TE TAI ŌHANGA
THE TREASURY

Reference: 20210060

19 March 2021

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 19 February 2021. You requested the following Treasury Report:

Economic response to further COVID-19 outbreaks

I note that the request was received by the Treasury on 19 February 2021 as a partial transfer from the Ministry of Health.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	19 November 2020	Treasury Report: Economic response to further COVID-19 outbreaks	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:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- certain information, under section 9(2)(j) – to enable the Crown to negotiate without disadvantage or prejudice, and
- direct dial phone numbers of officials, under section 9(2)(k) and 9(2)(g)(ii) – to prevent the disclosure of information for improper gain or improper advantage.

We have redacted the direct dial phone numbers of officials under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This

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is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

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

Alastair Cameron
Manager, Economic Policy

OIA 20210060
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IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Economic response to further COVID-19 outbreaks

Date:	19 November 2020	**Report No:**	T2020/3446
		File Number:	SH-1-6-1-3

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	Respond to the recommendations set out in this Report. Meet officials to discuss next steps.	Monday 23 November 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Stephen Bond	Senior Analyst, COVID Policy	s9(2)(k) [redacted] (wk)	N/A (mob)	✓
Alastair Cameron	Manager, COVID Policy	N/A (wk)	s9(2)(g)(ii) [redacted] (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer the report to the Minister of Revenue, the Minister for Social Development, the Minister for Small Business, and the Minister for COVID-19 Response

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Economic response to further COVID-19 outbreaks

Executive Summary

The Government's economic response to outbreaks should be substantial and linked to public health restrictions.

A successful elimination strategy means that most of the economy will operate normally the majority of the time, interspersed with periods of restrictions. That means that the Government's economic strategy needs to pivot quickly between compensating for the economic impact of outbreaks and supporting recovery from restrictions.

A substantial package of support at higher Alert Levels (ALs) is critical to minimise the impact of restrictions on employment and incomes, deliver equitable outcomes in the face of very short and severe economic shocks, and so maintain social license and encourage compliance with restrictions. Significant support through outbreaks in turn allows economic activity to resume quickly after outbreaks, allowing the economy to take advantage of the economic benefits of no community transmission.

Provided that the support is temporary and timely, the risk of providing too little support outweighs the risk of providing "too much". Trade-offs with fiscal sustainability or transition are low so long as the support is time-bound to the period during which public health restrictions are in place.

The response so far has been successful and well-received, and future changes should focus on improvements rather than significant change.

The core economic components of the resurgence package should be support for firms' wage costs to allow them to retain staff, and support for fixed costs to manage cashflow challenges. This model has been effective at achieving your objectives, but there are opportunities to develop and improve it. This includes through making a clearer link between support and health restrictions, and a sustainable solution to fixed and transition costs beyond the Small Business Cashflow Scheme (SBCS).

We therefore recommend that your resurgence package includes a grant scheme at AL2 and above, a wage subsidy at AL3 and above, and additional microeconomic interventions at AL4. It is critical that this is combined with sufficient support for individuals and communities at higher economic and health risk, and delivered in partnership with Iwi and community groups to maximise impact. Evidence from the Auckland outbreak suggests that the initiatives currently in place are broadly working, but continued monitoring is important, especially given the expiry of the COVID Income Relief Payment.

Near-term changes to the wage subsidy could improve clarity and effectiveness, with further options to alter generosity and create a new legal framework.

The wage subsidy has been an effective tool for supporting firms, jobs and incomes since March and you have previously indicated that broad design of the scheme should remain in place. But previous schemes were developed at pace under a high-trust model and traded off integrity and cost-effectiveness for speed and simplicity.

There are quick changes we recommend making in order to improve clarity and effectiveness, such as improvements to the revenue drop test to make it sustainable and signalling the criteria for re-introducing the scheme. You could also consider more substantial changes to target the scheme to business need, and more substantive integrity improvements including a new statutory framework. Those changes will not be possible before Christmas and require resource investment decisions for agencies.

Given the cross-agency ownership of the scheme you will receive a Joint Report on these issues next week, including possible timeframes.

A new grant scheme could also cover some non-wage and transition costs, particularly for small firms with significant fixed costs.

There is a case for a new grant scheme to operate alongside the wage subsidy to address those firms most affected by transition costs and health restrictions at AL2 and above. The Treasury's proposed scheme is a grant scheme administered by Inland Revenue (IR) which would:

- pay a lump sum grant on escalation to AL2;
- be paid based on per-firm and per-FTE components; and
- target firms (and by extension the sectors) most affected by restrictions via a revenue drop test.

This would play a similar role as the SBCS in the first national lockdown, providing cashflow support to pay fixed costs while revenues are constrained. Unlike the SBCS, it would be designed to be available across multiple outbreaks and paid as a grant, given that many small firms do not have appetite for additional debt.

Economic measures that support public health guidelines at AL1 could avoid the risk of future AL escalations

Escalations have significant costs, and so effective investment in measures that encourage compliance with public health guidelines (such as self-isolation) could have a significant return. Whilst MBIE is leading advice on changes to the Leave Support Scheme, there is also value in undertaking work to explore whether there are other gaps in economic and social support (such as for firms that are required to close on an individual basis at AL1 because they are visited by a positive case). We are testing other agencies' appetite for further work. We will brief you ahead of the COVID-19 Ministers' meeting on 26 November if you wish to raise it with colleagues.

Making early decisions on the resurgence package and communicating it to businesses would reduce uncertainty and allow firms to plan.

Giving business certainty on the scale of support in outbreaks will allow them to make decisions now about their viability and reduce the uncertainty associated with an unknown number of future outbreaks and escalations. The trade-off is ensuring that you retain flexibility to alter the response if fiscal or economic constraints require it.

However, given the likely range of public health outcomes, the benefits of certainty outweigh the risks. The Treasury therefore recommends that you prioritise Cabinet decisions on the key elements of this package. If you wish to make a public commitment before Christmas we would need to discuss priorities (given other pressures on delivery agencies). We will also need to work through precise details with you and other Ministers, engage with social partners and Treaty partners, and discuss the alignment with the Government's overall COVID-19 communications strategy.

Recommended Action

We recommend that you:

a **note** the Treasury's assessment is that significant fiscal support that maintains employment and supports the economy continues to be the appropriate response to the short and long-term economic impact of further AL escalations;

b **agree** with the form of the overall resurgence package proposed, of which the core economic components are a wage subsidy at AL3 or above, and a new grant scheme at AL2 and above;

Agree/disagree.

c **note** that you and your colleagues will receive a Joint Report from Treasury, MBIE, MSD, and IR shortly on changes that could be implemented rapidly to improve the clarity and effectiveness of the wage subsidy and offering advice on more substantive changes;

d **note** that more substantive changes to the wage subsidy scheme will not be possible by Christmas and require agreement both to resource investment and potentially also service delivery trade-offs by agencies;

e **note** that in the event of another COVID-19 outbreak, MSD is ready to stand up another Wage Subsidy Resurgence scheme within 5 working days, with no changes to settings;

f **note** that there is a case for a new grant to provide economic support in response to further outbreaks, targeted at supporting firms' fixed and transition costs;

g **note** that there is a choice is between a grant targeted at the most affected firms (like the wage subsidy), or a comparatively less generous grant that applies to a broader range of firms affected at AL2 and above (recommended by Treasury);

h **note** that Treasury has constructed indicative models for both options, with a fiscal cost of around $550 million per outbreak, which is scalable;

i **indicate** your initial preferences on the following key design parameters:

Strategic Choice	Recommended Design	Yes	No	More info
Rate & payment structure: choices around the level (linked to scope of eligibility), and form (whether to base on FTE or include a per-firm component)	Per-firm and per-FTE component			
Eligibility: revenue drop test would target affected firms and sectors. If want to support firms at AL2, a lower % than the wage subsidy appropriate.	20% revenue drop test			
Payment frequency: options for a one-off payment at the point of initial escalation to assist firms in transition and fixed costs, or an ongoing payment	One-off payment on escalation from AL1			
Firm size limits: options to limit payments to larger firms	Grant available to all firms but payment capped at 50 FTE rate			
Sectoral targeting: explicit targeting by sectors very challenging and any options create boundary issues.	No explicit sector targeting, as revenue drop will implicitly target affected sectors			
Regional targeting: regional targeting challenging given boundary issues, but may be beneficial for very localised outbreaks	No regional targeting in general, s9(2)(f)(iv) s9(2)(f)(iv)			

j **note** that joint ministers will shortly receive further advice on changes to the Leave Support Scheme, which may include examination of eligibility criteria, payment rates, interaction with other leave entitlements (including expanded statutory leave entitlements), and the duration of coverage;

k **indicate** whether you would like to make a public statement on the resurgence package this year, which would require Cabinet agreement on a number of the policy issues in this paper by 14 December at the latest;

Agree/disagree.

l **agree** to task Treasury officials to engage with trusted stakeholders and social partners on the design of a new grant scheme and the future of the revenue drop test; and

Agree/disagree.

m **refer** this report to the Minister of Revenue, the Minister for Social Development, the Minister for Small Business, and the Minister for COVID-19 Response.

Refer/Do not refer.

Alastair Cameron
Manager, COVID Policy

Hon Grant Robertson
Minister of Finance

Treasury Report: Economic response to further COVID-19 outbreaks

Purpose of Report

1. This Report responds to your request for advice on the package of economic interventions in place to support the economy at higher Alert Levels (ALs). Treasury has consulted with other agencies, including new COVID-19 Group in DPMC (formerly the All of Government Group) on the contents of this Report, but the design of schemes will need to be considered by relevant joint ministers.

Public Health & Economic Strategy

2. The Government's public health strategy and particularly AL framework is complemented by an economic strategy that minimises the economic cost of public health restrictions and allows New Zealand to take advantage of the opportunities of protracted periods of minimal community transmission.

3. Across the remaining period of the pandemic the priority should be to minimise the negative impact of COVID-19 on intergenerational wellbeing. That objective is complicated by the uncertainty around the length of the pandemic and how many times it could re-emerge in the community. But a resilient strategy would be based on the Government pivoting quickly between two different policy approaches:

   a The "acute" response to elevated public health restrictions, where broad-based support for firms and incomes prevents significant drops in current wellbeing, maintains stocks of human and financial capital that underpin future wellbeing, and supports social license for restrictions; and

   b The "recovery", where more targeted support can help individuals and firms adapt to new economic realities and transition into sustainable employment and business, and support vulnerable individuals affected by those changes.

4. This report is largely concerned with the acute response, but good policy in both phases are complementary. Maintaining jobs and firms at higher ALs supports a rapid rebound in economic activity after returning to AL1; and a stronger recovery delivered by measures that support investment and low-income individuals enables firms and households to build more resilience to future restrictions. You have received accompanying advice on your overall economic strategy to achieve this [TR2020/3480 refers].

5. The key economic judgement is the overall level of broad-based support to provide that will achieve those objectives and you consider equitable. There is no certain answer to that judgement: the nature of the shock is unprecedented with significant uncertainty. This ultimately comes down to balancing the risk of "too little" support leading to higher unemployment, with risk of "too much" support reducing future wellbeing by restricting fiscal space for other priorities and maintaining low productivity jobs or firms that are not viable even at AL1.

6. Treasury's assessment is that the risk of doing too little is greater than the risk of doing too much. The risks of "too much" support are best managed by keeping resurgence schemes time-limited to the period during which public health restrictions are in place, pivoting policy quickly at lower ALs to more targeted interventions that promote future growth.

7. Furthermore, AL escalations are not "normal" economic shocks. They are very short and severe, the distribution of economic impacts are an arbitrary function of the closeness of physical contact involved in any given business activity rather than business viability, and those impacts are delivering a public good – disease prevention. That means that there is a strong equity and distributional case for significant broad-based support that compensates the firms and individuals affected during restrictions for a large share of the economic impacts they bear.

8. The form of the response so far has been broadly effective in the national and Auckland outbreaks, combining support for jobs, firms' non-wage costs, and vulnerable populations. Further changes should be an evolution to refine and improve that rather than seeking to substantially alter the scale or form of support. The key areas where there is room for improvement are:

   a linking the period and level of support more clearly to the period and severity of restrictions, and communicating that clearly in advance to give businesses certainty to make decisions now about their viability;

   b the clarity and integrity of schemes, to ensure support goes to firms and individuals in need; and

   c improving support for non-wage costs, given the drawbacks associated with existing debt products such as the SBCS.

9. Given the above, Treasury's recommended resurgence package is:

   a an **improved** wage subsidy scheme available at AL3 and above that seeks to address some of the areas for improvement above;

   b a **new grant scheme** for firms' fixed costs, which would provide cashflow support to firms with transition costs at the beginning of an outbreak; and

   c additional interventions at AL4 on **childcare, rents, and tenancies.**

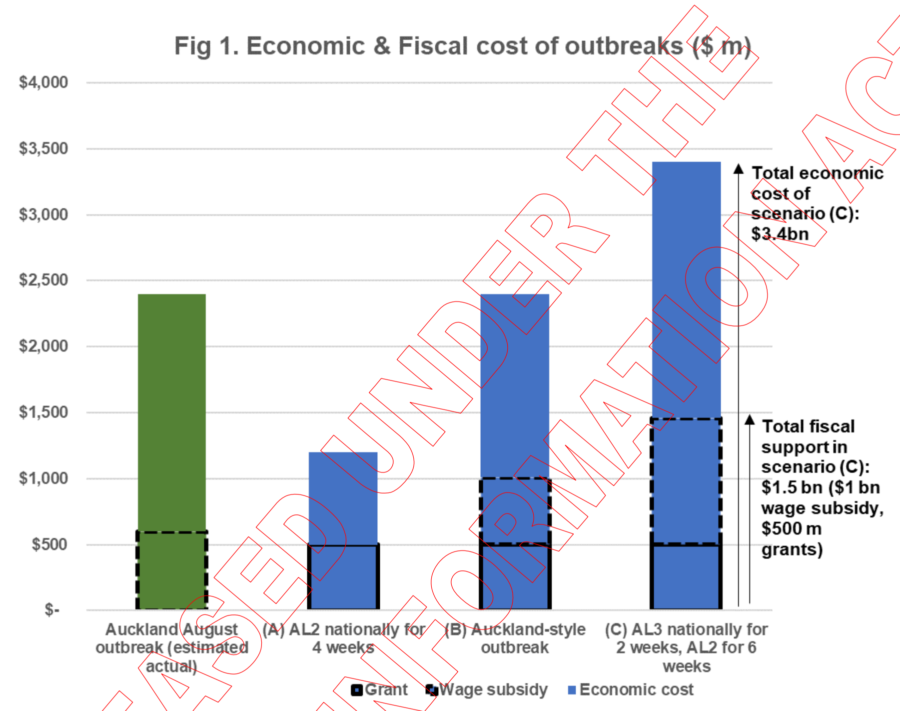
Table 1: support measures introduced at each Alert Level[1]

Alert Level	Support	Fiscal cost, national AL change
AL2	New grant scheme	$500 million one-off (illustrative)
AL3	COVID-19 Wage Subsidy	$385 - $580 million per weeek
AL4	• Adjusted childcare for essential workers scheme • Freeze on residential tenancy termination & rents	Relatively low. Wage subsidy cost will be higher than at AL3.

10. The fiscal costs of these interventions depends on the circumstance of the outbreak. Figure 1 sets out the cost of this package under illustrative outbreak

[1] Support measures are additive – i.e. all support available at AL2 is also available at AL3

scenarios[2], as a share of the estimated first-order economic costs (alongside the estimated actual impact and cost of the August Auckland outbreak). The proposed package would mean direct fiscal support covering around 45% of the economic cost of outbreaks in these scenarios, a rough proxy for the costs shared between public and private sectors. While there is no "optimal" level of risk sharing, this analysis implies that the proposed package is not too generous.



11. These fiscal costs are substantial, but there is a sufficient balance in the CRRF to fund this package through multiple resurgence events.

Common policy challenges and interaction across schemes

12. It is important that the resurgence package is designed as a whole, and measures are as consistent as possible with one another (and with existing forms of support, where possible) to maximise their impact and minimise business confusion.

Triggers for payment

13. Setting out clear triggers for payment of the wage subsidy and a new grant (discussed below) would give certainty to business, but would need to be durable to public health developments. For example, very short precautionary periods of AL2 or AL3 (for 2-3 days) should not trigger a grant or a two-week wage subsidy.

14. One option would be for schemes to be triggered when public health restrictions last for, or are announced to last for, at least a week. We will do further work with the COVID-19 Group in DPMC to understand how best to develop a trigger consistent with the Government's public health plan.

[2] Fig1 figures are the estimated direct economic and fiscal costs, so exclude economic spillovers or automatic stabilisers. Annex 1 sets out more detail on the assumptions and estimates.

15. Further triggers to consider across schemes include the criteria by which to choose to introduce a scheme in a particular region, or nationwide.

<u>Revenue drop test</u>

16. One of the most important parameters across multiple schemes is the **revenue drop test**, which attempts to distinguish firms that have been affected by COVID-19 restrictions from those that have not.

17. The revenue drop test carries the potential for significant "false positives" – for example in pre-COVID periods around 20% of small businesses had a monthly revenue drop of 40% compared with the same time in the previous year. But it also clearly identifies firms hit by COVID-19, with around 55% of firms meeting the 40% revenue drop test in April. The current year-on-year setting is also not durable as firms that have downsized in the last year will qualify more easily and from March 2021 onwards, the potential prior-year comparator will include the first lockdown period.

18. These challenges can be mitigated, but we will need to do further work with stakeholders to ensure the rules are clear and the terms (though not the percentage) of a revenue drop test should be as consistent as possible across resurgence schemes. There are two potential changes which we recommend exploring now to make the test more accurate and durable:

    a stronger emphasis on the attribution of revenue drop to the specific outbreak, which could include more detailed declaration and record-keeping requirements; and

    b changing the revenue drop comparator to a more recent period, which could be set during each escalation period.

A sustainable COVID-19 Wage subsidy

19. We recommend the introduction of a COVID-19 Wage Subsidy (CWS) as the key support intervention for firms and jobs in the event of a future escalation or escalations to Alert Levels 3 or 4.

20. In the event of another outbreak, MSD is currently ready to stand-up a further wage subsidy scheme, within 5 working days, with the same settings as used in August.

21. The design and delivery of the previous schemes were developed at pace under a high-trust model in response to the first outbreak and traded off integrity and cost-effectiveness for speed and simplicity.

22. There is now an opportunity to build a more robust scheme that better addresses these trade-offs, reduces uncertainty, improves targeting, and reflects the changed economic and public health outlook since the first outbreak.

23. However, the scope for substantive improvements in targeting or integrity in the near-term is limited by the simple nature of the scheme rules and delivery mechanism.

24. The Treasury is working with MSD, IR and MBIE to provide detailed advice to you, Minister Sepuloni, Minister Nash, Minister Parker, and Minister Wood. This advice will cover signalling of scheme availability, and relatively simple near-term changes, as well as seeking direction on more substantive changes for an enduring scheme which are likely to involve operational trade-offs and resource investment by agencies.

Near-term changes

25. Advice next week will set out changes that you could make quickly to improve the clarity and effectiveness of the scheme, including:

   a **Signalling scheme availability, duration and level in advance** to support business planning and decisions;

   b **Clarifying and updating some scheme rules** including updating the revenue test to allow for firms that have downsized.

Further advice on a more enduring scheme

26. Treasury has identified a further set of more substantial changes that you could consider to create a more robust and enduring scheme. Next week's advice from joint agencies will seek agreement to further work in these areas.

   a Improving **targeting to business need** and reducing windfalls;

   b More **substantive integrity improvements** including establishing a new statutory framework to create a clearer legal basis and support enforcement;

   c Clarifying the **interaction with employment law**; and

   d Establishing an **enduring 'Emergency Wage Subsidy' scheme** to improve resilience to future pandemics and natural disasters.

27. Changes in these categories will take longer and will not be deliverable before Christmas. They require agreement to resource investment from agencies for development, stakeholder engagement and implementation, and may have operational trade-offs with other service deliverables.

28. We recommend targeted engagement with stakeholders on any substantive changes to rules and targeting. This is important to ensure any new rules are clear and do not create unexpected problems, as well as to promote buy-in to the scheme.

A New Grant Scheme

29. A business support grant (BSG) which provides support for businesses' fixed and transition costs, particularly at AL2 when the wage subsidy is unavailable, would complement other elements of your economic strategy by enabling more firms to maintain activity and employment beyond resurgence events.

30. At a macroeconomic level, a new scheme will ensure that fiscal policy provides enough total support to the economy to achieve the overall objectives set out earlier in this Report. While the economy remains constrained by public health restrictions, broad-based grants to firms can compensate for lost revenue and output more effectively than conventional fiscal stimulus measures or more targeted measures, so long as they are rapidly withdrawn when restrictions ease.

31. A new scheme – rather than a more generous wage subsidy – can tackle a different set of microeconomic issues by providing cashflow support to firms – and particularly small firms – with fixed costs and/or transition costs when moving up from AL1. While firms may be able to adapt and manage those costs over time (for example by cutting other costs, accessing finance, or becoming more resilient to escalations over time), firms with fragile balance sheets or low margins could face cashflow challenges even at AL2.

32. There are choices in the settings regarding the base rate to determine the value of payment, the frequency of the payment and the eligibility criteria.

33. The most important choice is whether to provide a grant to a broad range of firms at a relatively low rate; or to a narrower group of firms at a higher rate. In previous advice [T2020/3056 and T2020/2985] we set out two illustrative options, both of which cost around $500-550 million for an escalation event

    a a grant set at the rate of the wage subsidy for two weeks and available on similar terms (such as a 40% revenue drop); and

    b a grant set at $1,000 per firm and $400 per FTE available at a 20% revenue drop.

34. Treasury's assessment is that a new BSG will be most effective if it provided a relatively broad support (similar to option B). That is because there is already a narrowly targeted but generous grant through the wage subsidy. The key gap in coverage for firms is for those firms experiencing a modest but still significant revenue drop at AL2 and above (such as hospitality at AL2) and for small firms with significant fixed costs. Most firms affected by AL2 restrictions would not meet a 40% revenue drop test, but nonetheless will face cashflow challenges.

35. A one-off grant at the start of a resurgence has key attractions: it will offset fixed costs at the outset of a resurgence, give business cashflow support at the most critical moment, and provide clear fiscal control. A new scheme could also be designed to be durable with adjustable settings for future resurgences if, for example, our understanding of firms' balance sheets changes or a period of public health restrictions are more protracted than initially expected.

36. We have considered options for a grant that is more narrowly targeted at those sectors most affected from AL2 upwards. The key challenges with that approach are in defining those sectors, and differences within sectors. For example, a manufacturing firm that involves close physical working may be more affected by physical distancing rules at AL2 than a table service restaurant that only needs to make small changes in response to AL2 hospitality rules.

37. In that example, a revenue drop test is more likely to correctly distinguish the firm in need of economic support because of public health restrictions. It will both target support at those sectors on aggregate that are most affected by higher ALs, while also ensuring firms in any sector that is affected are eligible. For example, while food, accommodation, and recreation services were the largest recipients of the WSR in August, more than 70% of the scheme's expenditure was on other sectors such as construction.

38. We can provide you with separate advice on the support you could offer the most distressed sectors at AL1, at which point lower demand in individual sectors (such as tourism) means there is a case for targeted support, as opposed to the more dispersed economic impact of public health restrictions at higher ALs.

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

Design choices and features of the Business Support Grant

40. There are strategic choices to design a BSG which impact the breadth of eligible firms and the extent of support. These choices could be scaled and adjusted depending on your priorities.

41. We have described the key features of Treasury's recommended BSG below, and set out alternative options for you to consider. These currently represent an initial set of recommendations on the key issues, and further implementation and design work with IR would be needed ahead of any Cabinet decisions. Feedback and clarity on your preferences on the below issues would aid that work.

<u>Rate and payment structure</u>

42. Treasury recommends that the rate should be set on a per-firm plus per-FTE component as a proxy for firm size (similar to the SBCS). This approach means support would be relatively higher for small businesses who are often most affected by AL increases (as opposed to establishing a per-FTE rate only). For example, with the indicative payment rates in paragraph 32(a) a firm with 10 FTEs would receive \$5,000 while a firm with 20 FTEs would receive \$9,000. s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

43. The alternative model would be to pay firms purely on the basis of their staffing levels, similar to previous wage subsidy schemes. This would not reflect fixed costs and have higher relative benefit for medium-sized firms compared to smaller firms. Given that a wage subsidy would achieve this outcome, we recommend against this approach.

44. The indicative rates set out in paragraph 32(a) would cover around a quarter of small firms' fixed costs for a two-week period. There is no exact science to how generous a new scheme should be, and we can provide further advice on the trade-offs involved once the first-order design issues are settled.

Revenue drop test

45. Treasury recommends that eligibility is set as a revenue drop of 20%. This recognises the smaller impact of AL2 on businesses that nonetheless affects their ability operate normally, such as for hospitality firms, and spreads support to a broader range of firms as a result.

46. Alternatively, eligibility could be set as a revenue drop of 40% in line with the wage subsidy. While this would reduce the fiscal impact and allow a more generous grant, this threshold may not be appropriate if the objective is to support firms particularly affected by periods at AL2 as well as higher ALs.

47. We would provide further advice on the precise form of the test, including alignment with the wage subsidy, and whether it should be prospective or retrospective.

Payment frequency

48. Treasury recommends a single payment at the outset of an escalation from AL1. This would support firms when the need to adjust is most acute, covering immediate costs, supporting firms' cashflow as they make appropriate adjustments in their operating costs or access alternative finance. If necessary, an additional payment could be made under protracted public health restrictions.

49. Alternatively, eligible firms could receive a weekly payment until AL1 resumes or until a maximum limit of weeks is reached. If these options are taken, it could be prudent to set a limit or establish a lower rate to mitigate against substantial costs for the scheme under protracted public health restrictions. A weekly payment would have administrative implications.

Firms' size limit

50. Treasury recommends that firms of all sizes should be eligible for the payment, but that the payment should be capped at the 50 FTE rate. In general it is preferable to target this kind of support at smaller firms facing more significant cashflow challenges and may have challenges accessing finance (including Pacific and Māori businesses, most of which are small businesses).

51. Alternatively, no cap could be placed on firm sizes. Treasury recommends against this as it would provide significant payment to firms with, on average, stronger balance sheets for whom the payment would still be relatively marginal.

52. Treasury also recommends against the SBCS model, where no payments can be made to firms with more than 50 FTE, in order to avoid challenging boundary cases such as firms with 51 FTE.

Sectoral targeting

53. As set out above Treasury recommends against targeting a grant to sectors on policy grounds, as a revenue drop test - by design – targets support towards the most affected firms and sectors.

54. If you do want to target specific sectors, then that would still come with significant implementation challenges. We have considered using ANZSIC and NZBN industry databases or public health orders to inform targeting, but in all cases there are challenging boundary issues that could require firms to self-assess which sector they fall into without the possibility of clear guidance, creating significant implementation challenges for the delivery agency.

55. If you are interested in sectoral targeting, then officials would need to undertake further work to create clear guidelines for businesses. In any case, any such model would have to be very high trust.

s9(2)(f)(iv)

[redacted]

<u>Further design issues</u>

58. Further design issues would need to be worked through in the coming weeks, working closely with other agencies and in consultation with stakeholders. Those issues include tax treatment, eligibility criteria and declarations, whether sole traders should be eligible, restrictions on grant expenditure (on, for example, dividends), and integrity measures.

Timing and implementation

59. IR could implement a scheme based on a one-off payment to eligible applicants when an Alert Level escalation is declared as early as six to eight working weeks after Cabinet decisions are taken. Given the Christmas holiday period, Cabinet decisions would be required in December 2020 on all relevant design issues in order to implement a scheme by late February or early March 2021.

60. This timeframe includes the passing of legislation in February, which is required for IR to have the authority to gather and share information, require repayment from ineligible applicants, and recover debts when voluntary repayments are not made.

61. Once operational, IR estimates that following a resurgence, applications could open within 24 hours and payments made within a further 24 hours.

62. Treasury, Inland Revenue, MBIE, MSD, PCO and Crown Law would be involved in the delivery of a BSG. Inland Revenue can deliver 2020/21 resourcing within existing COVID-19 response funding, however further funding is likely to be required depending on final scheme design.

Next steps

63. We are seeking feedback on whether to progress work on a BSG to form part of the ongoing framework of economic support in future resurgence events. We are seeking your views on whether the recommended design choices above meet your objectives, pending further discussion on setting the rate and its associated fiscal cost.

64. If you are interested in introducing a grant, we also recommend that Treasury undertakes engagement with trusted social partners to ensure the design has the intended impact.

65. We recommend you consider these points and discuss them with your Ministerial colleagues.

Working in partnership to support community, whānau and family resilience

66. Future resurgences of COVID-19 are likely to have a disproportionate impact on vulnerable groups, both in terms of the health risks of the virus itself, and the economic impacts that result. There is emerging evidence that Māori, Pasifika, women, and young people have been more affected by COVID-19 than other population groups. For example, we are beginning to observe increases in labour underutilisation, particularly amongst Māori and Pasifika women.

67. It is vital to work with our Treaty of Waitangi partners, trusted local leaders, and with community groups (such as churches and local NGO leaders), who have a valuable role to play in providing support to vulnerable people and supporting social licence in the event of any Alert Level escalation. With any escalation to higher Alert Levels, it is important to get money out the door quickly to Iwi and community providers and to partner effectively with them to ensure services are easily accessible to those acutely in need of assistance.

68. Following the August resurgence of COVID-19, Treasury undertook a scan of the support available to low income and vulnerable households in Auckland, including the support provided via community groups [T2020/2936 refers]. We found that there were no significant gaps in the coverage of funding for social supports to manage the immediate impacts of the lockdown, and that the significant investment through Budget 2020 and the CRRF provided community groups and NGOs with sufficient funding to deliver services.

69. However, there were some issues in the stand-up and deployment of new programmes, some reported difficulties in accessing particular services and families still struggling with inequities that existed prior to Covid-19. Where agencies were able to use flexible contracting and funding arrangements, this better enabled NGOs and community groups to respond quickly to acute situations where they know and have significant reach into their communities. This included programmes such as Whānau Ora.

70. Since completing the scan of available support, the COVID-19 Income Relief Payment – which was identified as a key support to soften the economic impact of resurgence on individuals and families – has expired. Other programmes are also reaching the end of their time limits or are being renewed. Cabinet agreed on Monday, for example, to make Emergency Benefit payments available to stranded foreign nationals, a number of which are from Pacific countries

71. Undertaking equivalent scans, to monitor the impact of COVID-19 and the response on vulnerable communities, will be important in any future resurgence to ensure that the support for vulnerable groups, and the delivery in partnership with Iwi and community groups, continues to be sufficient. You will receive further advice on this.

Further microeconomic interventions

72. There are several other policies for which you are not necessarily the lead Minister, but that Ministers may nevertheless wish to consider introducing or reinstating, as they support your broader economic goals. The key areas are outlined below.

Residential rent increase and tenancy termination freezes at AL4

73. In response to the initial outbreak of COVID-19, the Government introduced legislation to restrict residential tenancy terminations for three months (until June), and freeze residential rent increases for six months (until September). We recommend reinstating these measures with some minor amendments in the event of an escalation to Alert Level 4, to support the public health response and ensure temporary maintenance of living standards, ensuring people are able to safely stay in one place through the duration of a lockdown. We note that this will require new legislation, as previous provisions have already expired and did not include reactivation clauses

74. Below Alert Level 4, where individual movement is less restrained, we recommend agaisnt these interventions as they prevent transition in the rental market and ma cause more housing stress for renters in the long-term.

Childcare for essential workers: Reinstate at Alert Level 4 with adjustments

75. The Childcare for Essential Workers scheme was available during the first COVID-19 outbreak to provide childcare for essential workers by directly funding government-subsidised childcare providers, via government agencies. It has now lapsed but could be reinstated. Overall uptake of the scheme was low, driven in part by low participation of childcare workers and providers. It is unclear if demand was unmet due to constrained supply, whether families simply preferred other arrangements, or had already made them by the time the scheme became available. In addition, some workers in the initial scheme found that health and safety concerns were difficult to manage.

76. We have previously advised that reinstatement of the scheme could be worth considering in the event of a return to Alert Level 4. s9(2)(j) s9(2)(j) s9(2)(j) A revised scheme would also need to provide better matching in areas of high demand. We consider reinstatement of the scheme to be a low priority at Alert Level 3 and below, given the low uptake of the scheme, and the greater availability of other childcare mechanisms at these Alert Levels.

Commercial tenancy disputes: consider further work

77. The initial Alert Level escalation led to a number of disputes between commercial tenants and landlords regarding payment of rent when commercial premises could not be accessed or used due to the Alert Level restrictions, with many commercial lease contracts silent on the obligations arising in such a situation. Ahead of a further escalation in Alert Levels, there may be benefit in considering further interventions (legislative or otherwise) to better-facilitate appropriate negotiations over commercial rent in the event of a resurgence or other emergency event.

78. However, designing an appropriate intervention in this area is difficult, and the need for intervention may reduce over time as leases are renewed and clauses addressing such a situation are introduced into a higher proportion of lease contracts. We note that the Ministry of Justice has indicated that it does not have the resourcing to undertake this work without deprioritising other work on its work programme.

Directors' safe harbours: Reinstatement not recommended, except in extreme uncertainty

79. In response to the significant uncertainty created by the initial outbreak of COVID-19, the Companies Act 1993 was amended to create temporary safe harbours for company directors in respect of two core insolvency-related directors' duties. These provisions lapsed on 30 September.

80. We do not recommend reinstating these provisions in the event of an Alert Level reescalation, unless the resurgence is associated with a very high level of uncertainty (e.g. resurgence on a very large scale). This is because of the risks associated with reactivation, namely that the safe harbour provisions ultimately allow firms that are no longer solvent to continue to trade. This may increase the scale of any losses faced by creditors, and delay necessary economic reallocation.

Reducing the risk of resurgence

81. The recent cases of community transmission in Auckland highlight the importance of individuals and businesses adhering to public health measures such as self-isolation, record keeping to support contact tracing, and good hygiene measures. Adhering to these measures can help avoid an escalation in Alert Levels, and the high associated economic and fiscal costs.

82. While regulatory measures and public health guidance can play a significant role in achieving these outcomes, it is also important to ensure that that there are economic and financial incentives to support these measures.

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

Review of the Leave Support Scheme

84. MBIE – in collaboration with other agencies – is currently reviewing the Leave Support Scheme (LSS). The scheme aims to incentivise compliance with self-isolation requirements by workers. The LSS provides lump-sum payments to employers (at the same rate as the Wage Subsidy Scheme) to pass on to certain eligible employees (such as workers who have tested positive for COVID-19, or workers in the aged care, health and disability sector who are sick with COVID-like symptoms and need to self-isolate while awaiting a test or test result).

85. Take up of the Leave Support Scheme to date has been lower than anticipated, with, for instance, an average of around 15 new applications each day this week (some of which may not be eligible for the scheme). The low uptake be related to the Wage Subsidy Scheme being in place for much of the year (as an employer could not claim both for an employee), and/or a lack of awareness of the scheme's existence or its eligibility settings.

86. The scope of the MBIE-led review and timing of any advice is still being worked through. However, it is likely that feedback will be sought from Joint Ministers shortly on a number of changes that could be made to key scheme settings. That could range from minor tweaks, to significant modifications, including eligibility criteria, payment rates, interaction with other leave entitlements (including expanded statutory leave entitlements), and the duration of coverage.

87. The Treasury is working with MBIE on this review and agrees that there is a case to make changes to the scheme to better support compliance with public health guidance. In particular, we consider that there is an imperative to:

    a increase communication about the scheme; and

    b better align the duration of support with self-isolation duration by shortening the payment provided to workers in the aged care, health and disability sector who need to self-isolate while awaiting a test or test result;

88. To be meaningful and easily communicable, we consider that changes should align with and complement public health guidance and be considered in the context of the wider support landscape. The review includes estimating the fiscal costs which become substantial for the more significant options to expand the scheme.

Next steps: deciding, communicating, and delivering this response

89. There is a strong case for communicating the scale and form of your resurgence package in advance. Giving businesses additional certainty could reduce the perceived costs of any further outbreaks on businesses and the economy. Such a statement it should have sufficient detail, agreed by Cabinet, to provide that certainty and avoid repeated clarifications that could cause uncertainty.

90. If you would like to make a public statement before Christmas, you would need to take a paper to Cabinet on 14 December at the latest. That would be a challenging timeline and would require significant engagement in the next couple of weeks to make the necessary policy decisions.

91. It is also likely to mean limiting changes to the wage subsidy and design factors for a new grant to those that can be decided, scoped, and delivered quickly. This would not preclude further changes in the future, but repeated changes could undermine the certainty that pre-announcement achieves.

92. If a resurgence takes place before any new schemes are operational, a pre-announced position could provide sufficient certainty for businesses to access bridging finance.

Annex 1: Economic and fiscal costs of further outbreaks

93. This annex sets out more detail on the economic and fiscal costs of COVID-19 outbreaks

94. Table A1 below sets out the estimated economic cost of illustrative outbreaks on a weekly basis. For example,in an 'Auckland-style' outbreak, where Auckland is set at AL 3, and the remainder of the country at AL 2, the economic cost would be around $500 million per week.

Table A1 – illustrative economic cost of Alert Level changes, relative to AL1

Illustrative Alert level change (relative to AL1)	Weekly economic cost ($m)	Economic cost (% of weekly nominal GDP)
AL2 country-wide	**300**	**-5%**
AL3 in Auckland, AL2 in the remainder	500	-9%
AL3 country-wide	**800**	**-14%**
AL4 in Auckland, AL3 in the remainder	1,050	-19%
AL4 country-wide	**1,450**	**-26%**

95. You should note that the economic cost estimates above only consider the direct, first-round impact of AL changes. Factors such as the impact of regional spill-over are not included, but would increase the overall economic cost over time.

96. Based on current settings, we estimate that the cost of a new WSR scheme in an equivalent of the Auckland outbreak would be around $225-290 million per week, or around $385-580 million per week if AL3 were applied nationally. Modelling the fiscal consequences of the alternative grant-based schemes is challenging given the number of variables, but the indicative options in this paper are estimated to cost between $500 million and $600 million per outbreak.

97. Combining these economic and fiscal costs gives the following overall picture:

Table A2: estimated fiscal and economic costs of outbreak scenarios

Scenario	*New grant scheme (indicative)*	*Wage subsidy*	Total fiscal cost	Economic cost	Fiscal cost as % of economic cost
AL2 nationally for four weeks	*$500 million*	*N/A*	**$500 million**	$1,200 million	42%
Auckland-style outbreak[3]	*$500 million*	*$510 million*	**$1,010 million**	$2,400 million	42%
AL3 nationally for 2 weeks, AL2 for 6 weeks	*$500 million*	*$960 million*	**$1,460 million**	$3,400 million	43%

[3] Auckland at AL3 for 2 weeks followed by AL2 for 6 weeks. The remainder of NZ is at AL2 for a total of 6 weeks.