

# The Treasury

## Advice on COVID-19 Response Information Release

December 2021

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**Joint Report:** COVID-19 Wage Subsidy August 2021 Scheme: Update and costs

<b>Date:</b>	3 September 2021	<b>Report No:</b>	T2021/2170
			REP/21/9/936
		<b>File Number:</b>	SH-3-5

**Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Hon Grant Robertson <b>Minister of Finance</b>  Hon Carmel Sepuloni <b>Minister for Social Development and Employment</b>	<b>Agree</b> the recommendations in this paper.	6 September 2021

**Contact for telephone discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Sam Holmes	Principal A, Welfare And Oranga Tamariki <sup>[39]</sup>	<sup>[35]</sup>	
Keiran Kennedy	Manager, Welfare & Oranga Tamariki,		✓
Megan Beecroft	Policy Manager, Employment Policy, MSD		

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

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

# Treasury Report: COVID-19 Wage Subsidy August 2021 Scheme: Update and costs

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## Executive Summary

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1. The purpose of this report is to provide an update on the ongoing operation of the Wage Subsidy August 2021 scheme, including costings and funding requirements, and to confirm settings for a third Wage Subsidy August 2021 payment.
2. The report also provides more detailed analysis on shifting the Wage Subsidy to a one-week payment system, following further discussion with the Ministry of Social Development, and seeks direction on whether further work is needed on adjusting settings of the Wage Subsidy scheme.

### **Costs and funding**

*We have updated our costings model to reflect uptake of the first WSSAUG21 payment*

3. Initial costings for the first Wage Subsidy August 2021 payment (WSSAUG21) assumed take-up in Alert Level 4 would be similar to the original March 2020 scheme where 58% of jobs were supported by the payment. We are seeing lower overall take-up compared with the March 2020 scheme and have adjusted our cost estimates accordingly. We now expect the WSSAUG21, where Auckland at Alert Level (AL) 4 and the rest of NZ is at AL 3, to cost between \$700 and \$1,050 million over the two-week payment period.

*Further funding is required for the second WSSAUG21 payment (WSSAUG21-2)*

4. We seek Joint Ministers' agreement to draw down an additional \$500 million of funding for the second WSS payment (WSSAUG21-2) and to provide a funding buffer. The WSSAUG21-2 opened for applications at 9:00am on 3 September 2021. The balance will be met with underspends from the first payment. Further funding will need to be drawn down for additional payments, if required.

### **Confirming settings of a third payment (WSSAUG21-3)**

5. We seek agreement to trigger a third two-week subsidy if AL 3 or 4 remains in place, anywhere in New Zealand at 11:59pm on 17 September 2021 (lockdown day 32), and that a revenue test period of 14 consecutive days from 14 to 27 September 2021 inclusive will apply. We propose the third payment (WSSAUG21-3) should open from 9:00am on 17 September 2021.
6. The status quo settings for the Wage Subsidy Scheme agreed by Cabinet are that payments should match the duration at AL 3 or above rounded to the nearest fortnight [CAB-21-MIN-0324 refers]. The early opening of the first WSSAUG21 payment means the WSSAUG21-3 will be triggered before the third fortnight of AL 3 or higher has elapsed. As this proposal is a change to Cabinet-approved WSS settings, we suggest you update Cabinet on your decision through an oral item. We have provided talking points for this item at Appendix 1.

### **One-week payments and further changes to the Wage Subsidy scheme**

7. We recently provided Joint Ministers advice on opportunities for changes to the WSSAUG21 before a second payment, including shifting from a two-week to a one-week payment [T2021/2133 refers]. We advised that further consideration would be needed as to whether a one-week payment Wage Subsidy Scheme (WSS) could be designed in a way that could be operationalised by the Ministry of Social Development

(MSD). This report advises on the outcomes of that further work, being that:

- MSD would not be able to resource one-week consecutive payments of the WSSAUG21 due to the increased application load which would require approximately 1,200 FTE in total, and
  - design options to mitigate the administrative burden of one-week payments, such as introducing one-week payments with multi-week application periods (meaning MSD would not have to process extra applications), would take approximately three months to develop and implement with MSD IT resource.
8. We understand that at the Weekly Agency Meeting with officials on 30 August 2021, the Minister of Finance indicated a preference to refrain from making any significant changes to the WSSAUG21 in the coming months as this could undermine the public's certainty and understanding of the scheme. We seek confirmation that we will not proceed with design and implementation of one-week payments as part of the WSSAUG21. This could be revisited as part of a future Wage Subsidy scheme, noting the three-month lead-in time for implementation.
9. [33]

### ***Additional support for businesses***

#### ***Providing support for businesses' ongoing non-wage costs***

10. We understand the Minister of Finance is concerned about the ability of businesses to cover their ongoing non-wage costs during elevated ALs. We do not recommend using the WSS to deliver this support, because it would confuse the objectives of the scheme and the employer obligations in using the payment. The Treasury is providing advice separately on a recommended approach to deliver support to businesses in meeting their ongoing non-wage costs.

#### ***Supporting businesses affected by events prior to Alert Level escalation***

11. MSD has received queries from businesses with revenue affected by non-COVID events, and whether changes can be made to the WSS to enable them to be eligible for this support, such as flood-affected businesses in Marlborough and West Coast. In these cases, there have been events other than COVID-19 AL escalations that have caused a revenue decline and either meant that there was not enough business activity during the six weeks prior to the AL escalation to show a revenue drop, or, where there is a revenue drop, an impossibility of attributing that solely to the effect of the AL escalation. Our initial view is that the WSS should not be amended to enable these businesses to qualify, due to precedent-setting and boundary issues that are likely to arise should Ministers began making exceptions to WSS eligibility criteria. However, we will continue a watching brief on the scale of the issue and will report back if appropriate.
12. [33]

### ***Extending the first WSSAUG21 application period***

13. The application period for the first WSSAUG21 payment prematurely closed from 8.00-10.00pm on 2 September, due to an error on the MSD website. The payment was meant to close at 11:59pm. The issue was fixed immediately once discovered, but in fairness to those who tried to apply between 8.00-10.00pm, MSD extended the application period for payment one to 7:00am Friday 3 September. MSD has established a queue for business that claim to have been intending to apply between 8.00pm and 10.00pm and these businesses will be invited to submit a late application.
14. Applications for the second WSSAUG21 payment opened as planned at 9:00am Friday 3 September. Officials will monitor and respond to any media coverage or feedback from businesses.

### **Recommended Action**

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We recommend that Joint Ministers:

#### **Macroeconomic and fiscal update**

- a **note** the Treasury does not see a need to reconsider WSS policy settings for macroeconomic reasons at this stage
- b **note** the Treasury intends to revisit advice on macroeconomic conditions and the overall strategic mix of COVID economic support in mid/late September once more is known about the economic impact of the outbreak

#### **Costs and funding**

- c **note** that the following table outlines the costs and funding arrangements for the first and second WSSAUG21 payments:

<i>(based on 2 September data, rounded to nearest \$50m)</i>	<b>WSSAUG21-1 estimated actual based on paid, approved and pending applications</b>	<b>WSSAUG21-2 upper estimate of cost based on updated model</b>	<b>Funding buffer for WSSAUG21-2</b>	<b>Total funding</b>
<b>Paid to date</b>	\$1,000m	-	-	<b>\$1,000m</b>
<b>Balance in Business Support Subsidy COVID-19 appropriation 2021/22</b>	\$300m	\$800m	-	<b>\$1,100m</b>
<b>New funding required from CRRF</b>	-	\$250m	\$250m	<b>\$500m</b>
<b>Total costs</b>	<b>\$1,300m</b>	<b>\$1,050m</b>	<b>\$250m</b>	<b>\$2,600m</b>

- d **note** that we are seeking an additional \$250 million as a funding buffer to acknowledge the considerable uncertainty around demand for the scheme in this context (including the behaviour of larger firms) and that any underspends for the WSSAUG21-2 can be used for the WSSAUG21-3, if required

e **note** that Cabinet has authorised the Minister of Finance and Minister for Social Development and Employment to agree appropriation changes for the Business Support Subsidy COVID-19 appropriation to cover future Wage Subsidy payments relating to the 17 August 2021 Alert Level escalation, up to a maximum of \$2,200 million, to be charged against the COVID-19 Response and Recovery Fund [CAB-21-MIN-0328 refers]

f **agree** to provide an additional **\$500 million** to meet the shortfall in funding required to meet the estimated cost of the WSSAUG21-2 payment and provide a funding buffer

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

g **approve** the following changes to appropriations to provide for the decision in recommendation f above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
<b>Non-Departmental Other Expenses:</b>					
Business Support Subsidy COVID-19	500.000	-	-	-	-
<b>Total Operating</b>	<b>500.000</b>	-	-	-	-

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

h **agree** that the expenses incurred under recommendation g be charged against the COVID-19 Response and Recovery Fund (CRRF) established as part of Budget 2020

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

i **agree** that the change to the appropriations for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

### **Confirming settings of a third payment (WSSAUG21-3)**

- j **agree** that, should Cabinet decide that Alert Level 3 or above will remain in place anywhere in New Zealand at 11:59pm on 17 September, eligible businesses will be able to apply for a third payment (WSSAUG21-3) from 9:00am on 17 September

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

- k **agree** that, other than specific settings relating to the revenue test period, the WSSAUG21-3 will have the same settings as the WSSAUG21 and WSSAUG21-2, as agreed by Ministers with Power to Act [CVD-21-MIN-0004] and Cabinet [CAB-21-MIN-0346]

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

- l **agree** that applicants for the WSSAUG21-3 payment will use a revenue test period of 14 consecutive days from 14 to 27 September 2021 inclusive

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

- m **agree** that the default comparator period for the revenue test for the WSSAUG21-3 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*

- n **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 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*

- o **agree** to take an oral item to Cabinet to confirm the trigger and opening time of the WSSAUG21-3 payment, if required

*Agree/disagree*

*Hon Grant Robertson*

*Agree/disagree*

*Hon Carmel Sepuloni*

### **One-week payments and further changes to the Wage Subsidy scheme**

- p **note** that MSD would not be able to resource one-week consecutive payments of the Wage Subsidy payments relating to the 17 August 2021 Alert Level escalation or future Wage Subsidy schemes without an IT solution and sufficient lead in time, due to the increased application load requiring approximately 1,200 FTE

- q **note** design options to mitigate the administrative burden of one-week payments on MSD would take approximately three months to develop and implement with MSD IT resource
- r **agree** officials will not proceed with design and implementation of one-week payments for the Wage Subsidy payments relating to the 17 August 2021 Alert Level escalation
- Agree/disagree* *Agree/disagree*  
*Hon Grant Robertson* *Hon Carmel Sepuloni*

- s **indicate** whether you would like further advice in October on near-term minor options to change WSS scheme settings if required, for example if Alert Level 3 or higher remains in place for an extended period. This includes potential scope for any options that may be feasible beyond November, noting MSD is unable to implement any further changes to the scheme that have IT implications between now and November
- Yes/no* *Yes/no*  
*Hon Grant Robertson* *Hon Carmel Sepuloni*

- t **indicate** whether you would like to meet with officials to discuss the scope of any further work to consider potential options that may be possible beyond November
- Yes/no*  
*Hon Grant Robertson*

### **Additional support for businesses**

- u **note** we do not recommend using the WSS to deliver support for businesses' ongoing non-wage costs
- v **note** the Treasury is providing advice separately on a recommended approach to deliver support to businesses in meeting their ongoing non-wage costs
- w **note** MSD has received queries from businesses affected by non-COVID events such as flooding regarding whether exceptions can be made to enable them to qualify for WSS, and
- x **note** our initial view is the WSS should not be amended to enable these businesses to qualify, due to precedent-setting and boundary issues, but will continue to keep a watching brief and will report back if required

y [33]

z

### **Extending the first WSSAUG21 application period**

- aa **note** the application period for the first WSSAUG21 payment prematurely closed from 8-10pm on 2 September, due to an error on the MSD website

bb **note** in fairness to those who tried to apply between 8-10pm, MSD extended the application period for payment one to 7:00am Friday 3 September and established a queue for business that claim to have been intending to apply between 8.00pm and 10.00pm with these businesses being invited to submit a late application

cc **confirm** MSD's approach to extending the WSSAUG21 application period

*Yes/no*

*Hon Grant Robertson*

*Yes/no*

*Hon Carmel Sepuloni*

dd **note** officials will monitor and respond to any media coverage or feedback from businesses.

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

Megan Beecroft  
**Policy Manager, Employment Policy  
Ministry of Social Development**

Hon Grant Robertson  
**Minister of Finance**

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

# Treasury Report: COVID-19 Wage Subsidy August 2021 Scheme: Update and costs

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## Purpose of Report

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1. This report provides advice on ongoing operational matters regarding the Wage Subsidy August 2021 scheme. It also seeks direction on the extent to which Ministers would like officials to continue working on potential Wage Subsidy Scheme improvements going forward.

## Background

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2. The Wage Subsidy August 2021 scheme has been activated and applications opened on 20 August for a first two-week payment. As a result of recent Government announcements on continued raised Alert Levels (ALs) in New Zealand, a second Wage Subsidy payment will also be available from 3 September.
3. 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 [CVD-21-MIN-0004 refers].

## Macroeconomic and fiscal update

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4. The Treasury recently provided advice on the macroeconomic context considering the delta outbreak (T2021/2190 refers). The key points in that advice were:
  - Existing support mechanisms (including the wage subsidy) should provide enough fiscal support to ensure a fast economic recovery, given the underlying strength of the economy;
  - Inflationary pressures remain a risk once AL restrictions are eased, meaning the potential macroeconomic effects of any additional support measures should be considered. There is significant uncertainty though – the longer the duration of AL 3 and 4 restrictions, the smaller this risk and the greater the risk that the economy needs additional fiscal support;
  - There is considerable fiscal headroom, and concerns about fiscal sustainability should not be a primary concern limiting the economic response to this outbreak.<sup>1</sup> There is, however, an opportunity cost of any COVID spending that will limit the ability to progress other priorities.
5. Accordingly, we do not see a need to reconsider Wage Subsidy scheme policy settings for macroeconomic reasons at this stage.
6. Furthermore, in considering changes to the Wage Subsidy scheme, macroeconomic considerations are currently secondary. Any changes should be considered first for the effects on the Scheme's primary objectives – ensuring compliance with public health

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[33]

measures and enabling individuals and businesses to cope at higher ALs, while providing certainty and maintaining simplicity.

7. The Treasury intends to revisit our advice on macroeconomic conditions and the overall strategic mix of COVID economic support in mid/late September once more is known about the economic impact of the outbreak. This will include an assessment of the macroeconomic impact of the Wage Subsidy, including on the fiscal strategy.

## Costs and funding

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### Insights from first WSSAUG21 payments

8. Based on 2 September data, the *estimated* total cost of paid, approved and pending applications for the first August 2021 wage subsidy is **\$1,281.0 million**, of which \$998.4 million has been paid out by MSD.
9. Paid, approved, and pending applications include a total of 1.14 million jobs (975.7k employees and 165.5k self-employed). This take-up rate represents **39.4% of jobs** (excluding self-employed).
10. Initial costings for the scheme assumed take-up in AL 4 would be similar to the original March 2020 scheme where 58% of jobs (excluding self-employed) were supported by the payment. As seen in the table below, we are seeing lower overall take-up compared with the March 2020 scheme, but this is disproportionately lower for medium and large firms.

<i>Based on 2 September data</i>	<b>WSSMAR20<sup>2</sup></b>	<b>WSSAUG21</b>	<b>Change</b>
<b>SMALL FIRMS</b> 1 to 49 employees	36% of all jobs	<b>29.7% of all jobs</b>	6.6 ppt reduction
<b>MEDIUM FIRMS</b> 50 to 499 employees	14% of all jobs	<b>7.8% of all jobs</b>	6.1 ppt reduction
<b>LARGE FIRMS</b> 500 plus employees	8% of all jobs	<b>1.9% of all jobs</b>	5.8 ppt reduction
<b>Total uptake</b>	<b>58% of all jobs</b>	<b>39.4% of all jobs</b>	<b>18.5 ppt reduction</b>

11. If the reduction in take-up for medium and large firms (i.e. 50 plus employees) was *proportional* to the reduction for small firms, we could expect to see an additional 7.9% of total jobs supported by the scheme (i.e. 47% of jobs). This suggests that part of the lower than anticipated demand has been due to a behavioural shift amongst larger firms.
12. Other likely explanations as to why take-up has been lower than the original March 2020 scheme include:
  - The revenue drop test is currently 40%, rather than 30% for the first scheme.
  - Integrity improvements to the scheme are likely to have reduced the number of applications.
  - Economic adjustment over the last year has likely impacted on resilience to some degree (e.g. some accommodation businesses moving away from tourism, or some workers transitioning to different sectors of the economy).

<sup>2</sup> Note that these figures include firms that have subsequently repaid the support they received.

- The rules around economic activity allowable under L4 were clearer more quickly this time (e.g. contactless delivery, essential items), and how firms have interpreted those rules, have likely led to increased activity.
- The revenue shocks experienced by some businesses will be lower this time (as business is already living with a largely closed border under L1 settings)

### **We have updated our approach to costings**

13. We have updated our costings model to reflect insights from the take-up of the first WSSAUG21 payment. We have revised down our uptake estimates and allowed for regional differences in ALs. This approach is an attempt to provide a 'best guess' (i.e. one standard deviation, not two). As such we are proposing funding an additional buffer in case demand exceeds our estimates.
14. Our revised estimates on uptake for the WSSAUG21 scheme are as follows:

<p><b>Under Alert Level 4 we estimate average uptake to be between 35% and 45%</b></p>	<p>This estimate is largely based in insights from the actual take-up of the WSSAUG21 payment to date under alert level 4. As noted above, we would expect take-up to sit at the upper end of the range if more medium and large firms applied for subsequent payments.</p>
<p><b>Under Alert Level 3 we estimate average uptake to be between 15% and 25%</b></p>	<p>This estimate is based on insights from previous times the scheme operated at Alert Level 3 (uptake in Auckland for WSSMAR21 was 12% and WSR was 18%). However, given the context is a prolonged outbreak, and Auckland will still be at Alert Level 4, we think a higher range is appropriate.</p>
<p><b>Under Alert Level 2 we estimate average uptake to be between 5% and 10%</b></p>	<p>Again this estimate draws on insights from previous times (uptake in the Rest of New Zealand for WSSMAR21 was 2% and WSR was 7%). Once again we anticipate that a slightly higher range may be appropriate.</p>

15. Under a scenario where a region shifts from Alert Level (AL) 4 to AL 3 (or vice versa) within the revenue test period, we estimate average uptake to be between 30% and 40%. This will in part depend on the time spent at each level, and the level of economic activity permitted at each level for individual firms.
16. Ultimately there is a high degree of uncertainty with these assumptions. Key uncertainties include:
- the behaviour of larger firms going forward
  - the extent to which a higher AL in Auckland impacts firms outside of Auckland (including the supply chain effect which we haven't seen play out in previous outbreaks)
  - how businesses will adapt to prolonged periods of restrictions.

## We have revised our cost estimates based on these new assumptions

17. Using these updated assumptions, the updated cost for the second two-week payment based on the current ALs<sup>3</sup> are as follows: **Auckland at AL 4 and the rest of NZ at AL 3 is estimated to cost between \$700 and \$1,050 million over the two-week payment period**. Alternate scenarios are as follows:

	Rest of NZ		
Auckland	Alert Level 4	Alert Level 3 <sup>4</sup>	Alert Level 2
<b>Alert Level 4</b>	\$1,150 and \$1,450 million	\$700 and \$1,050 million	\$500 and \$700 million
<b>Alert Level 3</b>	\$900 and \$1,250 million	\$500 and \$800 million	\$250 and \$500 million

### *Further funding is required for the second WSSAUG21 payment*

18. As the table below shows, the cost of the WSSAUG21-2 can be met through a combination of underspends in the first payment and new funding from the Covid-19 Response and Recovery Fund (CRRF). We are also seeking approval for a funding buffer to mitigate the risk of going unappropriated if demand exceeds our estimates (noting the significant uncertainty). This, along with any underspends from the second payment can be used to offset the costs of a third payment (assuming it is required).

<i>(rounded to nearest \$50m)</i>	WSSAUG21-1 estimated actual	WSSAUG21-2 upper estimate	Funding buffer	Total funding
<b>Paid to date</b>	\$1,000m	-	-	<b>\$1,000m</b>
<b>Balance in appropriation</b>	\$300m	\$800m	-	<b>\$1,100m</b>
<b>New funding required from CRRF</b>	-	\$250m	\$250m	<b>\$500m</b>
<b>Total costs</b>	<b>\$1,300m</b>	<b>\$1,050m</b>	<b>\$250m</b>	<b>\$2,600m</b>

19. On 20 August 2021 Cabinet agreed to delegate authority to the Minister of Finance and the Minister for Social Development and Employment to agree appropriation changes of the Business Support Subsidy COVID-19 appropriations to cover future payments under the WSSAUG21, up to a maximum of \$2,200 million, to be charged against the CRRF. Therefore, we are seeking approval through this paper to draw down additional funding of \$500 million.
20. Further funding will need to be drawn down for a third payment, if required. Following this decision, Joint Ministers will have authority to approve an additional \$1,700 million in funding from the CRRF before needing to return to Cabinet.

<sup>3</sup> **Technical assumptions.** Number of jobs based on data from MSD showing total jobs in March 2021 (this was used as the denominator for WSSMAR21 analysis). This is used as it includes both a regional and industry split of jobs. Total jobs in Auckland: 840,400 (34%) and Rest of NZ: 1,637,595. Total in NZ: 2,477,995. We have assumed 15% of total jobs supported are self-employed. This is based on the ratio in current scheme and is in line with other schemes. Average payments per employee/self-employed based on current scheme: \$1120 for employee, \$1132 for self-employed. This accounts for the different splits of full time and part time within these groups.

<sup>4</sup> A scenario with Auckland at Alert Level 4, the rest of the Scenario with Auckland at AL4, the rest of the North Island at AL3, and the South Island at AL2 is estimated to cost between \$650 and \$900 million.

## Confirming settings for a third payment

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21. Applications for a second WSSAUG21 payment opened on 9:00am 3 September and close at 11:59pm on 16 September.
22. Opening the first WSSAUG21 on 20 August, prior to the seventh day of elevated ALs on 24 August, has flow-on effects for timing of a second and third WSS payment, should this be required. Cabinet agreed to bring forward the timing of the second payment from 6 September to 3 September to ensure there was no gap between payments [CAB-21-MIN-0346 refers].
23. We seek Joint Ministers' confirmation that the third WSSAUG21 payment should be triggered if AL 3 or 4 remains in place, anywhere in New Zealand at 11:59pm on 17 September (lockdown day 32), and that a revenue test period of 14 consecutive days from 14 to 27 September 2021 inclusive will apply. To ensure seamless WSS coverage of the lockdown period, we recommend the third payment will open for applications from 9:00am 17 September 2021.
24. We also seek confirmation that rules for the default comparator period for the revenue test period and for businesses that have highly seasonal revenue should remain the same as agreed for the first WSSAUG21 payment [CVD-21-MIN-0004 refers].
25. The status quo settings for the WSS agreed by Cabinet are that payments should match the duration at AL 3 or above rounded to the nearest fortnight [CAB-21-MIN-0324 refers]. This means the third payment would normally trigger at day 35 of AL 3 or above (5 weeks which rounds to 3 fortnights), while the second payment of the WSSAUG21 will close on day 31. We suggest the trigger and opening date of the third payment be brought forward to close this gap, so that the third payment flows the day after the closure of the second. Closing the gap in WSSAUG21 coverage is important to ensure the scheme settings are intuitive for businesses and the public.
26. We note that bringing forward the third WSSAUG21 payment does marginally increase the risk of overpaying the subsidy, that is, the risk that a payment is made on the morning of Friday 17 September and then Cabinet decides to de-escalate ALs during the course of that day, noting the trigger for the payment is 11:59pm that night. We consider this risk to be low, given that it is unlikely for the country to unexpectedly come down ALs during the day.
27. As this proposal is a change to Cabinet-approved WSS settings, we suggest you update Cabinet on your decision through an oral item. We have provided talking points for this item at Appendix 1.

## One-week payments

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### *A shift to one-week payments would take three months to implement*

28. We recently provided advice on whether the WSSAUG21 could shift to providing one-week rather than two-week payments for the second WSSAUG21 payment, which opened on 3 September 2021. We did not recommend shifting to a one-week payment for the second WSSAUG21 payment due to trade-offs with MSD operational resourcing and business certainty. We considered that concerns about fiscal sustainability and possible overstimulation of the economy were not material enough to cause a rebalancing of those trade-offs at the time. However, our advice noted that further consideration would be needed as to whether one-week payments could be designed in a way that could be implemented more easily by MSD.

29. We have worked with MSD to consider several options for implementing one-week payments. MSD have advised that they would not be able to resource one-week consecutive payments of the WSSAUG21, due to the increased application load which would require approximately 1,200 FTE in total.
30. Design options to mitigate the administrative burden of one-week payments, such as introducing one-week payments with multi-week application periods (meaning MSD would not have to process extra applications), would take approximately three months to develop and implement with MSD IT resource.

*Average expected savings from a one-week payments range from 10%-20% of the costs for a short scheme*

31. Making two-week lump-sum payments under the current scheme means subsidy days can exceed or fall short of actual time at ALs 3 or higher (AL3+) by up to a week. Switching to one-week payments could provide better matching between subsidy days and days at AL3+.
32. More precise matching of subsidy days to lockdown duration is likely to mean that fiscal stimulus provided under the scheme more closely follows the size of economic shock caused by a given lockdown. By reducing over and underpayments, one-week payments could also improve value-for-money and support ongoing social license by reducing perceptions of windfalls.
33. However, the size of any savings is uncertain and depends on a number of factors. There would also be additional costs to develop and operate one-week payments which we have not analysed:
  - The timing of ALs descending relative to payment periods
  - Savings achieved in the status quo by the 14-day revenue-decline test, which will reduce uptake if economic activity restarts during a payment period
  - The timing of triggers for a one-week payment
  - The revenue test period chosen for any one-week payment
  - How steeply ALs descend, i.e., a move straight from AL4 to AL2 offers greater savings from one-week payments than moving via AL3.
34. Factors *a* and *b* limit savings overall versus what might be intuitively expected. Savings up to 50% are possible in theory but are unlikely as they only occur under specific AL timing scenarios.
35. For factors *c* and *d*, some choices of revenue test and trigger mean that one-week payments are likely to cost the same or more than the status quo – we have excluded these from the modelled costs. The most certain and significant savings are possible if one-week payments were used across multiple short AL 4 escalations (7-20 days) with an immediate return to AL 2. Indicative expected savings in this scenario are \$100m-\$300m or approximately 10%-20% of scheme costs per scheme activation.
36. Savings are achieved only once per scheme instance. Therefore, savings would not increase for longer outbreaks and the saving as a percentage of total scheme costs would decrease for longer outbreaks.
37. Savings are partly a result of 'rounding down' subsidy support to the nearest week at AL3+. This could marginally impair employment attachment and income support objectives since businesses may still face an 'overhang' effect on revenue at AL 2 but with less wage subsidy support. The use of two-week payments and reapplications in the current scheme has caused some confusion in the business community. It would

be important to signal any further change to business well in-advance to promote understanding and appropriate preparations for a potential reduction in support duration.

38. Appendix 2 provides more detailed analysis of possible savings from one-week payments.
39. We understand that at the Weekly Agency Meeting with officials on 30 August, the Minister of Finance indicated a preference to refrain from any significant changes to the WSSAUG21 in the coming months as this could undermine the public's certainty and understanding of the scheme. We seek confirmation that we will not proceed with design and implementation of one-week payments at this time.

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40. [33]

[33]

41. [33]

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## Additional support for businesses

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### *Providing support for businesses' ongoing non-wage costs*

47. In addition, we understand the Minister of Finance has expressed concern about the ability of businesses to cover their ongoing non-wage costs during elevated ALs, over and above the support that is available through the Resurgence Support Payment. We have considered if the WSS could be a viable mechanism to provide support on ongoing costs in this situation.
48. We do not recommend this approach because:
- the WSS is designed to be passed on to employees as a wage contribution – using the WSS to deliver grants of a different nature would confuse the objectives of the scheme and the employer obligations in using the payment
  - it would not be possible to target the payment to any particular types of businesses – it would need to be available to all businesses that were eligible for the WSS, if it is to be delivered through the existing WSS mechanism
  - it risks putting operational pressure on MSD staff to deliver and answer questions about the new payment, who are already stretched in delivering the WSS.
49. The Treasury will provide advice separately on a recommended approach to deliver support to businesses in meeting their ongoing costs.

### *Supporting businesses affected by events prior to Alert Level escalation*

50. MSD has received queries from businesses with revenue affected by non-COVID events, and whether changes can be made to the WSS to enable them to be eligible for this support. Recent examples include flood-affected businesses in Marlborough and the West Coast and businesses affected by the City Rail Link. In these cases, there have been events other than COVID-19 AL escalations that have caused a

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<sup>6</sup> As noted in T2021/2190, as vaccination rates increase, and the landscape of public health restrictions changes, the overall mix of COVID economic support settings should be reviewed again.

revenue decline and either meant that there was not enough activity during the six weeks prior to the AL escalation to show a revenue drop, or, where there is a revenue drop, an impossibility of attributing that solely to the effect of the AL escalation.

51. Our initial view is that the WSS should not be amended to enable these businesses to qualify, due to precedent-setting and boundary issues that are likely to arise should Ministers began making exceptions to WSS eligibility criteria. However, we will continue a watching brief on the scale of the issue and will report back if appropriate.
52. [33]

### ***Extending the first WSSAUG21 payment period***

53. The application period for the first WSSAUG21 payment prematurely closed from 8-10pm on 2 September 2021, due to an error on the MSD website. The payment was meant to close at 11:59pm. The issue was fixed immediately once discovered, but in fairness to those who tried to apply between 8.00-10.00pm, MSD extended the application period for payment one to 7:00am Friday 3 September. MSD has established a queue for business that claim to have been intending to apply between 8.00pm and 10.00pm and these businesses will be invited to submit a late application.
54. Applications for the second WSSAUG21 payment opened as planned at 9:00am Friday 3 September. Officials will monitor and respond to any media coverage or feedback from businesses.

### **Consultation**

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55. The Inland Revenue Department, the Ministry of Business, Innovation, and Employment, and the Department of Prime Minister and Cabinet have been consulted.

## Appendix 1 – talking points for oral item on a third August Wage Subsidy payment

1. Ministers with the Power to Act agreed to activate a nationwide Wage Subsidy Scheme, the COVID-19 Wage Subsidy August 2021 scheme, from Friday 20 August 2021 [CAB-21-MIN-0324; CVD-21-MIN-0004 refer].
2. Applications for a second August Wage Subsidy payment opened on 9:00am 3 September 2021 and close at 11:59pm on 16 September 2021.
3. The status quo settings for the Wage Subsidy scheme 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]. The early opening of the first August Wage Subsidy payment means the third payment will be triggered before the third fortnight of Alert Level 3 or higher has elapsed.
4. Cabinet agreed to bring forward the timing of the second payment from 6 September to 3 September to ensure there was no gap between payments [CAB-21-MIN-0346 refers].
5. Joint Ministers seek Cabinet confirmation that the third August Wage Subsidy payment (WSSAUG21-3) also be brought forward to follow from the closure of payment two. We propose payment three will be triggered if Cabinet agrees that Alert Level 3 or 4 will remain in place anywhere in New Zealand at 11:59pm on 17 September (lockdown day 32). Applications for the WSSAUG21-3 should open at 9:00am on 17 September 2021. A revenue test period of 14 consecutive days from 14 to 27 September 2021 inclusive will apply.

### Recommendations

The Minister of Finance and Minister for Social Development and Employment recommend that Cabinet:

- **agree** that, should Cabinet decide that Alert Level 3 or above will remain in place from 11:59pm on 17 September 2021, eligible businesses will be able to apply for a third August Wage Subsidy payment, WSSAUG21-3, from 9:00am on 17 September 2021.

## Appendix 2 – Possible cost-savings from one-week payments

1. The cost-savings analysed in this section relate to subsidy payments only and take no account of additional operational or development costs to implement one-week payments.
2. Making two-week lump-sum payments under the current scheme means subsidy days can exceed or fall short of actual time at Alert Levels 3 or higher (AL3+) by up to a week. Switching to one-week payments could provide better matching between subsidy days and days at AL3+.
3. More precise matching of subsidy days to lockdown duration is likely to mean that fiscal stimulus provided under the scheme more closely follows the size of economic shock caused by a given lockdown. By reducing over and underpayments, one-week payments could also improve value-for-money and support ongoing social license by reducing perceptions of windfalls.
4. When Alert Levels descend during the payment period, one-week payments could keep the expected costs of the scheme the same, reduce or even increase the expected costs, depending on the implementation details. The specific cost-saving or increase achieved in any particular case also depends on the relative timing of the change in Alert Levels.
5. In order to be relatively sure of either zero or positive cost-savings versus the status quo in all health scenarios, one-week payments would need to trigger no earlier than the corresponding two-week payment would have triggered – i.e. at the end of each complete week at AL3+. This effectively changes the current rounding rule to so that subsidy days match time at AL3+ **rounded down** to the nearest week (rather than rounded to the nearest fortnight). This reduces subsidy support by up to a week by avoiding making a payment available for time at AL1 or AL2 at the end of a scheme. The cost-savings estimated in Table 1 assume this triggering scenario i.e. we have excluded one-week payment options that are likely to increase or keep scheme costs the same on average.
6. Note that the reduced support resulting from ‘rounding down’ support to the nearest week could marginally impair employment attachment and income support objectives, since businesses may still face an ‘overhang’ effect on their revenue at AL2 due to lags restarting economic activity.
7. Note also that the current two-week revenue-decline test period already provides a mechanism for savings if Alert Levels descend during a payment period. This is because applicants will find it harder to meet the 40% revenue decline if economic activity restarts, and must repay the subsidy if their predicted revenue decline does not happen. The savings achieved through this mechanism reduce the opportunity for further savings through one-week payments and is reflected in the relatively limited cost-savings we have modelled.
8. However, it is uncertain what savings the revenue decline test currently provides if Alert Levels descend. The savings already achieved depend on the depth of revenue drop during AL3+, the speed and size of revenue rebound when Alert Levels descend, as well as the voluntary compliance rate with repayment obligations. Cost estimates provided below for one-week payments model a range of scenarios for the size of this effect assuming 100% compliance with repayment obligations.
9. Table 1 shows estimated cost-savings from introducing one-week payments in a future scheme assuming a national escalation to AL4 of between 7 and 20 days with the scheme triggering and opening on day 7 (under the status quo or two-week payments) and followed by a rapid return of economic activity. The maximum value tends to occur between from day 7-14 and the minimum value from day 14-21, after a second one-

week payment is triggered. The average is the expected saving assuming equal chance of alert levels descending from day 7-20.

10. Costs under the status quo for a two-week payment are assumed to be \$1,300m. Expected savings are **only achieved once** per scheme, so these costs savings would not increase for longer schemes.
11. Triggering payments earlier than 7 days, and earlier scheme opening would change these estimates. Estimates for two forms of revenue-test are provided. The choice of revenue test would need to be informed by considerations of integrity, operational feasibility and ease of understanding for applicants.
12. **Table 1** Estimated cost-savings from one-week payments for a single national AL4 escalation of 7-20 days followed by AL2 versus status quo cost of \$1,300m.

<b>Payment schedule</b>	<b>Cost saving (increase)</b>		
	<b>Average for 7-20 day lockdown</b>	<b>Maximum</b>	<b>Minimum</b>
1 week payment; weekly apps; 1 week test	\$100m-\$300m	\$650m	(\$200m)
1 week payment; weekly apps; 2 week test	\$300m	\$650m	No saving