

# The Treasury

## Advice on COVID-19 Response Information Release

December 2021

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## Treasury Report: COVID-19 Wage Subsidy August 2021 Scheme: Second payment

<b>Date:</b>	20 August 2021	<b>Report No:</b>	T2021/2133
		<b>File Number:</b>	SH-3-5

### Action sought

	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Agree</b> to the recommendations in this paper.	20 August 2021
Hon Carmel Sepuloni <b>Minister for Social Development and Employment</b>		

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Danijela Tavich	Analyst, Welfare & Oranga Tamariki [39]	[35]	✓
Keiran Kennedy	Manager, Welfare & Oranga Tamariki		

### Minister's Office actions (if required)

**Return** the signed report to Treasury.

**Submit** a request for an oral item to update Cabinet on Ministers' decisions on this report.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

## Treasury Report: COVID-19 Wage Subsidy August 2021 Scheme: Second payment

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### Executive summary

1. The Wage Subsidy scheme has been activated and applications opened on 20 August for a first two-week payment. If Alert Level 3 or above is extended to last beyond the initial payment period, the WSSAUG21 will be extended to provide a further payment.
2. We seek agreement to trigger a second two-week subsidy if Alert Level 3 or 4 remains in place, anywhere in New Zealand on 3 September (lockdown day 18). This is slightly more generous than the Cabinet-agreed rule of day 21 (6 September). We consider this change justified to mitigate the risks to business cashflow, employee income and uncertainty that could result from a three-day gap in support. It also supports scheme simplicity.
3. We note that businesses would need to reapply for any subsequent payment under the WSSAUG21, as well as sign a declaration. It is important for MSD to confirm that businesses applying for further support are still eligible to receive the wage subsidy payments for their staff for the new period.
4. We are not proposing any changes to the WSSAUG21 for the second payment, however, MSD will continue to work on ways to further automate the application process over the next two weeks to improve processing times of payments.
5. The Minister of Finance has expressed an interest in moving to one-week payments under the scheme.
6. One-week payments could reduce scheme costs under some scenarios and will in general mean that fiscal support adjusts slightly more closely in response to lockdown duration.
7. [34]
- 8.
9. Officials can discuss these matters further with you next week if you wish.

### Background

10. On 18 August 2021, Ministers with the Power to Act agreed to activate a nationwide Wage Subsidy Scheme, the COVID-19 Wage Subsidy August 2021 scheme (WSSAUG21). Applications will open at 9am on Friday 20 August 2021 [CAB-21-MIN-0324; CVD-21-MIN-0004 refer]. Payments will normally reach applicants within three days of applying.
11. The Minister of Finance and the Minister for Social Development and Employment were invited to report back to Cabinet on the ongoing availability and settings of the scheme every six weeks should it remain open at that point.
12. Opening the WSSAUG21 on 20 August, prior to the seventh day of elevated Alert Levels on 24 August, has flow-on effects for timing of a second WSS payment, should

this be required, and officials offered further advice on this issue [T2021/2117 refers].

13. This paper provides further advice on the settings for a second WSSAUG21 payment.

### **Fiscal and macroeconomic context**

14. The Wage Subsidy supports employment attachment, income support and public health objectives as well as providing fiscal stimulus.
15. We have considered whether the current fiscal and macroeconomic situation justifies any near-term change to reduce scheme costs, such as moving to one-week payments, on the grounds of fiscal sustainability or the risk of 'overstimulating' the economy.
16. There is \$2.1b of appropriated funding in the Wage Subsidy (COVID-19 Business Support) appropriation and [33]  
Wage Subsidy spending at the high-end of estimates of \$1b per week could deplete this funding in around six weeks. However, there remains significant fiscal headroom beyond this. In addition, spending that enables elimination of the virus and resumption of economic activity has a high benefit-cost ratio that justifies an increase in debt.
17. Nonetheless, there is an opportunity cost from increased fiscal spending. This means COVID-19 response funding should be timely, targeted, temporary and consider value for money.
18. The economy has rebounded strongly and in recent months the focus has moved to concerns about capacity constraints, skills shortages and inflation – rather than a shortfall in demand. Policies should be targeted at preventing long-term damage to the economy (through maintaining labour force attachment and avoiding otherwise profitable businesses from failing), rather than providing further fiscal stimulus and boosting demand. The economic impacts of the current outbreak will depend critically on the length of time we remain at higher Alert Levels. The Treasury will continue to monitor the risk that the economy is overstimulated given the inherent uncertainty of the situation, and consider the ongoing settings and availability of the WSSAUG21 as appropriate.
19. In conclusion, at this point, we think that support for the public health response and employment attachment through a second Wage Subsidy Scheme payment outweighs concerns about fiscal sustainability and possible overstimulation of the economy.
20. [33]

### **Shifting to one-week payments**

21. The Scheme currently provides two-week lump sum payments. This means that the total duration of subsidy support may exceed or fall short of the duration at Alert Level 3 or 4 by up to one week. A shorter payment duration could improve value for money by better matching the duration of support to the duration of lockdown and also support perceptions of scheme integrity and accuracy. A key trade off with this approach is the need to deal with additional application numbers as each payment requires reapplication.
22. The better matching of subsidy to lockdown duration only occurs at the start or end of the scheme, so is a relatively small effect compared with total scheme costs in the context of a multi-week lockdown. However, it becomes more significant in the case of multiple short escalations to Alert Levels 3 or 4.

23. Employers have consistently emphasised the importance of the speed of support achieved by the Wage Subsidy as well as the value of simple and stable settings. Any changes to the scheme need to be considered in this light. There are also significant operational trade-offs when standing up a one-week payment while the current scheme is live, which are discussed further below.
24. Given that fiscal sustainability and macroeconomic concerns do not outweigh the public health and employment attachment arguments at this point, we do not recommend any cost-saving changes to the current scheme for a second WSSAUG21 payment. We recommend leaving these options on the table for consideration should macroeconomic and uptake data emerge that indicates a need to consider tapering options for a third WSSAUG21 payment if required, or at the six-weekly review of the scheme [CVD-21-MIN-0004 refers].

### **Timing of a second payment**

25. Applications will open for the first two-week WSSAUG21 payment on 20 August and will remain open for two weeks, closing at 11:59pm on Thursday 2 September.
26. Opening the WSSAUG21 on 20 August, prior to the seventh day of elevated Alert Levels on 24 August, has flow-on effects for timing of a second WSS payment, should this be required.
27. As above, the status quo settings for the WSS agreed by Cabinet are that payments should match the duration at Alert Level 3 or above rounded to the nearest fortnight [CAB-21-MIN-0324 refers]. Taking this approach for the WSSAUG21 would mean that businesses become eligible for a second WSS payment from day 21 of the Alert Level escalation (11:59pm on 6 September). This would create a three-day gap in WSSAUG21 coverage, between the closing of the first payment period, and the opening of the second period.
28. This gap will potentially create cashflow challenges for businesses that have no other revenue or source of finance, with possible flow-on impacts for worker incomes and wellbeing. We also consider that such a gap in coverage is counterintuitive and therefore likely to be difficult to explain to businesses and the public. Consequently, we do not recommend this approach.
29. Instead, we recommend that the trigger for a second WSSAUG21 payment should be brought forward from 11:59pm 6 September, to 11:59pm 3 September. The WSSAUG21 should then open for applications following the closure of the first application period – at 9:00am on 3 September. This would mean there would be no gap in WSSAUG21 coverage, and businesses would become eligible to apply for a second payment from day 18 *of the heightened Alert Level*. This is a policy change compared with the standard scheme settings agreed by Cabinet because the total length of subsidy support will no longer necessarily match the duration at Alert Level 3 or 4 to the nearest fortnight.
30. We note that bringing forward the second WSSAUG21 payment does marginally increase the risk of overpaying the subsidy, that is, the risk that a payment is made prematurely and then Cabinet decides to de-escalate Alert Levels. We consider this risk to be low, given that it is unlikely for the country to unexpectedly come down Alert Levels during the course of one day.
31. Because this proposal is a change to Cabinet-approved WSS settings, we suggest you update Cabinet on your decision through an oral item.

## Eligibility settings

32. Cabinet agreed to an eligibility test of a 40% decline in revenue over a 14-day period following the escalation date, based on actual or predicted revenue [CAB-20-MIN-0531 refers]. The revenue decline test period for the first WSSAUG21 payment is the period 17 August 2021 to 30 August inclusive. We seek confirmation that the revenue decline test period for a second payment will be 31 August to 13 September 2021 inclusive.
33. Agree that rules for the default comparator period for the revenue decline and for businesses that have highly seasonal revenue should remain the same as agreed for the first WSSAUG21 payment [CVD-21-MIN-0004 refers].

## Changing the scheme prior to a second payment

34. We have considered opportunities for changes to the WSSAUG21 scheme before a second payment, including shifting from a two-week to a one-week payment. MSD would be unable to resource the administrative burden of processing consecutive one-week payments and further consideration is needed as to whether this approach could be designed in a way that can be operationalised. MSD has forecast that we will receive 460,000 applications over a 28-day period, introducing one-week reapplication from the 15th day would increase demand from an estimated 54,000 applications received in the week to 372,000 applications.
35. As MSD resourcing would not be able to cope with the demand, this could lead to businesses applying for subsequent one-week payment before they have received the first. This would reduce the scheme's effectiveness and create complexity for businesses, who have reiterated the importance of maintaining simplicity for the scheme. In addition, MSD has advised that they would need to reprioritise IT resource to make the change and would be unable to implement agreed rate changes for the Leave Support Scheme and Short-Term Absence Payment. Due to this, we do not recommend shifting to one-week payments for the second WSSAUG21 payment.
36. MSD will continue to work on ways to further automate the application process over the next two weeks to improve processing times for the proposed second two-week payment. We note the automation will be on the MSD checking side of the process, not at the user interface. This means businesses will still have to input the same information to reapply for the WSSAUG21 as entered for their initial application, but that information will be processed more quickly.
37. Appendix 1 of this report also provides further information on the WSSAUG21 reapplication process, as requested by Ministers.

## Funding for a second payment

38. Note that Cabinet has recently agreed to fund the estimated cost of the WSSAUG21. Cabinet agree to fund \$2.1 billion (in the case of two weeks at Alert Level 4 with strong demand for the payment) [CAB-21-MIN-0328 refers].
39. At this stage, MSD will absorb the costs of administering the WSSAUG1 from within existing baselines, but may seek further funding for administration should the WSSAUG21 be extended.

## Next steps

40. We will continue to monitor the risk that the economy is overstimulated given the inherent uncertainty of the current public health situation, and consider the ongoing settings and availability of the WSSAUG21 as appropriate. If required, tapering options can be considered for a third WSSAUG21 payment, or as part of Joint Ministers' six-week report back to Cabinet on the availability and settings of the scheme [CVD-21-MIN-0004 refers].

## **Recommended Action**

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We recommend that you:

- a **agree** to discuss the contents of this report with officials

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

### **Timing of a second payment**

- b **agree** that, should Cabinet decide that Alert Level 3 or above will remain in place at 11:59pm on 3 September, eligible businesses will be able to apply for a second payment from 9:00am on 3 September

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

### **Eligibility settings**

- c **agree** that applicants for the second WSSAUG21 payment will utilise a revenue decline test period of 14 consecutive days from 31 August to 13 September 2021 inclusive

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

- d **agree** that the default comparator period for the revenue decline test for the second WSSAUG21 payment is a typical 14-day consecutive period of revenue within the six weeks prior to the Alert Level 4 escalation on 17 August 2021

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

- e **agree** that employers that have highly seasonal revenue be allowed to use a 14-day comparator period that is either 12 or 24 months before their revenue decline test period if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period, than if their revenues were not seasonal

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

### **Changing the scheme prior to a second payment**

- f **note** officials consider that, while there are potential merits to one-week payments, introducing these modifications into the WSSAUG21 at this time will lead to MSD being unable to cope with demand, which will create complexity for businesses and compromises timely payment delivery

- g **note** that MSD will continue to work on ways to further automate the application process over the next two weeks to improve processing times for the proposed second two-week payment

- h **note** Appendix 1 of this report also provides further information on the WSSAUG21 reapplication process, as requested by Ministers.

## **Informing Cabinet of your decisions**

i **note** Ministers with the Power to Act authorised the Minister of Finance and the Minister for Social Development and Employment to jointly make decisions on revenue decline assessment periods, scheme settings should the scheme be extended beyond an initial two-week period, and other minor technical and policy decisions or operational settings for the WSSAUG21 [CVD-21-MIN-0004 refers]

j **agree** to take an oral item to Cabinet based on the advice in this paper

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

k **note** that Cabinet has recently agreed to fund the estimated cost of the WSSAUG21. Cabinet agree to fund \$2.1 billion (in the case of two weeks at Alert Level 4 with strong demand for the payment) [CAB-21-MIN-0328 refers]

l **note** we will provide advice on tapering options for the WSSAUG21 if economic data indicates this is appropriate for a third payment or as part of Joint Ministers' six-week report back to Cabinet on the availability and settings of the scheme [CVD-21-MIN-0004 refers].

Keiran Kennedy  
**Manager, Welfare & Oranga Tamariki**

Hon Grant Robertson  
**Minister of Finance**

Hon Carmel Sepuloni  
**Minister for Social Development and Employment**