Fitch will have more information. However, since the positive outlook has only just been put on New Zealand's rating, Fitch have a greater timing flexibility than S&P and may wait until their next scheduled update in January 2021. s9(2)(g)(i)

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Treasury Report: Issues relating to the COVID-19 public health response

Date:	17 April 2020	**Report No:**	T2020/1047
		File Number:	SH-1-6-1-3-3-13 (Health)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Indicate** if you wish to receive further advice on the establishment of a Ministerial committee to consider a support package for health and disability service providers. **Refer** this report to the Minister of Health.	Monday 20 April 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Niki Lomax	Senior Analyst, Health	s9(2)(k)	s9(2)(g)(ii)	✓
Jess Hewat	Acting Manager, Health			

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer the report to the Minister of Health (Hon Dr David Clark)

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Issues relating to the COVID-19 public health response

Purpose of Report

1. This reports provides initial advice on a way forward on the proposals relating to financial sustainability of health and disability service providers discussed at the COVID-19 Ministerial Group (CVD) meeting yesterday (Issue 1).

2. This report also notes two emerging issues relating to the scale of the health systems response (Issue 2), and concerns about financial controls are the Ministry of Health (Issue 3).

Background

3. The COVID-19 Ministerial Group (CVD) considered a paper on 16 April from the Minister of Health seeking additional funding for the COVID-19 Public Health Response. There had been ongoing issues with this paper – in particular with the proposals to provide financial support to a range of health and disability service providers – and it had been pushed from the agenda of previous Cabinet and Cabinet Committee meetings.

4. The paper sought agreement to provide funding for personal protective equipment (PPE), funding for PHARMAC to ensure supply of essential medicines, funding for the 'Unite against COVID-19' campaign, as well as a package of proposals seeking to provide financial support to a range of health and disability service providers.

5. We have not seen clear cost breakdowns for each of these proposals and have not been provided with much information beyond what is provided in the Cabinet paper, however, broadly these proposals related to the following things:

   a Mitigating financial impacts of the Alert Level 4 restrictions, including:

      i Compensating for loss of revenue from co-payments as a result of reduced demand for services during Level 4 (e.g. GPs, pharmacies), or reduced volumes of referrals (e.g. providers of ACC funded services)

      ii Compensating for loss of revenue from cancelled fundraising activities (e.g. ambulance, hospice)

      iii Compensating providers for costs associated with new models of service – e.g. virtual consultations and online payments (e.g. GPs, pharmacies, maternity)

   b Additional costs associated with activities to support efforts to eliminate the virus, including

      i Costs of protecting front line community health and disability workers (e.g. aged residential care, disability support, maternity, ambulance)

      ii Costs of providing backfill for staff, or additional leave to support health care workers who are sick or required to self-isolate (e.g. disability support, maternity) c Additional costs associated with maintaining or building hospital capacity, including:

i Cost of shifting patients from hospitals to aged residential care facilities, freeing up beds.

ii Cost of maintaining private hospital capacity (now a separate paper).

6. The proposals therefore reflected a range of bottom-up requests from the sector and addressed a mix of policy objectives. The Treasury comment noted that there did not appear to have been policy work undertaken prior to lodgement of the paper to ensure the support package had a clear intervention logic, provided consistent and fair support across the sector, and did not overlap with other existing forms of government assistance (e.g. wage subsidy scheme, essential worker leave scheme, and Bank Finance Guarantee (BFG) scheme).

7. The Treasury comment also noted that the Ministry's view was that without this funding there was real risk that providers would fail. We judged that given the extraordinary circumstances we should support the paper to enable the Ministry to address this urgent need, and continue to work with the Ministry to resolve our concerns as much as possible before the funding was rolled out to providers. This was a very marginal call, as we had not been provided with evidence to support the case for urgent funding.

8. At CVD on Thursday 16 April Ministers agreed to provide funding for PPE, PHARMAC, the 'Unite against COVID-19' campaign, and funding to support aged residential care providers only. Alternative recommendations were tabled that delegated decisions on funding for health and disability providers to joint Ministers.

Issue 1: Immediate needs of health and disability service providers

9. We remain of the view that there is a need to provide additional financial support to these providers over the short-term. It will be important to ensure that, where funding is provided, there is consistency and fairness across all health care providers, including non-Ministry of Health funded providers, and that a reasonable process has occurred to identify genuine need. Providers should be making use of the government assistance schemes already available, and a number of providers are likely to be impacted by upcoming decisions on support for small and medium enterprises. However, in some cases, bespoke support may be required to maintain essential health services.

10. In providing short-term support to these providers it will also be important to consider the opportunities to capture a number of positive changes that have occurred (such as the swift move to telehealth consultations in General Practice) and what the 'new normal' should look like for these providers.

11. To date we have not seen sufficient evidence from the Ministry on the exact needs of providers and or the degree of urgency of each request. The Ministry is also yet to undertake detailed policy work to understand how the impacts of COVID-19 could lead to broader change for a number of these providers – which is understandable given the pressures on the Ministry.

12. As noted above, CVD delegated authority to the Prime Minister, yourself and the Minister of Health to "agree a process for considering costs incurred by health sector entities preparing for the impact of COVID-19, with additional funding to be considered by Cabinet in due course". Based on the difficulties associated with delivery of this Cabinet paper, we consider there to be real risks of further delays through a continuation of a Ministry-led process.

13. We recommend that an appropriate way forward would be to seek external expert support to triage requests, potentially through a Ministerial committee established under the New Zealand Public Health and Disability Act 2000. This committee could also undertake further work to consider a long-term pathway (possibly as part of any response to the Final Report of the Health and Disability System Review). Work would be led by this external group, supported by the Ministry of Health and Treasury. The Department of Prime Minister and Cabinet are supportive of this approach. No discussions have yet taken place with the Ministry.

14. There are also opportunities to align the external triaging of short-term requests with the COVID-19 Response and Recovery Fund process, which is due to be considered by Cabinet on 11 May – for example, the Ministerial committee could provide a recommended package for inclusion in that Cabinet paper.

15. We can to provider further advice on an external expert-led process for supporting health sector entities through COVID-19 if you wish to request this.

Issue 2: Scale of the public health response

16. This process has also raised questions about the scale of the public health response, and what is appropriate given the Government's current elimination strategy.

17. The focus to date has been on taking a precautionary approach, freeing up as much hospital capacity as possible and to purchase what is needed to prepare the system in the event that there was a large outbreak. In the initial stages of the response, where significant uncertainty existed, this was the appropriate approach to take. However, the situation has changed and we appear to be making positive progress under the Government's elimination strategy. The Treasury thinks now is a good time to get clear on the strategy for the health system's COVID-19 response, appreciating that it may need to adapt as the situation changes.

18. There are two issues in particular that require specific consideration: Continuation of planned and out-patient appointments, and coordination of decisions relating to health system preparedness.

Deferral of planned care and out-patient appointments

19. Under Alert Level 4, DHBs have cancelled or deferred a significant number of non-acute surgeries and out-patient care. Preliminary data from the Ministry to the week ending 12 April 2020 indicates that approximately 7,300 inpatient surgeries, and over 70,000 other DHB appointments have been cancelled or deferred as a result of the COVID-19 response. Already this is going to create a considerable back log of treatments – with vulnerable populations, including Māori and Pacific peoples, likely to be disproportionally impacted.

20. There is a clear case for resuming planned care surgeries and out-patient services as much as possible over the short-term to avoid the health loss associated with deferring them. We understand that this is currently being considered by the Ministry as part of the 'National Hospital Response Framework' (which sets guidance for health sector operations under different alert levels) and that the Ministry is working with DHBs about how to most appropriately manage patients that have been deferred and plan towards reducing cancellations and increasing Planned Care delivery as soon as practical. This may also require support from the private hospital sector. A Cabinet paper on this issue is expected next week.

Coordination of health system preparedness planning

21. In the initial stages of the response it was appropriate for the health system to prepare for a significant influx of COVID-19 cases. However, since the elimination strategy has been implemented and rates of new cases are on a declining trajectory, it may be appropriate to change the approach. There remains a risk that the elimination strategy will not succeed, but recent modelling suggests that there would be considerable time (several months) to respond if a worst case scenario were to play out.

22. There is a distinction here between the response with respect to 'prevention' and 'treatment' activities. We strongly believe it remains appropriate to continue with activities relating to prevention (like purchasing PPE, contact tracing and testing). This will be a strong feature of the elimination strategy at all Alert Levels.

23. Based on our current position, there is cause to take a stocktake of the health system response and the accompanying purchasing. One example is a recent purchase of 350 additional ventilators (at an approximate cost of $10 million). Once added to existing stock (780, or 1,130 total) New Zealand would have ventilators to manage an outbreak with a peak of between approximately 100,000 – 250,000 live symptomatic cases.

24. We recommend that you discuss the alignment between the health system response and the elimination strategy with your Cabinet colleagues, possibly as part of the Cabinet paper on support for private hospitals. We expect this paper will be lodged next week.

Issue 3: Financial controls

25. Related to the issue outlined above, we are seeing emerging risks around the number of financial decisions being taken without Executive oversight. Specifically, purchasing decisions have been met from baselines for significant items of expenditure and with agreement often retrospectively sought from Cabinet. This was (and on occasion remains to be) appropriate in the COVID-19 circumstances. However, this creates risks that the Ministry will make decisions that the Cabinet doesn't support. For example, we understand that $22.5 million has been paid out in support to GPs, despite Ministers not approving this funding request at CVD yesterday.

26. From a Parliamentary perspective, the Ministry is permitted to spend within appropriations without seeking further financial authority from Cabinet. However – these are significant policy decisions that ordinarily should be subject to Cabinet oversight.

27. These issues are also being exacerbated by coordination issues with the All-of-Government (AOG) response and the National Crisis Management Centre (NCMC) – where it has not always been clearly communicated what the lines of accountability are for ensuring appropriate financial authorities are in place.

28. There are no actions for Ministers required on this issue at this time, but risks should be noted. The Treasury is working constructively with the Ministry on these issues, who have acknowledged a need for improved processes. This includes ensuring expectations around Executive oversight and financial management are clear, and that they have access to additional resource if required. We will also work with the Controller and Auditor-General if required.

Recommended Action

We recommend that you:

a **note** that the COVID-19 Ministerial Group delegated authority to the Prime Minister, yourself and the Minister of Health to agree a process for considering costs incurred by health sector entities preparing for the impact of COVID-19

b **note** that the Treasury considers that there would be advantages to establishing a Ministerial committee under section 11 of the New Zealand Public Health and Disability Act 2000 to take forward this process, including consideration of long-term pathways for primary and community care

c **indicate** if you wish to receive further advice on the establishment of a Ministerial committee to consider a support package for health and disability service providers

Agree/Disagree
Minister of Finance

d **note** that Cabinet will likely consider a paper next week on private hospitals and that this is an opportunity to discuss the alignment between the health system response and the elimination strategy

e **note** that the Treasury is working with the Ministry of Health to improve financial controls with respect to funding for the COVID-19 public health response, and

f **refer** this report to the Minister of Health.

Referred/not referred
Minister of Finance

Jess Hewat
Acting Manager, Health & ACC

Hon Grant Robertson
Minister of Finance

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Report

Date: 20 March 2020 **Security Level:** IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development
Hon Grant Robertson, Minister of Finance
Hon Iain Lees-Galloway, Minister for Workplace Relations and Safety
Hon Phil Twyford, Minister for Economic Development

Clarifying eligibility of the COVID-19 Leave Payment Scheme and COVID-19 Wage Subsidy

Purpose of the report

1 This report seeks your agreement to clarify that registered charities, incorporated societies, and non-government organisations are eligible for both the Leave Payment Scheme and the Wage Subsidy and Clarifying the applications of the revenue loss assessment for some businesses.

Recommended actions

It is recommended that you:

Leave Payments

1 **note** that on Monday 16 march, Cabinet agreed to the COVID-19 Leave Payment Scheme to compensate and incentivise workers to self-isolate to help manage the spread of COVID-19 virus in New Zealand [CAB-20-Min-0105]

2 **note** that Cabinet delegated authority to the **Minister of Finance**, **Minister of Social Development**, and **Minister of Workplace Relations and Safety** to approve other policy matters and operational details (recommendation 25)

3 **note** that Cabinet agreed that eligibility of the scheme is open to all firms, the self-employed, and for contractors (recommendation 7.7)

4 **note** that the Cabinet decision does not explicitly include registered charities, incorporated societies, non-government organisations, or post settlement governance entities (ie, Maori Authorities), who can also be employers

5 **note** that this creates gap in our public health strategy to delay the onset of community transmission of COVID-19

6 **agree** that registered charities, incorporated societies, non-government organisations, or post settlement governance entities are eligible for the Leave Payment Scheme to

support their workers who cannot work from home, but need to self-isolate, they are able to do so

agree / disagree	agree / disagree	agree / disagree
Minister for Social Development	*Minister of Finance*	*Minister of Workplace Relations and Safety*

Wage Subsidies

7 **note** that on Monday 16 March, Cabinet agreed to implement a temporary COVID-19 Wage Subsidy scheme to help affected employees and businesses to adjust to the impact of COVID-19 [CAB-20-MIN-0108]

8 **note** that Cabinet delegated authority to the **Minister of Finance**, **Minister of Economic Development** and the **Minister of Social Development** to make technical design changes and minor policy decisions about the Subsidy (recommendation 54)

9 **note** that to be eligible for the payment, businesses must be registered and operating in New Zealand (recommendation 39)

10 **note** that this Cabinet decision does not explicitly include registered charities, incorporated societies, non-government organisations, or post settlement governance entities who can also be employers

11 **note** that these organisations may also have a drop-in revenue leading them to reduce staff hours or lay-off their staff

12 **agree** that registered charities, incorporated societies, non-government organisations, or post settlement governance entities are eligible for the Subsidy

agree / disagree	*agree / disagree*	*agree / disagree*
Minister for Social Development	*Minister of Finance*	*Minister of for Economic Development*

13 **note** that under a literal interpretation of the revenue loss assessment agreed by Cabinet, some businesses may not be eligible

14 **note** that cabinet agreed that the Subsidy would apply to all businesses, and that the revenue loss assessment will be based on a period of at least one month and the loss of revenue is at least 30 percent lower than the equivalent period one year ago

15 **note** that the application of this revenue loss assessment means that some businesses are inadvertently excluded from the scheme.

16 **agree** that new businesses (ie, where they are less than a year old) are also eligible where they can demonstrate the revenue loss assessment against a similar time period (ie, 30 percent loss of income attributable to COVID-19 comparing January 2020 to March 2020)

agree / disagree	*agree / disagree*	*agree / disagree*
Minister for Social Development	*Minister of Finance*	*Minister of for Economic Development*

17 **agree** that high growth firms (eg, ones that have had significant increase in revenue) are eligible where they can demonstrate the revenue loss assessment against a similar

time period (ie, 30 percent loss of income attributable to COVID-19 comparing January 2020 to March 2020).

agree / disagree	*agree / disagree*	*agree / disagree*
Minister for Social Development	*Minister of Finance*	*Minister of for Economic Development*

18 **agree** that self-employed people with variable monthly incomes are eligible if they can demonstrate the revenue loss assessment against the previous years' monthly average (i.e. 30 percent loss of income attributable to COVID-19 comparing March 2020 to the average monthly income in the period March 2019 to March 2020)

agree / disagree	*agree / disagree*	*agree / disagree*
Minister for Social Development	*Minister of Finance*	*Minister of for Economic Development*

19 **note** that clarifying revenue loss assessment for the subsidy to these firms does not incur any additional fiscal risk as each of these firms were included in cost modelling.

Justine Cornwall, Housing and Employment Policy
Ministry of Social Development

Date

Jivan Grewal,
Ministry of Business, Innovation and Employment

Date

Hon Carmel Sepuloni
Minister for Social Development

Date

Hon Grant Robertson
Minister of Finance

Date

Hon Iain Lees-Galloway
Minister of workplace Relations and Safety

Date

Hon Phil Twyford
Minister for Economic Development

Date

Clarifying scope of the Leave Payment Scheme

2 The COVID-19 Leave Support Scheme is designed to support and incentivise workers to stay home as part of the Governments public health strategy to delay the onset of community transmission of COVID-19.

3 Cabinet agreed that all firms, the self-employed, and contractors are eligible to apply for the Scheme.

4 There are, however, some employers who were meant to be included in the Leave Support Scheme, but who do not explicitly fit the definition of being a firm, self-employed, or contractors. Specifically, registered charities, non-governmental organisations, and incorporated societies.

5 Many of these organisations are likely to be providing important community supports and include organisations such as playcentres and women's refuge, or post-treaty settlements organisations (ie, Māori Authorities). They are also likely to employ people as administrators, human resource, volunteer managers, or in finance roles. These groups were included in the initial costing of the Scheme.

6 The intention of the leave payment was to support any person to self-isolate, and as such should include these organisations and be open to the form of labour provided (ie, full time employee, casual, contractor or self-employed). Not being explicitly eligible for the scheme leaves a gap in our public health strategy to delay the onset of community transmission of COVID-19.

7 Reconfirming that recommendation 7.7 includes these employers and ensure that it is clear that charities are eligible and workers cannot work from home, but need to self-isolate, they are able to do so.

Clarifying scope of the COVID-19 Wage Subsidy

8 The COVID-19 Wage Subsidy is designed to support employers to help affected employees and businesses to adjust to the impact of COVID-19, not to support businesses for the duration of that impact.

9 Currently businesses that are registered and operating in New Zealand, including the self-employed and sole-traders can apply for the Subsidy on behalf of their employees who must be legally working in New Zealand.

10 As with the Leave Payment Scheme, it is not clear that registered charities, non-governmental organisations, and incorporated societies are eligible for the Subsidy. Without clarity on this matter, these organisations may not realise they could apply for the Subsidy to support staff retention.

Clarifying the applications of the revenue loss assessment

11 In addition, about 12 percent of businesses are created in any one year. This means that about 66,000 business are unable to demonstrate the revenue loss assessment as they are not able to show a previous year of revenue. These new business are intended to be included in the Subsidy, and were included in the costing of the scheme. However, the method of assessing revenue unintentionally excludes new business from the scheme.

12 We propose that new businesses be included by demonstrating their revenue loss against a similar period in the past (ie, if the business has been in existence for three months, the business can assess revenue loss against that period)

13 Cabinet agreed that the scheme would apply to all businesses, and that the revenue loss assessment will be based on a period of at least one month and the loss of revenue is at least 30 percent lower than the equivalent period one year ago. The application of that revenue loss assessment means that some businesses are inadvertently excluded from the scheme.

14 A small but economically significant set of business demonstrate high growth. Comparing their revenue loss attributable to COVID-19 from a month in the year previous will distort the economic impact of the outbreak on these businesses. For

example, a high growth firm may have $100,000 of revenue in March 2019, rising to $300,000 in January 2020, and then being impacted by COVID-19 to reduce to $200,000 in March 2020.

15 That business has incurred business costs, including new employees, over the growth period. According to the revenue assessment model, that high growth firm would not have seen a 30 percent income loss. However, as attributed to COVID-19, the income loss is actually much higher and meets the eligibility threshold. These organisations were included in the costing of this scheme, it is simply the method of assessing revenue that has made these high growth businesses excluded from the scheme.

16 The application of the income assessment test also disadvantages a number of self-employed, including in the creative sector. Revenue for these self-employed varies from month to month. Enabling people who are self-employed to demonstrate that they have an income loss attributable to COVID-19 on an average monthly revenue basis – i.e. so they can assess the loss from March 2020 against their average income from March 2019 to March 2020.

17 Clarifying that these organisations are eligible for the Wage Subsidy will ensure that, where they have taken active steps to mitigate the impact of COVID-19 on their viability, they can access financial support to retain their staff.

Next steps

18 Further advice on the eligibility of state sector entities to the Wage Subsidy and Leave Support Scheme will shortly be provided to joint ministers.

File ref: REP/20/3/280

Author: Sarah Palmer, Senior Policy Analyst, Policy

Responsible manager: Megan Beecroft, Policy Manager, Policy

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Crown Infrastructure Partners Limited: amending constitution and funding to support the Infrastructure Reference Group and post-COVID-19 recovery

Date:	21 April 2020	**Report No:**	T2020/1127
		File Number:	CM-1-3-106 (Crown Infrastructure Partners)

Action sought

	Action sought	Deadline
Minister for State Owned Enterprises (Rt Hon Winston Peters)	**Sign** the attached shareholder resolution. **Sign** and send the attached letter to the Chair of Crown Infrastructure Partners Limited on behalf of shareholding Ministers	30 April 2020
Minister of Finance (Hon Grant Robertson)	**Sign** the attached shareholder resolution.	30 April 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Mark O'Regan	Senior Analyst, Commercial Performance	s9(2)(k)	N/A (mob)	✓
Juston Anderson	Manager (Acting), Commercial Performance		N/A (mob)	

Minister's office actions (if required)

Return the signed report and a copy of the signed letter to the Treasury.

Return the signed shareholder resolution to the Treasury (one from each shareholding Minister).

Refer this report to the Minister for Economic Development and the Minister for Infrastructure.

Send the signed letter to the Chair of Crown Infrastructure Partners Limited.

Note any feedback on the quality of the report	

Enclosure: **Yes (attached)**

i *Shareholder Resolution - constitution changes - 19 April 2020 (Treasury:4268839v1)*
ii *Amended constitution wording - CIP - 19 April (Treasury:4268837v1)*
iii *Draft letter to CIP Chair - IRG support operating costs (Treasury: 4268835v2)*

Treasury Report: Crown Infrastructure Partners Limited: amending constitution and funding to support the Infrastructure Reference Group and post-COVID-19 recovery

Purpose of Report

1. This report covers the following three items.

Approval of company constitution changes

2. This report asks shareholding Ministers to approve proposed changes to the constitution of Crown Infrastructure Partners Limited (CIP). These changes will ensure the constitution reflects the company's evolving core functions and purpose.

Approval for CIP to use bulk housing infrastructure (BHI) funding to support Infrastructure Reference Group (IRG) work

3. A previous shareholder resolution put limitations on the use of funding from the non-departmental multi-year capital appropriation in Vote Finance from which CIP funds BHI work. This report asks shareholding Ministers to issue a new shareholder resolution to permit broader use of that funding.

4. The amendment would allow CIP to cover s9(2)(b)(ii) provided by this appropriation.

Options for implementation in the post-IRG report phase

5. This report outlines potential limitations in CIP's ability to provide ongoing support to the Government once the IRG has delivered its report and recommends that you commission advice from officials on these matters.

Analysis

Approval of company constitution changes

6. To ensure that the purpose and nature of the company as outlined in its constitution reflect the new roles that CIP has been asked to take on, we have worked with CIP and external legal counsel to draft changes to Clause 6 – Purpose and Nature.

7. The changes highlighted in the attached draft constitution, and explained below, will formalise CIP's new roles and make them part of its core functions. The changes cover three new roles for the company:

   i IRG support

   ii infrastructure funding and financing model implementation

   iii national public safety communications capability.

IRG support

8. In March 2020 the IRG was formed with the purpose of advising Ministers on potential 'shovel-ready' projects and mechanisms to expedite delivery of these projects. The Chair of CIP, Mark Binns, was appointed the Chair of the IRG with CIP acting as the secretariat to the group.

9. CIP will be involved in the initial phase of the IRG's work.

   i **Step 1:** The IRG issued a call for projects to be submitted to CIP for consideration. The deadline for submissions was 14 April 2020.

   ii **Step 2:** CIP is triaging and assessing the submissions received from across New Zealand. CIP is relying heavily on third-party service providers with technical expertise to deliver this work.

   iii **Step 3:** CIP will compile a list of projects and potential delivery mechanisms which will be presented to Ministers by the IRG in the form of a report.

10. The proposed changes to CIP's constitution will make supporting the IRG and the Government's response to COVID-19 part of the company's core purpose, and include:

   i providing advice to the Government on issues affecting the construction industry as a result of the COVID-19 pandemic and the Government's response to these issues;

   ii assessing proposals for projects that may be suitable for potential government support as part of COVID-19 response initiatives; and

   iii preparing reports and other advice as necessary to assist the IRG to carry out its purpose.

11. Once Ministers receive the IRG's recommendations, the ongoing involvement of CIP will be reviewed. The proposed constitution changes allow shareholding Ministers to provide further direction to CIP to take on additional functions as part of COVID-19 recovery if you deem it prudent to do so.

IFF model implementation

12. When the Infrastructure Funding and Financing (IFF) Act receives royal assent, CIP is expected to undertake new roles in the delivery of eligible infrastructure projects under the IFF model (the Model). The proposed changes to CIP's constitution will enable the company to co-invest with, or facilitate investment from, private sector or other organisations, to achieve the Government's objectives in this area.

13. CIP has also been identified as the preferred entity to deliver the 'Facilitator' role under the Model. In this role CIP will be responsible for engaging with councils and other organisations to design infrastructure proposals which align with the parameters of the Model.

14. These proposed changes to CIP's constitution will come into effect when the IFF Act receives royal assent.

National public safety communications capability

15. The initiative to deliver national public safety communications capability will be led by New Zealand Police, with CIP acting as a programme partner with responsibility for procurement and delivery of infrastructure and services.

16. These proposed changes to CIP's constitution will come into effect when programme delivery commences.

Approval for CIP to use BHI funding to support IRG work

CIP's operating costs to support the IRG

17. CIP's budget for delivering the work outlined in paragraph 9 is s9(2)(b)(ii) [redacted] If CIP were to be involved in subsequent phases of work related to IRG support, the budget would need to be revised.

18. s9(2)(g)(i) [redacted] but notes that it expects to review over 1,400 submissions in a tight timeframe, and will need significant support from external legal, commercial, finance and engineering service providers to do so.

19. CIP management is seeking approval to utilise BHI funding already provided to CIP as equity s9(2)(b)(ii) [redacted]

The purpose and extent of CIP's BHI funding

20. In October 2018, shareholding Ministers signed a shareholder resolution for the issue of 300 million new shares at $1.00 per share to CIP for the delivery of future BHI work.

21. The shareholder resolution applied terms to the issuing of these shares, notably that amounts called by the company should be utilised to deliver Government objectives around infrastructure, reflecting wording in the company's constitution. Since then CIP has worked with the Treasury and others to develop the IFF model, under which CIP will utilise called amounts to invest and co-invest in BHI and other infrastructure projects.

22. The non-departmental capital multi-year appropriation in Vote Finance from which CIP will fund this work currently contains $275 million. Before the onset of COVID-19, CIP management stated that it expected to fully utilise the $275 million, with the bulk of this funding not being drawn down for several years.

Covering the cost of supporting the IRG using BHI funding

23. With the approval of shareholding Ministers, CIP could s9(2)(b)(ii) [redacted] with supporting the IRG in the short and medium term. Officials can work with CIP in the long term to understand any IFF-related funding gap resulting from this expenditure, and can provide advice to Ministers on that at a later date. This approach would mean that CIP could support the IRG without needing new Crown funding at this point.

24. CIP also has significant cash in the bank having recently made a $90 million drawdown from its Ultra-Fast Broadband (UFB) appropriation. UFB work has stalled under Alert Level 4, meaning that UFB partners will not be calling on this funding in the short and medium term. CIP could utilise this cash to cover the operating costs of supporting the IRG now, and reconcile expenses across appropriations in the future to ensure that the Government's UFB programme is delivered in full. This approach would mean that CIP could support the IRG using cash, negating the need to make another drawdown in the short term.

25. The scope of the appropriation is limited to investment in CIP, which allows for CIP to be funded from this appropriation to cover s9(2)(b)(ii) [redacted] associated with supporting the IRG without needing to amend the appropriation scope. Cash provided to CIP (as equity) can be used by CIP for any purpose that is allowed by its constitution.

Options for implementation in the post-IRG report phase

26. The IRG will submit a report to Ministers in May 2020. Ministers will then have an opportunity to consider the report and identify the preferred next steps. There may be a need for the Government to assign responsibility to an entity to implement them.

27. Having supported the IRG's work, CIP may be considered for this role. s9(2)(g)(i) [redacted]

28. CIP is an effective delivery agent for Government priorities, as evidenced by its ongoing rollout of the UFB programme. However, CIP is a lean organisation with fewer than 30 permanent staff. CIP does not retain in-house expertise across all of the areas where it engages, instead preferring a delivery model that leverages third-party expertise.

29. If Ministers are interested in using CIP's services in the post-COVID-19 recovery effort but are not willing to fund CIP's current delivery model, which would be expensive in the short term, then they may consider raising this with the Chair.

30. If Ministers are interested in using CIP's services in the post-COVID-19 recovery effort and are comfortable with funding CIP's operating costs associated with the current delivery model over that period, then officials can provide Ministers with advice on options for providing that funding at a later date.

31. Ministers may also consider directing Treasury officials to provide advice on the suitability of other entities to support the Government in this capacity.

Recommended Action

We recommend that you:

a **agree** to refer this report to the Minister for Economic Development, Hon Phil Twyford, and the Minister for Infrastructure, Hon Shane Jones

Agree/disagree	*Agree/disagree*
Minister for State Owned Enterprises	Minister of Finance

Approval of company constitution changes

b **sign** the attached shareholder resolution, approving the following changes to CIP's constitution to ensure that the purpose and nature of the company as outlined in its constitution reflects the new roles that CIP has been asked to take on:

IRG support

i CIP to provide assistance to the IRG in relation to:

- advice to the Government on issues affecting the construction industry as a result of the COVID-19 pandemic and the Government's response to such issues;
- assessing proposals for projects that may be suitable for potential government support as part of COVID-19 response initiatives; and
- preparing reports and other advice as necessary to assist the IRG to carry out its purpose for government.

ii CIP to implement, facilitate or otherwise assist the Government with any transaction, or class of transactions, or providing assistance with any other matter, in relation to any projects that are selected for government support, as agreed from time to time between the company and shareholding Ministers.

IFF model implementation

iii CIP to implement and/or facilitate funding and financing of infrastructure, including as provided for under the IFF Act (upon the IFF Act receiving Royal Assent), by co-investment with, or facilitating investment from, private sector or other participants, to achieve the Government's objectives for the provision of infrastructure for housing and urban development; and the provision of other eligible infrastructure in accordance with the IFF Act

National public safety capability

iv CIP to act as a delivery partner for the Government's programme to provide national public safety communications capability, to enable the safe and effective provision of emergency services across New Zealand, including by managing procurement and delivery of radio and cellular network infrastructure and services

Agree/disagree	*Agree/disagree*
Minister for State Owned Enterprises	Minister of Finance

Approval for CIP to use BHI funding to support IRG work

c **agree** that CIP can use BHI s9(2)(b)(ii) [redacted]

Agree/disagree	*Agree/disagree*
Minister for State Owned Enterprises	Minister of Finance

d **sign** the attached shareholder resolution giving CIP approval to use BHI s9(2)(b)(ii) [redacted] associated with supporting the IRG's work

Agree/disagree	*Agree/disagree*
Minister for State Owned Enterprises	Minister of Finance

e **agree** that the Minister for State Owned Enterprises sign the attached letter to the Chair, requesting that CIP notify shareholding Ministers and the Treasury in the event that s9(2)(b)(ii) [redacted]

Agree/disagree	*Agree/disagree*
Minister for State Owned Enterprises	Minister of Finance

Options for implementation in the post-IRG report phase

f **agree** to discuss CIP's current delivery model with the Chair, Mark Binns

Agree/disagree	*Agree/disagree*
Minister for State Owned Enterprises	Minister of Finance

g **direct** Treasury officials to provide advice to shareholding Ministers on the suitability of other entities to support the Government and the IRG with its work in the medium term.

Agree/disagree	*Agree/disagree*
Minister for State Owned Enterprises	Minister of Finance

Juston Anderson
Acting Manager, Commercial Performance

Rt Hon Winston Peters
Minister for State Owned Enterprises

Hon Grant Robertson
Minister of Finance

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Consumer credit support

Date:	23 April 2020	**Report No:**	T2020/1063
		File Number:	SH-11-4-3-13

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** and **agree** to the recommendations in the report.	1 May 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Leona Feng	Senior Analyst, Financial Markets	s9(2)(k)	N/A (mob)	
Helen McDonald	Manager, Economic Systems Directorate		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: Consumer credit support

Executive Summary

You have received requests for funding support from several non-deposit taking lenders (NDTLs). The Treasury has been working with the Reserve Bank of New Zealand (RBNZ) and the Ministry of Business, Innovation and Employment (MBIE) to assess these requests, understand the impacts of COVID-19 on the consumer credit market, existing measures to support borrowers and lenders.

As a result of COVID-19, more people are expected to default on existing loan repayments, and/or seek new debt to meet essential living costs. NDTLs are seeing the volume of hardship applications continue to increase, with vulnerable consumers (who are usually low-income individuals) and heavily-indebted households most at risk during this time.

There are a range of existing measures by the government and industry to help household borrowers, including the mortgage repayment deferral scheme by banks, wage subsidies and increased assistance to beneficiaries to support household incomes. There are also a range of existing measures to help banks. These include exemptions from the Credit Contracts and Consumer Finance Act 2003 (CCCFA) to ensure regulations do not hinder banks from providing hardship assistance, and liquidity and capital support measures by the RBNZ to manage liquidity in the financial system to influence short-term interest rates.

However, we consider there are some potential gaps, particularly around vulnerable borrowers and NDTL lending. Compared to banks, NDTL customers are considered more likely to be vulnerable borrowers (who are usually low-income households) who may rely on non-deposit taking lenders to meet essential costs and service existing debt. NDTLs have indicated they can only provide limited hardship assistance without liquidity support from the government, and several have written to you seeking funding support.

There are some possible options to support NDTLs to enable them to provide hardship assistance to their customers, but there are significant costs and risks involved.

On balance, we consider broader income adequacy measures would provide better support to financially distressed households than assistance to borrowers via NDTLs. There are material fiscal risks to providing liquidity support for NDTLs, and our ability to influence the support that lenders actually provide to their borrowers is limited. Providing support to borrowers through income adequacy measures also reduces the risk of a debt spiral for more vulnerable borrowers with high cost loans.

If you agree, we will report back to you with any further developments alongside our advice on small and medium-sized enterprises (SME) lending s9(2)(f)(iv)

Recommended Action

We recommend that you:

a **note** that there are a range of existing government and industry measures to assist households directly and to facilitate lenders to support their customers, for instance the wage subsidy scheme, mortgage repayment deferral scheme and liquidity support to banks and non-bank deposit takers;

b **note** that there is a potential gap in relation to the ongoing ability of NDTLs to provide hardship assistance to their customers, who may include a disproportionate share of lower income borrowers;

c **note** that several NDTLs have written to you requesting funding support to provide assistance to their borrowers and continue lending;

d **note** that there are significant costs and risks to providing government funding support to NDTLs, and the Treasury does not consider there is a strong policy rationale to do so at this time because these institutions are less systemically important, undertake higher risk lending and the government has less ability to influence the actual support provided to borrowers;

e **agree** that financial support to low-income households (and therefore vulnerable borrowers who fall largely in this category) via the welfare system is preferred over indirectly supporting vulnerable borrowers via funding for NDTLs;

Agree/disagree

f **agree** not to provide government financial support to the NDTL sector for the purposes of supporting the consumer credit market;

Agree/disagree

g **agree** that officials should draft a response to NDTLs for your consideration, which notes there is not a strong case for government assistance at this stage, but encourages lenders to engage further with officials s9(2)(f)(iv) [redacted]

Agree/disagree

h **note** that officials will continue engaging with the NDTL sector to better understand the role of the sector in supporting SME access to finance and alternative private sector solutions and barriers;

i s9(2)(f)(iv) [redacted]

Helen McDonald
Manager, Economic Systems Directorate

Hon Grant Robertson
Minister of Finance

Treasury Report: Consumer credit support

Purpose of Report

1. This report provides an update on how the consumer credit market is being affected by COVID-19, existing government and industry measures to address these impacts, and our initial assessment of the funding requests you have received from NDTLs. The report outlines the potential gaps in support to borrowers and lenders, and the high-level options that could address these gaps. The report seeks your decision on whether to provide government support to NDTLs.

Background

2. Households are facing increasing challenges in meeting debt obligations due to reduced income or unemployment as a result of COVID-19. These obligations include repayments for mortgages, car loans, hire purchase agreements, credit cards and other personal loans. The potential result is more people defaulting on repayments, and/or taking on more debt to meet essential living costs, including borrowing to meet their existing loan obligations.

3. Lenders are already seeing the effects:

   - Since mid-March, the volume of hardship applications to banks has increased significantly but are beginning to plateau. As of 20 April, New Zealand Bankers' Association (NZBA) data showed that 43,962 consumer borrowers had reduced their loan repayments including home loans, personal lending, credit cards and overdrafts), which amounted to a total of $15.4 billion of loans, and 42,212 consumer borrowers had deferred all loan repayments, with a total value of $15.5 billion.

   - NDTLs are also seeing increasing hardship enquiries. The Financial Services Federation (FSF) noted that the initial enquiries were largely from customers who anticipated their financial conditions worsening, rather than presently being in arrears. However, an increasing number of customers are now requesting assistance, particularly for secured lending (e.g. car loans).

   - Credit agencies have seen a significant deterioration in quality of consumer credit applications since the beginning of March as more high-risk applications come in from those concerned about COVID-19.

   - New consumer lending and loan enquiries have decreased significantly since the beginning of March (likely reflecting a decline in demand for consumption-driven loans in uncertain economic conditions).

There are a range of existing measures to assist borrowers and lenders

4. There are a range of existing and planned measures by the government and industry to assist borrowers directly and to facilitate lenders to provide support to borrowers.

Measures to directly assist borrowers

5. Measures targeted at borrowers provide direct financial assistance to consumers/households, usually in the form of income support or debt/repayment relief. Existing measures to assist borrowers and households include:

- a six-month mortgage repayment deferral scheme offered by banks and some non-bank lenders
- short-term loan repayment relief by NDTLs, such as one-month deferral for car loan repayments during lockdown
- wage subsidies to enable employers to continue paying their employees
- increased assistance to beneficiaries to reduce financial pressure on households and support household incomes, and
- allowing full-time students to borrow up to $2,000 (up from the current $1,000) for course-related costs.

Measures targeted at lenders

6. Measures targeted at lenders provide liquidity/capital support or regulatory relief to lending institutions, which enables them to provide hardship assistance or other repayment relief to borrowers. Existing measures to help lenders include:

- regulatory exemptions from some procedural requirements of the Credit Contracts and Consumer Finance Act 2003 (CCCFA) to ensure regulations do not hinder banks from providing hardship assistance
- changes to bank capital requirements and the removal of the loan-to-value (LVR) ratios, which help enable banks to provide mortgage repayment deferrals, and
- s9(2)(d) [redacted]

7. The table in Appendix 1 maps out these measures to assist lenders.

What is happening overseas?

8. Consumer credit relief in other countries has largely focused on voluntary measures provided by the private sector, facilitated by governments and regulators. Globally, supervisory and regulatory authorities have provided guidance to highlight greater flexibility in regulatory treatment of lending related to COVID-19. Central banks have helped facilitate this by providing funding to lenders that they deal with (generally larger firms, and firms which are able to provide satisfactory collateral). Other forms of government support have focused on direct grants instead of loans to alleviate financial hardship.

Australia

9. Banks are offering customers the option to defer mortgage repayments for up to six months, though interest will continue to accrue. This will not affect customers' credit ratings. Banks are also offering various hardship measures to assist customers with credit cards and personal loans. The Australian Office of Financial Management (AOFM) has also directly supported Australia's equivalent of NDTLs via its A$15 billion

Structured Finance Support Facility. We describe this in more detail below, as you have received requests to do something similar in New Zealand.

United Kingdom

10. In the UK, customers with mortgages, personal loans and credit cards can ask for a freeze on repayments for three months, which will not affect their credit rating but interest will continue to build during this period. The Financial Conduct Authority has issued guidance that providers must not repossess people's homes during the crisis and cannot charge fees. Customers with overdrafts can also ask their providers to provide interest-free overdrafts for three months.

United States

11. A new federal law puts in place two protections for homeowners with federally backed mortgages: a foreclosure moratorium and a right to forbearance. Homeowners without a federally backed mortgage may have relief options through their mortgage servicer or state. Americans who meet certain income criteria will receive economic impact payments of US$1,200.The government has also waived interest and postponed repayments on all federal student loans.

There are potential gaps, particularly for lower-income and NDTL borrowers

12. While there are a range of measures to help reduce the impacts of COVID-19 on consumer credit borrowers and lenders, particularly to assist borrowers with mortgage debt and retail banks, there is a potential gap in relation to the ability of NDTLs to provide hardship assistance to their customers.

Customers of non-deposit taking lenders tend to be those who cannot access finance through retail banks

13. Compared to borrowers with bank mortgage debt (who are therefore supported by the mortgage repayment deferral scheme and a greater range of hardship measures offered by banks), NDTL borrowers are expected to be lower income and higher credit risk. In New Zealand, about 12% of households report not having enough money to meet their everyday needs, and 1 in 4 households report having only just enough money (MSD, 2018). Some of these households will be unable to access bank lending and may therefore rely on NDTLs.

14. Although there are existing hardship measures designed to support low-to-middle income households to meet their operating costs in the face of sudden decreases in income, many more are expected to face income adequacy issues over the coming months. You and other relevant Ministers have recently been briefed on options to better support low-to-middle income people who will struggle to meet essential costs due to reduced income (T2020/920 refers).

15. Ideally, these further income support measures which are targeted to low-to-middle income people will also go some way to address the issues related to vulnerable borrowers, as these consumer groups have some overlap.

Non-deposit taking lenders have written to you requesting funding support

16. NDTL consumer lending is mostly unsecured or car finance. We expect that such borrowing will generally be from those without a mortgage, such as tenants (as borrowing via a mortgage would be substantially cheaper). Anecdotally, we understand NDTLs tend to work with more vulnerable customers who cannot access similar credit products from retail banks.

17. A number of NDTLs have written to you, the Treasury and the RBNZ requesting funding support. You have received letters from:

- Financial Services Federation (or FSF, which represents a number of large finance company NDTLs)
- the New Zealand subcommittee of the Australian Securitisation Forum
- s9(2)(b)(ii)
- s9(2)(b)(ii)

18. NDTLs are reporting an increase in hardship requests from borrowers. Lenders are required to consider hardship requests under the CCCFA, but are not necessarily required to provide relief. However they must give written reasons if they do not agree to changes to the contract, which are challengeable in court. We understand that most amended loan contracts involve deferring payments and/or switching to interest-only payments for a period of time (usually ranging from one to six months). For example, in the last month, FSF lenders have received 26,713 requests for hardship assistance and have varied 24,434 loan contracts as a result.[1]

19. NDTLs expect some impaired loans even in normal times, and have capacity for funding some repayment relief and write-downs. However, it appears unlikely that all NDTLs will have sufficient provisions for the severity of the current economic downturn. The mechanism by which this affects the loans, and the options available, depend on how the loans are funded:

- **Securitisation trusts[2]:** Loans are packaged and placed into a 'securitisation trust'. Investors purchase an interest in the trust and receive investment returns over time as the underlying loans and interest are repaid. The originating NDTL continues to manage the loan and the flow of repayments to the trust in-line with the rules in the trust's deed, which include strict provisions for impaired loans and repayment relief. If the cashflow to the securitisation falls below certain parameters, it triggers 'acceleration' or 'amortisation' of the trust, effectively meaning it has exhausted provisions for repayment relief, will not continue to reinvest and will be 'wound-down'. There is significant complexity in amending securitisation trust rules, which would require complex negotiations and involve a large number of investors, many of whom are offshore or not known by the trust.
- **Warehouses:** Loans are held in 'warehouses' prior to securitisation. Major banks (particularly Westpac) operate the main warehouses in New Zealand. Similar to securitisation trusts, they have rules for impaired loans and repayment relief. It may be easier to negotiate changes to those rules (since the negotiation is not with a wide range of investors).
- **Non-securitised loans:** NDTLs originate and continue to hold the loan. The ability of the NDTL to provide loan relief depends on its willingness and ability to meet its ongoing costs (e.g. interest payments for the NDTLs own borrowing). High loan impairment could lead to the failure of the NDTL.

20. The FSF has mentioned that in the short-term, some securitisations will have sufficient reserves to sustain the structures for a few months of significant payment deferrals, but some may fail soon after this without government intervention.

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1 This data is from a survey of 75% of the FSF's members between 16 March and 9 April 2020, across consumer and business loans.

2 Securitisations are made up of pools of similar loans (e.g. residential mortgages, credit card loans and car loans). Total securitisation capital markets issuance in New Zealand was $1.43bn in 2019.

21. NDTLs, particularly those funded via securitisation may not benefit from increased liquidity support already offered by RBNZ. Unlike banks, NDTLs do not have direct access to the RBNZ's liquidity facilities as these entities are not considered systemic, do not have eligible collateral, and are relatively high risk (as reflected in credit ratings). Accordingly, the FSF and other NDTLs are seeking liquidity support from the government along the lines of programmes being conducted in Australia. Their proposed options and our assessment of those are detailed in the sections below.

22. s9(2)(d) [redacted]

There are key choices for you to make in determining whether further government support should be provided

23. The Treasury has been working with the RBNZ and MBIE to consider what potential interventions may be required in addition to measures already in place.

24. The policy rationale underpinning this work is to cushion the impact of COVID-19 on household borrowers by:

- ensuring borrowers can access hardship assistance with respect to existing financial obligations, e.g. for existing loans, extension of terms or repayment holidays, and loans being rolled over
- enabling access to new lending (or roll over of existing lending) for viable borrowers
- avoiding excessive defaults leading to personal bankruptcy, or the loss of key assets on which finance is secured e.g. homes, cars, and
- avoiding policy that would force distressed households into a debt spiral.

Should the government support new lending as well as helping households meet their existing financial obligations?

25. A key challenge is navigating the tension between the first two and last two bullet points above. Depending on the viability of the borrower, easing terms for existing or new consumer loans can either help households self-manage through the Covid-19-related slump in income, or make an unrecoverable household debt position even worse. Determining whether a borrower can successfully take on and repay more debt is not straight-forward, and households seeking debt relief will have effectively self-identified as already under debt stress.

26. The potential for non-mortgage borrowing, particularly new borrowing, to generate poor outcomes for households suggests that initiatives in this area should:

    a. Retain market disciplines on borrowers and lenders, especially for new borrowing. This will help ensure granular retail lending decisions continue to be made, limiting misplaced support for non-viable borrowers. This also implies that risks are retained by lenders (not moved to the Crown).

    b. If necessary, provide support to viable lenders who might otherwise not be in a position to provide extensive loan relief due to the broader financial pressures arising from COVID-19.

    c. If point (b) cannot be achieved without transferring [material] risks from lenders/ investors to the Crown, consider direct provision options.

Should the government support repayment deferrals for non-mortgage debt?

27. Mortgage repayment deferrals pose a relatively low risk of poor outcomes for households, as the debt is at lower interest rates, long-dated, and secured against a (generally) appreciating asset that is amenable to refinancing.[3] The risks of poor outcomes for households increase with weaker household balance sheets, higher loan interest rates and loans that are unsecured, or secured against depreciating assets (e.g. vehicles). Unfortunately these characteristics match the loans of many households not assisted by mortgage repayment deferrals, namely tenants. We do not currently have access to data on the loan characteristics of tenants.

28. Providing a loan deferral for non-mortgage debt (e.g. a 6-month deferral on a two-year car loan at interest of 16% p.a.) could quickly lead to a much higher interest cost and long-term debt burden on borrowers, particularly for high-cost short-term loans. In these situations it may be more beneficial to consider direct support to low-income households (which in turn supports vulnerable borrowers who are usually in this group) rather than support through NDTLs.

Should the government support non-deposit taking lenders who engage in higher risk lending and are less systemically important?

29. There are key differences which mean that measures supporting NDTLs are less consistent with the policy rationale outline above because:

    - Non-bank lending is less likely to be secured against key assets (such as homes) on which the borrowers' ability to participate in the economy depends, although the larger NDTLs do offer mortgages (roughly 2% of mortgage debt)[4] and car loans.

    - Finance companies tend to offer a high risk/return model, which combined with general decrease in quality of assets and credit applications could risk any assistance packages transferring risk from the businesses and investors to the Crown. NDTLs lend to higher risk borrowers and high-interest loans can contribute towards vulnerable people entering a debt spiral.

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3 However, the deferral and accumulation of past due and unpaid interest can quickly add up and lead to bigger debt issues in the future.

4 We understand that many non-bank mortgages are to those who are unable to access bank finance, such as some property developers and self-employed people who do not have a solid financial history or regular income.

- NDTLs are not currently prudentially regulated by the RBNZ and are exempt from the governance and disclosure requirements under the Financial Markets Conduct Act 2013. They represent a small proportion of total lending so do not present financial stability risks. There is less regulatory oversight of the sector relative to other lenders, and therefore less ability to impose lending conditions and ensure that institutions are adequately managing their risk.

There are some potential options to provide funding support to lenders, but broader income adequacy measures may be more beneficial to borrowers

30. We do not consider there is a strong policy rationale for providing government support at this time for the above reasons, but we will continue to engage with NDTLs to explore alternative solutions. There is also a range of work across government on further income support, which may directly assist low-income households, and therefore also vulnerable borrowers.

31. On balance, we consider these broader income adequacy measures may provide better support to these groups than assistance to borrowers via their lenders. There are material fiscal risks to providing liquidity support for NDTLs, and our ability to influence the support that lenders actually provide to their borrowers is limited. Providing support to borrowers through income adequacy measures also reduces the risk of a debt spiral (for example, if financial assistance is used by borrowers to make repayments then it won't result in interest continuing to accrue, whereas enabling loan deferrals will increase the overall debt of the borrowers).

Options to provide funding support for non-deposit taking lenders

Non-deposit taking lenders have proposed that the government could invest in securitisations

32. The main options suggested by NDTLs are for the government to provide funding that would allow the firms to provide payment deferrals to their customers, and make investments that would help the sector keep lending. Our understanding of the proposals (which we understand are being undertaken or explored by the AOFM in Australia) is that they would involve:

    - Government buying tranches of new securitisations originated by NDTLs, keeping the securitisation market open and encouraging continued lending (we are informed that this market is now effectively closed).

    - Government investing into existing securitisations at a junior level (only senior to the NDTL itself) to provide continued cashflow to senior security holders, whilst enabling payment deferrals for the underlying borrowers. The Government would be repaid if/when the underlying borrowers top-up the deferred payments at a later date.

    - Government providing funding of warehoused loans that are not yet securitised, facilitating the provision of relief to the underlying borrowers.

33. A simpler option (not being explored in Australia) that has been suggested here would involve the Government providing liquidity directly to NDTLs, likely in the form of unsecured loans.

There are costs and risk associated with government financial support for NDTLs

34. The Treasury's initial assessment of the above options is that:

- **Implementation is likely to be complex, risky and slow.** The options would require the Treasury to establish a specialist unit to assess and price securities, to manage fiscal risk and maximise policy effectiveness for a given budget. We anticipate that staff capability will be difficult to obtain. For comparison, the AOFM scheme is the expansion of an existing function. The AOFM was provided funding in 2018 to invest in securitisation to support the provision of finance to SMEs.

- **The fiscal costs may be relatively high.** NDTL loans are relatively high risk (compared to bank loans). For some options, the government would be taking relatively low ranking securities with significant risk of non-repayment.

- **There are communication risks and it may be difficult to exit the intervention.** There are likely to be questions around why government is supporting high-cost loans to vulnerable consumers (and it will be difficult for government to influence these interest rates). Exiting the investments may also be difficult, with potential demands for additional financial support if loan impairment is higher than anticipated, and if debt collection is triggered on a larger scale.

- **Intervention will likely crowd-out private sector solutions and compensate NDTLs and investors for risk.** By investing in existing securitisations, the government will be effectively compensating existing security holders for losses and/or risks. Whilst the government's intervention may be aimed at supporting the borrowers, it will in effect fund continued cashflow to investors and de-risk their investment. NDTL loans are relatively high risk, reflected in higher interest rates and returns to investors.

Impact on the NDTL sector from no government support

35. The consequences of not acting to support the NDTL sector at this time could reduce the size of the sector, and its ability to support an economic recovery, for a number of years.[5] We anticipate that some securitisations may end up in amortisation in the coming months, resulting in losses for some investors and a weaker securitisation market in the future.

36. The securitisation markets in Australia and New Zealand are very different in nature, which justifies different approaches. In Australia, the size of the securitisation market (issuance over 2017-2019) is approximately A$122 billion and mortgage-backed securities made up around 85% of that. This made the non-bank mortgage originators a small but significant competitor to the major banks in mortgage issuance (around 5% of the market). We believe the key objectives for the AOFM in intervening are to support competition in the non-bank lending sector, particularly for business lending and mortgage-backed securities.

37. On the other hand, in New Zealand the securitisation issuance was $2.9 billion over 2017-2019, and mortgages were only around 30% of that (the rest is almost all credit card and automotive loans). As noted earlier non-bank mortgages are only around 2% of the market (and mostly not funded by securitisation).

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5 The securitisation market in New Zealand mostly shut down after the Global Financial Crisis, and only re-emerged in the last three years.

38. For borrowers, the impact of NDTL failure or securitisation trust amortisation may be disruptive. Where the NDTL fails, the loans will be on-sold, but terms of the loan for the borrower will remain the same. Borrowers may face more aggressive repayment demands.

39. We recommend that you decline the funding requests from the NDTL sector, but officials will continue to engage with the sector on alternative solutions and barriers, and options to support new SME lending.

Should the Government support non-deposit taking lenders to improve access to credit for SMEs?

40. The focus of this paper is on consumer credit markets. However, NDTLs also play a role in providing access to finance for businesses.

41. Information from the FSF, which includes many of the larger NDTLs, indicates that business lending in the sector is around 80% vehicle/fleet financing. The balance is largely secured loans (e.g. loans secured against equipment), property mortgages, unsecured loans and operating leases (vehicle leases).

42. While the Treasury recommends against government funding support for NDTLs for the purposes of supporting consumers, further work is necessary to advise on the sector's role in supporting SMEs. NDTLs may service parts of the SME lending market that are not well supported by banks, and the government has not yet implemented significant SME borrowing support outside the banking sector. Consumers, on the other hand, have access to a range of direct government supports. There are also different objectives to supporting consumer and SME lending, which require different intervention options. For consumers, the focus is on assisting with existing debt obligations, to alleviate financial hardship. For SMEs, the focus has been on supporting new lending, to position them for recovery.

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

Options to provide direct assistance to borrowers

There is ongoing work on further income support measures, which will directly assist low-income borrowers

44. We note that there is other work in the welfare space which may be considered relative substitutes for government interventions in the consumer credit space, such as further income support measures. These include:

- a time-limited weekly payment to those who have recently lost their jobs
- decisions on the future of the wage subsidy scheme
- additional income adequacy options, including further increases to main benefits, changes to the accommodation supplement, and rent arrears assistance.

45. You and other relevant Ministers have been briefed separately on these initiatives and we are not seeking a decision from you in this area.

46. However, some vulnerable borrowers, such as beneficiaries who have existing loans with high-cost lenders, will still face difficulties meeting debt repayments, even with further welfare measures, particularly if these are only temporary. Further work could be done to consider the transition from temporary welfare support to longer-term solutions to assist vulnerable borrowers, such as access to lower cost credit through other means.

A pause on government debt collection was considered, but the discretion that already exists in the system provides support to debtors

47. A pause on government debt collection was raised as an option as part of the response to COVID-19, in order to support the incomes of people owing debt to government agencies.

48. The cross-agency Debt Working Group coordinated by the Department of Prime Minister and Cabinet (DPMC) is broadly supportive of the intent to ease pressures facing government debtors, particularly vulnerable borrowers. However, the Group is of the view that existing policy and regulatory settings allow agencies the discretion to ease repayment burdens on debtors, which agencies have been pursuing. For this reason, the Group does not recommend any short-term changes in the context of COVID-19 to government debt collection by the Ministry of Social Development, the Ministry of Justice and Inland Revenue. Additional factors include:

- not all debt collected goes directly to the Crown, for example child support debt is paid directly to the carer
- legislative changes may be required
- making temporary changes will be complex and time-consuming, and unlikely to be implemented in the short-term.

49. There is a longer-term programme of work underway on debt to government, which is considering (amongst other things) how the government debt system could best support people in hardship. The cross-agency Debt Working Group will take any relevant lessons from the COVID-19 experience into future work on debt to government, including potential options for reform.

There are other regulatory and sectoral initiatives which may assist borrowers

50. There are also other initiatives being explored by other government agencies which may directly or indirectly assist consumer borrowers. These include:

- providing hardship assistance to consumers through individual sectors, including telecommunications and energy
- s9(2)(g)(i) [redacted]
- s9(2)(g)(i) [redacted]
- exploring support to community finance groups to provide lower cost lending to vulnerable consumers.

51. We note that MBIE is also considering regulatory relief to NDTLs to remove some legal risks around hardship assistance processes they are already using to respond to their customers.

Next Steps

52. We will report back to you with advice on further options to support SME lending, s9(2)(f)(iv)

53. If you are asked to respond to the requests for assistance from NDTLs, you could state that there is not a strong case for government financial assistance apparent at this stage. You could encourage lenders to engage further with officials to understand the barriers to providing hardship assistance to their customers and alternative private sector solutions, and state that you are also considering further options to support SME lending. If Australian actions are mentioned, you could note that they have a much larger NDTL market (especially in mortgages) and have gone further than other countries (e.g. the UK). We will draft a response to NDTLs for your consideration.

Appendix 1

Financial sector overview – support for lenders

	Banks	Non-bank deposit takers (NBDTs)			Non-deposit taking lenders (NDTLs)
	New Zealand Registered Banks	Credit Unions	Building Societies	Finance Companies (deposit taking)	Finance Companies (non-deposit taking)
Entities	26 banks	9 credit unions	3 building societies	7 finance companies taking retail deposits	65+ non-deposit taking finance companies
Total assets	$404.3b	$1.142b	$1.07b	$0.41b (47% Christian Savings)	$11b (56% consumer loans, 44% business loans)
Customers	Millions	**170,128 members** (personal loans and deposits) Customers often in specific industries. High Maori and Pacifica numbers at some CUs.	**34,470 accounts** (mainly mortgage lending). Customers often concentrated in one location (e.g. Nelson)	**4,354 depositors** **8,800 borrowers** (SMEs, consumer loans, residential property). No transactional banking services	**1.3 mil consumer customers** (credit cards, car loans etc.) **88,739 business customers** (vehicle finance etc.) Customers generally lower income/vulnerable.
Government / regulatory support					
Support for existing lending – Mortgage and loan relief	**Yes** - CCCFA exemptions (MBIE) - Capital requirements relaxed (RBNZ) - Liquidity support (RBNZ)	s9(2)(f)(iv)			
Support for new lending	**Yes** - Business Finance Guarantee scheme (Tsy) - Term lending liquidity support (RBNZ) - Reducing Banks' core funding ratios and delayed implementation of new capital requirements (RBNZ)				
s9(2)(f)(iv)					
Key regulations					
Prudentially regulated?	**Yes** (directly supervised by RBNZ)	**Yes** (supervised by trustee companies & different capital requirements to banks)			**No**
Subject to the CCCFA?	**Yes** (lender responsibility rules & requirements to consider hardship applications) (all lenders have indicated a willingness to work with borrowers experiencing or anticipating repayment difficulties)				
Conduct regulation under the FMC Act?	**Yes (generally)** (standard bank products, including term deposit and savings accounts are regulated by the FMC Act)	**Yes (generally)** (credit unions, building societies and finance companies must issue product disclosure statements and are subject to governance requirements)			**No (generally)** (these entities do not take investments/deposits from retail customers)

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2020/1236 SH-1-6-1-3-3-14

Date: 29 April 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: None
(if any)

Aide Memoire: Active Labour Market Policies (ALMPs)

You have expressed interest in the role of ALMPs as part of the response to COVID. MSD, working with Treasury, MBIE and MoE, will provider fuller advice to you and other ministers next week. This paper provides Treasury's initial view on ALMPs.

ALMPs cover a range of policies
ALMPs are designed to help labour supply by upskilling (through training for basic skills, work-readiness or sector-specific courses) and better skills matching (through job brokerage services). They are separate from, but should be considered alongside, other labour supply policy areas such as the tertiary and compulsory education systems and migration. In New Zealand, various agencies (including MSD, MBIE, TPK and Corrections) have led ALMP programmes.

ALMPs are a crucial part of government's labour market response to COVID
A successful government response to rising unemployment will rely on a range of policies to support jobseekers, employers and the wider economy. ALMPs can add particular value by supporting equity objectives and attempting to avoid long-term detachment from the labour market. Brokerage services and job readiness programmes, for example, help individuals who may be disadvantaged by low levels of social, financial or human capital compete more effectively in the labour market.

ALMPs should be targeted at the people they can most help
The unemployed population will have greatly differing backgrounds and support needs, only some of which will be best addressed through ALMPs. Three illustrative population examples are given below. Importantly, some of those in need of ALMP programmes in the near future (such as in population 1 below) will differ from the target cohort of recent ALMP programmes (such as the long term unemployed or NEETs).

1. **Discrete skills gap**. For example, someone who has lost employment after many years working in the same organisation. They may require support navigating modern job application processes or a short course giving them a specific new skill. <u>ALMPs may be suitable.</u>

2. **Substantial retraining requirements.** Many career changers, for example a hospitality worker who wishes to become a nurse, will be best served by the tertiary system. New Zealand's demand-driven, flexible system has capacity to accommodate the increase in enrolments we expect to see based on previous downturns. We are working with MoE on initiatives to better equip the system to meet this change in demand. Tertiary may be more suitable than training-based ALMPs, though careers guidance could facilitate entry to the tertiary system.

3. **Skill level already appropriate for employment.** Many individuals will seek employment at their current skill level and may not require government assistance (tertiary or ALMP) beyond short-term income support. This is particularly true for those with high skill levels and strong labour market attachment (for example, an in-house lawyer made redundant from an airline may wait for a legal vacancy in another sector to become available) but also applies to some mobile workers with lower skills (a tourism worker joining the agricultural sector). Specific ALMPs would not be necessary, but more general support (such as case management services) could be appropriate for some individuals.

ALMPs are important tools, but have some limitations

ALMPs are unlikely to reduce headline unemployment without measures to increase labour demand, though they can support labour market equity and efficiency. New Zealand has high skills levels, good job-matching rates and, pre-COVID, low unemployment, indicating a strong and flexible labour market. This suggests the current increase in unemployment is primarily a demand side issue (though there are longstanding issues for some groups such as low labour force attachment).

Despite some successes, many previous ALMPs have had underwhelming results. ALMPs are difficult to evaluate, but results in New Zealand and internationally have been highly variable. New Zealand's Welfare Expert Advisory Group (WEAG) found that "relative to the Government's vision, employment services achieve very mixed results" whilst an academic meta-analysis of international ALMP evaluations found that though "job search assistance programmes yield relatively favourable programme impacts, [training programmes] in the short term often appear ineffective [though are] associated with positive medium term impacts." MSD evaluates that over 25% of its own spend on ALMPs has had mixed to negative impacts.

Given low demand for labour, training initiatives face barriers to success

The dominant characteristic of the labour market in the near-medium future will be low demand for skills across the economy. Of those skills shortages that do emerge, only some will be amenable to the short offerings found in traditional ALMPs (for example a shortage of nurses can only be addressed through the tertiary system or immigration). It will therefore be highly challenging to design interventions that genuinely benefit individuals (through equipping them with skills that actually increase their employability) whilst managing the risks (as well as the opportunity cost to government and the individual, ineffective interventions can damage sense of self-worth and confidence in government). Aligning training interventions with emerging skills needs will be crucial to improve the likelihood of ALMP success.

We suggest using the following principles to guide decisions around ALMPs
We are engaging with other agencies to develop a cross-government set of principles, building upon this initial guidance.

1. **Alignment with economic and fiscal strategy**. ALMPs must prepare people for the post-COVID economy to be successful in the medium term.

2. **Maintain a strategic focus on medium term issues in the NZ labour market,** such as the economy's changing skills needs, and issues of equity and productivity, whilst taking steps to address new challenges.

3. **Prioritise targeted interventions** rather than general ones, particularly to support equity goals.

4. **Consider who is best placed to address the problem.** Employers, individuals and others (including Iwi, community groups, and NGOs) have a role in supporting employment. If government is best placed to develop and deliver initiatives, it should consider which agency should deliver the service.

5. **Make use of the evidence,** as ineffective interventions have both a fiscal and human cost. Where evidence is lacking, innovative trials may be appropriate. New policies should incorporate high quality monitoring and evaluation arrangements to help improve future policies.

6. **Avoid path dependencies and prioritise temporary interventions where appropriate.** We should avoid investment in services that limit further policy responses in the coming months and years. We should prioritise temporary interventions to avoid bringing in long term costs that may not align with government's emerging economic and fiscal strategies.

7. **Be mindful of capacity issues across the public sector**

Next steps
We are working cross-agency to progress work on ALMPs:

- MSD, supported by MBIE, MoE and Treasury, with input from across government, is undertaking an accelerated stocktake of existing ALMPs. This will help identify opportunities to expand existing services and suggest potential gaps in the current offering.

- Treasury is undertaking work to better understand the likely characteristics of the current and future unemployed cohort.

- MoE is undertaking work to support the tertiary system, including acceleration of RoVE, support for apprenticeships, managing increased tertiary demand and changes to the regulatory framework, for example to facilitate an expansion in microcredentials. You will receive advice on some aspects of this as part of the CRRF process, with further advice to come next month.

- We advise on MSD's CRFF bids, including measures to meet increased demand for existing services, employment support for disabled people and offenders, construction skills initiatives and s9(2)(f)(iv) [redacted]

- We will provide advice on ALMP-related bids for the CRRF fund; bids have been received from multiple agencies in addition to those from MoE and MSD.

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