

The Treasury

Advice on COVID-19 Response Information Release

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Treasury Report: Future of COVID Economic Supports

Date:	1 October 2021	Report No:	T2021/2464
		File Number:	SH-1-6-1-3-3

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss the contents of this report with officials at the WAM on 4 October	4 October 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Michael Sherwood	Senior Analyst, Economic Policy ^[39]	n/a (mob)	✓
Alastair Cameron	Manager, Economic Policy	N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.
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Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Future of COVID Economic Supports

Executive Summary

This report is intended to facilitate a conversation with officials at the Weekly Agency Meeting (WAM) on 4 October about the next steps in developing a package of COVID economic supports for a vaccinated world (and the associated potential new alert level framework).

The potential move to a less restrictive and more targeted set of public health measures means the economic supports currently being used may need to be adapted or replaced in order to best achieve your objectives. Following earlier discussion with you and feedback via your office, we have further developed the possible objectives and options for economic supports for the new alert level framework (see **Annex 1**). We have identified a number of issues necessary to further develop the advice that we would now like to discuss with you.

The specific topics officials would like to discuss with you are:

1. the proposed high-level framework for a package of future COVID economic supports (including the purpose and delivery of any support);
2. the operation and implementation of the new alert level framework;
3. the trigger point for the shift to the new economic supports;
4. how you would like to engage with your ministerial colleagues on this work; and
5. next steps for the delivery of the package, including the timing of advice and the proposed engagement with delivery agencies and external stakeholders.

This report also provides some options for how some of the current economic supports can be adapted to the intermediate term. We envisage that the new alert level framework will not be operationalised until a certain proportion of the population is vaccinated, or early 2022. Even if the new alert level framework is operationalised earlier, there may be implementation and other constraints on the options for economic supports that are available at that earlier time. Therefore, there is still likely to be an intermediate period where existing supports will need to operate.

Officials are seeking indications of what further advice you would like on options for adapting the Resurgence Support Payment and Small Business Cashflow Loan Scheme under the existing alert level framework.

Recommended Action

We recommend that you:

1. **discuss** the contents of this report, including next steps on the future of COVID economic supports, at the Weekly Agency Meeting on 4 October;
2. **note** that agencies would like to discuss the following areas necessary to further develop advice:
 - a the proposed high-level framework for a package of future COVID economic supports (including the purpose and delivery of any support)
 - b the operation and implementation of the new alert level framework
 - c the trigger point for the shift to the new economic supports
 - d how you would like to engage with your ministerial colleagues on this work
 - e next steps for the delivery of the package, including the timing of advice and the proposed engagement with delivery agencies and external stakeholders.

Intermediate changes to supports

3. **note** that decisions are needed now so that delivery agencies can prepare implementation of an intermediate approach to economic support from November; and in order to set certainty for the business community and households;
4. **note** that the public health situation at the start of November will determine the scale of support required;
5. [34]
- 6.
7. [33]
8. **agree** the following approach to support non-wage costs under different Alert Level scenarios from November:
 - a Auckland at AL3, rest of New Zealand at AL2:
 - i Resurgence Support Payment under adjusted settings (e.g. to target most affected areas/sectors while tapering generosity overall)
Yes / No
 - b In NZ AL2: **Either**:
 - i Resurgence Support Payment with higher revenue drop threshold and/or lower payment rate to support most affected firms (*with advice to provide options to regularise payment or make it a one-off*)
Yes / No
 - Or
 - ii [33]
9. **indicate** when you would like advice on the above options, and your intended timeline for any related announcement.
[33]
10. [33]
- 11.
- 12.

13. [33]

14.

Wage Subsidy Scheme

If Cabinet agrees to a significant loosening of the Alert Level 3 restrictions currently in place

15. [34]

16. **agree** to announce publicly Cabinet's confirmation that WSSAUG21 Payments 5 and 6 remain available subject to Alert Level 3 remaining in place at the agreed trigger dates.

17. **note** if the loosened Alert Level 3 restrictions are likely to remain in place for a prolonged period, this removes the corresponding control on Wage Subsidy availability and expenditure.

18. [33]

Alastair Cameron
Manager, Economic Policy

Hon Grant Robertson
Minister of Finance

Treasury Report: Future of COVID Economic Supports

Purpose of Report

1. This report outlines our current thinking regarding a package of COVID economic supports suited to a vaccinated world (and the associated potential new alert framework). It is intended to support a conversation with you about:
 - a the key choices and considerations for the Government in deciding a new support package; and
 - b how our advice over the next few weeks can best support you to make decisions about a new support package.
2. The report also includes options for you to consider on more immediate changes to business support as we transition to a new alert level framework.

Background

We expect COVID public health settings to shift toward a more targeted approach

3. Cabinet has indicated a move to a new alert level framework, as we shift to a new 'normal' with high vaccination rates. We understand the direction of the change will mean:
 - a less restrictive public health measures are used while COVID is present in the community (compared to the current alert level framework); and
 - b public health restrictions are targeted toward smaller locations (i.e. less reliance on regional lockdowns and no use of national lockdowns) and a greater reliance on testing, tracing and self-isolation.

The impact that the new public health framework will have on economic activity will depend on specific design decisions, but a high-level estimate can be made based on assumptions about the new framework

4. Relative to a baseline "green" level of public health measures, Treasury's high-level estimate of the impact that the "amber" alert level settings would have on economic activity is around \$30 million per week, while the "red" settings is estimated to reduce economic activity by around \$80 million per week.
5. These estimates assume "green" settings similar to the current Alert Level 1, "amber" settings similar to a restrictive version of Alert Level 1, where all businesses can operate, while the "red" settings are similar to the previous Delta Alert Level 2 settings. These are assumptions based on the possible direction of travel of the new alert level and are therefore highly uncertain. To the extent that the new framework will depart from those existing settings, and depending on decisions about border reopening, the impact on economic activity will also differ. It is also important to note that the estimate for the "red" setting is likely a lower bound if the new framework leaves open the possibility for more restrictive lockdowns.
6. Due to the nature of the restrictions being concentrated in outward facing businesses, losses are concentrated in the Retail, Accommodation, Food services and other services industries.

This change in alert level framework calls for a reset of economic supports

7. A move to less restrictive and more targeted public health measures calls for a revised package of policies to support impacted households and businesses. The package can leverage the existing set of policies, though the modification of some existing supports and/or creation of new supports may be needed.
8. In addition, a reset of economic supports would provide an opportunity to think about ways to improve access to supports in vulnerable communities.

[33]

9. [33]
 - a [33]
 - b
 - c
 - d

Immediate changes to supports are appropriate as we transition to a new package

10. We envisage that the new framework will not be operationalised until a certain proportion of the population is vaccinated, or early 2022. Even if the new framework is operationalised earlier, there may be constraints on what options beyond the current measures can be implemented at that time. Therefore, there is still an intermediate period where existing supports will need to operate.
11. Whilst arrangements are in place for delivery of the WSS and RSP in October, there are a range of public health scenarios that could play out by November.
12. We are seeking clarity now on your preferences for support that would be provided in such scenarios so that Inland Revenue and the Ministry of Social Development can prepare for implementation effectively.
13. While recognising the uncertain environment (e.g. the trajectory of Auckland cases), our assumptions are that:
 - a any intermediate changes to supports will be implemented from November;
 - b the new package of economic supports would be implemented in early 2022 (you have indicated that the Government may announce this new package in October or early November); and
 - c the new package of economic supports will supersede and replace any intermediate changes to supports implemented from November.

Intermediate approach to economic support

Decisions are needed now in order to prepare an intermediate approach to economic support from November

14. We suggest there is an opportunity to announce in advance the suite of supports that would be available during an intermediate period to provide certainty for the business community and households.

15. To prepare for this, Inland Revenue and MSD will need early decisions on the type of options you would want to be available under certain scenarios. This will enable them to ensure the relevant support is ready for activation should the scenario occur.
16. Early decisions on intermediate support will allow officials time to focus on preparing the approach for economic support under a new Alert Level framework. Undertaking detailed work in parallel on both is extremely challenging.
17. [33] and [34]

18. There is a possibility that getting to the desired rate of vaccination will take longer than hoped. At the time of writing, we also do not have certainty on when a new Alert Level framework would be introduced. This means that intermediate support would ideally be relevant for a potentially extended period.
19. However, given the quickly evolving nature of the situation, we recommend ensuring review points are scheduled at regular intervals to re-assess the suitability of supports.

The public health situation at the start of November will determine the scale and nature of support required, and the likely timeframe before a 'new normal' begins

20. If circumstances are more severe, the case for greater generosity may increase in order to fulfil our objectives around social licence and minimising social and economic disruption. However, if circumstances are improved, there will be opportunities to signal an adjustment in the overall fiscal response.
21. Our advice on the appropriate mix of intermediate supports from November is provided below. We have based these on the assumption that:
 - a the current Alert Level framework is in use until the desired level of vaccination is reached and/or the new framework is introduced;
 - b during this time Alert Level 2 and 3 settings will not be fundamentally changed, (however settings may be adjusted to support a wider range of safe economic activities) and the revenue drop tests for the Wage Subsidy and RSP will continue to effectively respond to the impacts of such changes; and
 - c [34]

[34]

Based on public health scenarios at 1 November, recommended course of action

Alert Level scenario / key objective (as listed in para 30) (NB AL 3/2 settings may be adjusted)	Economic status / case for intervention	Most appropriate response (CURRENT / NEW)
NZ at AL 4 or 3 <i>Objective A and B</i>	Risk of severe social and economic impacts, potential for unrest, supply chain pressure. Potential case for significant fiscal response to mitigate increasing risk of business failure and job losses.	<u>WSS under the same settings</u> <u>RSP under the same settings (option for more regular intervals)</u>
AKL AL3 RoNZ AL2 <i>Objective A and B</i>	Major stresses in AKL, ongoing pressure outside AKL. Strong case for AKL targeted support (and some sectors outside AKL).	<u>WSS under the same settings</u> <i>RSP with higher revenue drop threshold and/or new payment rate to tilt support to most affected areas/sectors whilst also tapering generosity overall</i>
NZ AL2 <i>Objective B (some sectors), objective C</i>	Pent up demand effects but stresses incurred from 2.5 months at higher ALs; ongoing pressure on hospitality and events. Some case for sector support.	EITHER: <i>RSP with higher revenue drop threshold and/or lower payment rate to support most affected firms (options to regularise or one-off)</i> OR: [33]

[33]

AL1	No need for resurgence support.	N/A
<i>Objective C</i>	Pent-up demand effects.	

Implementation constraints

22. IRD has advised that decisions relating to the RSP [33] need to be made before the Business Transformation shutdown occurs on 21 October in order to be ready for delivery in November. In addition, they have advised changes to the RSP are unlikely to be possible before mid-November; [33]

23. [33]

24. MSD has implementation constraints in the short term. Fundamental changes to schemes ahead of 1 November will not be possible, however some minor changes may be possible to implement. We understand that eligibility changes made through the declaration and a high trust model could be made. This would need to be balanced against trade-offs to integrity. It is unlikely to be possible to make changes to multiple schemes at the same time.

25. It has not been possible to consult MBIE on the above proposals in the time available.

Possible changes to Alert Level 3 settings may have implications for the wage subsidy

26. If Alert Level 3 restrictions currently in place are significantly loosened, then the Wage Subsidy revenue decline test will appropriately limit scheme expenditure in the near term (payments 4-6) as economic activity lifts.

27. [33]

28. [33]

29. We note that Cabinet's decision to authorise up to three further payments under the WSSAUG21 Wage Subsidy available as long as Alert Level 3 or 4 remains in place [CAB-21-MIN-0392 refers] was implicitly based on the definition of Alert Level 3 at the time. If Alert Level 3 restrictions are significantly loosened we recommend seeking confirmation from your Cabinet colleagues at the same time that WSSAUG21 Payments 5 and 6 remain available subject to the previously-agreed triggers, noting that the Wage Subsidy revenue decline test is likely to appropriately limit scheme expenditure for these payments. We recommend announcing this confirmation publicly to provide certainty for business. We will provide further advice if necessary ahead of the next 6 weekly review of the Wage Subsidy on options for deactivating the scheme under the revised Alert Levels and/or new public health framework.

Framework for a potential future package of supports

Building off your direction, we have developed a framework for a package of supports

30. As outlined in our previous advice, Treasury considers that the objectives of any future system of economic support should be:

- a) supporting the public health response by supporting compliance;
- b) reducing the social and economic disruption associated with outbreaks;
- c) supporting the transition to a COVID-resilient economy;
- d) sharing the burden in an equitable and fair way; and
- e) managing the fiscal risk associated with providing economic support.

31. Our assessment is that achieving these objectives will require:

- a) support for individuals to incentivise compliance with public health measures
- b) support for firms to help them invest in transitioning to the vaccinated economy
- c) support for firms impacted by localised outbreaks and public health orders
- d) sector-specific support, to the extent that some sectors are exposed to additional uncertainty due to public health restrictions

32. [33]

33. It is important to note that this is just an initial attempt to highlight possible measures that you may wish to include in a package of future supports. Treasury has not had time to fully evaluate these measures, or to engage with agencies about the feasibility of all of these options or when they could likely be implemented by.

Key choices and considerations

34. There are also some key issues that getting direction on at an early stage would help with framing future advice on economic supports. These are:
- a **Specific operation of new alert level framework** – a greater understanding of how the new alert level framework is expected to operate in practice will help calibrate what type of support is required and where the weight of support needs to be provided. For example, if a large number of individuals need to self-isolate at different levels of the new framework, this will have implications for what level of targeted support can be provided to individuals. It may also have flow through impacts on businesses if they are unable to fully operate due to staffing shortages.
 - b **Possible timeframe for implementation of the new alert level framework** - a greater understanding of the likely timeline for when the new alert level framework might come into effect may influence whether changes to current support needs to be amended during this transition period.
 - c [33]
 - d
 - e **Engagement with other ministers** – the level of involvement you want your ministerial colleagues to have will be useful to know for the purpose of future reporting on this topic. Key ministers that you may wish Treasury to engage with on this work includes Minister Parker, Minister Nash, Minister Sepuloni, Minister Little and Minister Woods.
 - f [33]

Process for upcoming stream of advice to support your decisions

We seek your direction on the stream of advice that best supports decisions

35. We understand the intention is for a package of COVID economic supports to be publicly signalled in early November alongside the new alert framework. We also understand that the alert framework Cabinet paper is currently expected to be considered at the Cabinet Social Wellbeing Committee on 27 October, and Cabinet on 1 November.

36. If the package is to be publicly signalled at this time, we propose to develop a final economic supports package to lodge in late October for Cabinet approval a week later than the alert level framework decisions. This reflects the cross-agency work required, and an assumption that the paper will seek agreement to the package of measures, with further opportunity to do detailed design and implementation of the measures over November and December. Having the new measures ready to start in early November is likely to face significant implementation barriers and constrain options.
37. A potential approach to develop this package is set out in the table below:

Week ending	Task
15 October	Proposed engagement with key implementation agencies (IR, MSD, and MBIE; across fortnight to 15 October)
15 October	Proposed engagement with selected key external groups and/or individuals (across fortnight to 15 October)
TBC	A Treasury/IR report on detailed settings and associated costings for the RSP ^[33] of an intermediate economic support package for November/December
15 October	A Treasury report setting out a proposed approach to economic support measures for a new Alert Level framework and a broad assessment of feasible timeframes for implementation
22 October	A Treasury report containing advice on key design choices for support measures (e.g. size of support, how long support will last) and implementation timeframes
22 October	[33]
22 October	Draft Cabinet paper with final decisions sent to Minister of Finance
29 October	Cabinet paper lodged
3 November	Cabinet Committee (TBC)
8 November	Cabinet (TBC)

38. While this timing separates the public health framework and alert level decisions, it may still allow a single announcement. If you wanted to align the timings, you may alternatively consider taking this paper directly to Cabinet, or taking an oral item to the relevant Cabinet Committee on the broad framework for discussion alongside the public health framework and ahead of submitting a more fulsome Cabinet paper, including design parameters.
39. We seek your feedback on your preferred approach (including on engagement as discussed below), and on any additional areas you would like advice on.
40. In addition, and related to the question of the stream of the advice, we seek feedback on the role that you would like and/or expect Treasury to play in the development of future COVID economic supports relative to other central agencies such as DPMC and key delivery agencies.

Next Steps

41. We seek an opportunity to discuss this with you at the upcoming WAM on 4 October 2021.

42. Based on your comments, we propose to begin engaging with key implementation agencies (IR, MSD, and MBIE) about feasible implementation timeframes for future economic supports and start developing the stream of advice to support your upcoming decisions regarding a new package of supports.
43. We also propose talking to key external groups/individuals, in order to better understand how businesses are currently situated e.g. cashflow, investment in transition, as well as what supports they think would be most beneficial.
44. ^[34]

[33]