TE TAI ŌHANGA
THE TREASURY

Reference: 20220136

17 May 2022

Dear

Thank you for your Official Information Act (OIA) request, received on 14 April 2022. You requested the following:

> *1. Copies of any advice Treasury has provided to Ministers in the past 12 months regarding the effects of the Reserve Bank's dual mandate, and*
> *2. Copies of any advice Treasury has provided to Ministers in the past 12 months regarding the impacts of government spending on inflation.*

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	27 August 2021	Treasury Report T2021/2190: Strategy for COVID economic response over the next three months	Released in full
2.	21 September 2021	Treasury Report T2021/2338: COVID economic strategy- update	Released in part
3.	5 November 2021	Aide Memoire T2021/2779: Potential lump-sum payment to low-income families in Auckland	Released in full

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

- names and contact details of officials, under section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting Ministers, members of government organisations, officers and employees from improper pressure or harassment,

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- 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, and
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

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

Information publicly available

The following information is also covered by your request and is or will soon be publicly available on the Treasury website:

Item	Date	Document Description	Website Address
1.	15 October 2021	Treasury Report T2021/2525: HYEFU Preliminary Economic and Tax Forecasts	https://www.treasury.govt.nz/publications
2.	22 October 2021	Treasury Report T2021/2424: Fiscal Strategy for the Budget Policy Statement	https://www.treasury.govt.nz/sites/default/files/2022-04/oia-20220009.pdf
3.	3 December 2021	Treasury Report T2021/3007: COVID economic support for localised lockdowns over the holiday period	https://www.treasury.govt.nz/sites/default/files/2022-04/oia-20220009.pdf
4.	4 February 2022	Treasury Report T2022/54: Wages and workforce insights in Budget 2022	https://www.treasury.govt.nz/publications
5.	25 February 2022	Budget Ministers 3. Emerging Budget 2022 Package	https://www.treasury.govt.nz/publications
7.	1 April 2022	Fortnightly economic update	https://www.treasury.govt.nz/sites/default/files/2022-04/feu-1apr22.pdf
8.	6 April 2022	Treasury Report T2022/688: BEFU 2022 Final Economic and Tax Forecasts	https://www.treasury.govt.nz/publications

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the OIA: *the information requested is or will soon be publicly available.*

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

Information to be withheld

There are additional documents listed below covered by your request that I have decided to withhold in full under the following sections of the OIA, 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, and
- commercially sensitive information, section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information.

There is an additional document within the scope of your request. The title and document are withheld in full under section 9(2)(f)(iv) of the OIA.

Item	Date	Document Description	Decision
1.	13 August 2021	Budget 2022: Context, Strategy and Design	Withheld in full
2.	3 March 2022	Treasury Report T2022/244: Fiscal Strategy for Budget 2022	Withheld in full
3.	17 March 2022	Treasury Report T2022/608: The State of Inflation and Fiscal Policy Implications	Withheld in full

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

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

Katy Simpson
Team Leader, Macroeconomic and Fiscal Policy

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Strategy for COVID economic response over the next three months

Date:	27 August 2021	**Report No:**	T2021/2190
		File Number:	SH-1-6-1-3

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Discuss** with the Treasury at the next Weekly Agency Meeting **Provide feedback** on any other advice you would like	Monday 30 August 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ken Tsang	Analyst, Economic Policy	s9(2)(k)	n/a (mob)	✓
Alastair Cameron	Manager, Economic Policy		s9(2)(g)(ii) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Discuss at the next Weekly Agency Meeting (Monday 30 August).

Note any feedback on the quality of the report

Enclosure: Yes (Annex)

Treasury Report: Strategy for COVID economic response over the next three months

Executive Summary

1. COVID economic support will continue to play a critical role in supporting the public health response to a COVID outbreak until vaccine rates are high enough to reduce the need for lockdowns. It does so by reducing the economic and social burden associated with complying with public health restrictions. Supporting a swift suppression of the virus should allow for a quicker de-escalation from economically costly lockdowns.
2. The current mix of economic support is broadly appropriate if lockdown settings are maintained for another two weeks. If Alert Level 3 or 4 settings are extended for longer, there will be a growing need to provide additional support to help individuals (eg educational and residential tenancy support) and businesses (eg. non-wage costs) with the burden of compliance.
3. If the Wage Subsidy Scheme (WSS) is needed for longer, there may be a case to change settings (e.g. reducing the generosity of subsequent payments or considering whether to make payments after any reduction in revenue occurs, rather than before). However, any changes must consider a range of factors, including the critical role the WSS has in supporting the public health response.
4. The macroeconomic context has changed relative to the last national Alert Level 4 lockdown in March 2020. The underlying strength of the economy should support another rapid economic recovery, so long as the outbreak is managed swiftly. We do not consider a stronger, discretionary fiscal response beyond existing measures is needed at this stage to secure the economic recovery. We will revisit that assessment as the outbreak develops and we have a clearer sense of how economic activity has been disrupted, particularly as a result of emerging concerns around internal and external supply chains.
5. On top of supporting individuals and businesses with the burden of complying with public health measures, fiscal support has macroeconomic implications. Ideally support at higher Alert Levels will offset lost economic activity. However, if supports overcompensate for lost activity (e.g. from activity being deferred rather than lost) then this may exacerbate existing capacity constraints as we emerge from lockdown, presenting trade-offs between your objectives during and after lockdown.
6. You have options to manage these trade-offs, including considering non-fiscal (regulatory) measures where possible, ensuring further or ongoing economic supports are targeted and time-limited, and where new government spending is required to provide further support, considering reprioritising already allocated funding to minimise the increase in discretionary support.
7. We recommend further reviewing the mix of economic support measures once vaccination rates become sufficiently high, and there are more public health options to control outbreaks without costly lockdowns.
8. We are seeking your comments on the direction forward at the next Weekly Agency Meeting on Monday 30 August, including:
   - a which issues you would like further immediate advice on
   - b what further advice you would like on the ongoing role of the WSS, and
   - c our proposal to have regular check-ins to ensure that support remains appropriate over the next three months.

Recommended Action

We recommend that you:

a **Agree** that the primary objective of COVID economic support over the next three months should be supporting the public health response and reducing the social and economic disruption associated with outbreaks.

Agree/disagree.

b **Note** that (a) may present trade-offs with macroeconomic objectives, given inflation risks, and the need to transition to a more COVID-resilient economy.

c **Note** the Treasury will provide further advice on the ongoing role of the Wage Subsidy Scheme.

d **Indicate** any particular points or areas you would like advice on for (c).

e **Agree** to ask the Minister of Justice to set commercial leases as a work priority for his officials, specifying that this work explore both short and long-term options.

Agree/disagree.

f **Note** that the Treasury will provide further advice on non-wage business costs by 9 September.

g **Note** that as vaccination rates increase, and the landscape of public health restrictions changes, COVID economic support settings should be reviewed again.

h **Indicate** any other measures that you would like further advice on.

i **Agree** to further, regular discussions on the strategic mix of COVID economic support during the current outbreak (eg. at each Weekly Agency Meeting).

Agree/disagree.

Alastair Cameron
Manager, Economic Policy
PP Kerryn Fowlie
Director, Economic Strategy

Hon Grant Robertson
Minister of Finance

Treasury Report: Strategy for COVID economic response over the next three months

Purpose of Report

9. This Report:
   - a Proposes objectives for COVID economic support measures ('support measures') over the next three months, and notes the potential trade-offs
   - b Sets out the macroeconomic and fiscal context, and associated trade-offs with support measures
   - c Covers how support measures could evolve if Alert Level restrictions are maintained
   - d Provides you with a status update for previously implemented supports (Annex 1).
10. We are seeking your comments on the direction forward at the next Weekly Agency Meeting on Monday 30 August.

COVID economic support over the next three months

11. We propose five objectives for the COVID economic response over the near-term:
    - a **Support the public health response by supporting compliance with public health restrictions**
    - b **Reduce the social and economic disruption associated with outbreaks**
    - c Support a transition to a COVID-19 resilient economy
    - d Share the burden in an equitable and fair way
    - e Manage the macroeconomic and fiscal implications associated with providing economic support (as noted later, including via a timely, temporary, targeted focus for spending).
12. There are some tensions within these objectives, but for at least the next three months, we recommend that COVID economic support focus on objectives (a) and (b), with close monitoring of trade-offs with objective (e). The balance of these objectives will shift as vaccination rates become sufficiently high to reduce the need of heightened restrictions, providing the Government with more options on how to manage outbreaks.
13. Supporting a swift suppression of the virus supports a quicker de-escalation in Alert Level restrictions – limiting the direct economic impact of restrictions and improving the likelihood that lost activity is quickly regained. Economic supports also support a swifter rebound in activity by supporting labour attachment and limiting the impact to firms' cashflow. Previous analysis has shown that Māori and Pasifika have been more acutely affected by C0VID, as is the case in the current outbreak. This analysis also illustrated that these groups benefitted from the wage subsidy. Distributional impacts would therefore need to be taken into account if changes to these schemes were to be considered.[1]

[1] The wellbeing impacts of COVID were assessed against He Ara Waiora and the Living Standards Framework in the He Kāhui Waiora publication.

14. Focusing on these two objectives presents trade-offs. At a macroeconomic level, there may be a risk that support contributes to inflationary pressures once restrictions are removed. This may be the case if excessive support is provided – however, the outlook is highly uncertain, and it is too early to prejudge the macroeconomic impact of the current outbreak.

15. While considerable fiscal headroom remains, there is an opportunity cost associated with spending on COVID support. Therefore, where possible, we should seek to support the public response through measures that are non-fiscal, and if spending is needed, it should be targeted and temporary (objective e).

16. Some forms of economic support may also limit the incentive for firms to further plan for outbreaks and transition towards a COVID-resilient economy (objective c).

The macroeconomic context

Prior to the delta outbreak, capacity pressures and supply constraints had emerged as the biggest challenge to economic growth in the short-term.

17. This reflects the strength of the economy, which has proved more resilient than expected at the Budget Economic and Fiscal Update (BEFU) 2021.[2] The Reserve Bank of New Zealand recently assessed employment to be at or above its maximum sustainable level, and forward looking indicators had also been pointing towards continued momentum in the domestic economy.

18. Strength in the domestic economy has also been supported by improved conditions internationally. Commodity prices are currently very high, and we are expecting relatively robust global economic growth, especially with lockdown restrictions becoming less common for many of our trading partners.

19. The Monetary Policy Committee (MPC) was expected to increase the Official Cash Rate in August 2021, to mitigate the risk of inflation arising from the economy operating above its short-term capacity. That decision was deferred given the delta outbreak and lockdown, but the MPC continues to signal that they intend to start withdrawing monetary stimulus.

We do not consider that a stronger, discretionary, fiscal response beyond existing measures is needed at this stage to secure the economic recovery

20. Provided economic restrictions are relatively short-lived (that is, not extending to months as has been seen in other countries), existing support mechanisms and the underlying strength of the economy should result in a fast recovery. As we saw last year, increased savings and deferred consumption from during the lockdown will boost post-lockdown consumption, while low interest rates keep the cost of borrowing low.

21. Further, rising inflation remains a concern once economic restrictions are lifted, given that the supply side constraints seen in the economy prior to the outbreak are unlikely to dissipate (and could be exacerbated by the lockdown). Consequently, any significant increases in spending during the lockdown may present trade-offs with your macroeconomic objectives once we emerge from lockdown.

22. Even so, the overall impact on the macroeconomy will depend critically on the duration of economic restrictions and their overall impact. For example, businesses, particularly exporters, are reporting that supply chain issues are currently mounting. This creates risks to the supply side of the economy. There are concerns that international buyers have low tolerance for supply delays arising from lockdowns, a risk that is exacerbated by many other international competitors being largely free of restrictions.

[2] Real Gross Domestic Product (GDP) grew 1.6% in the March 2021 quarter, compared to a forecast 0.2% decline at BEFU. This saw real GDP sitting 0.8% above pre-COVID levels, and the Treasury's interim forecast update in early August (T2021/1869 refers) estimated the output gap to be slightly positive.

23. The longer the lockdown persists, the greater the lost output and income, and the greater the risks that firms and individuals run down any buffers they have. This would likely result in a weaker or more transitory demand-side recovery once lockdown restrictions are eased and would reduce the risk that additional fiscal support during the lockdown leads to inflationary pressure in the economy post-lockdown.

We recommend a 'wait and see' approach with close monitoring, given the inherent uncertainty of the broader economic impacts of a prolonged lockdown.

24. During the lockdown, the purpose of economic support is to encourage compliance with public health measures and help individuals and businesses cope, rather than providing broad economic stimulus – although measures like the WSS do nonetheless provide considerable support to demand. In addition, stimulus from programmes established during last year's pandemic response will be flowing through to the economy now, given that much COVID Response and Recovery Fund (CRRF)-funded spending was not immediate. Budget 2022 also gives an opportunity to provide fiscal support for any medium-term recovery.

25. Therefore, we currently anticipate that additional fiscal stimulus would only be needed to support the economic recovery after the lockdown ends in the event of a prolonged period at Alert Levels 3 and 4 (i.e. the lockdown would need to extend at least another two to three weeks, potentially much longer), or a higher frequency of lockdowns over the coming months.

26. This assessment may change given the high level of uncertainty. The Treasury will continue to monitor the economic outlook closely and provide ongoing advice on the approach to your macroeconomic strategy.

For now, we recommend decisions on further support to businesses and individuals during the lockdown should be considered alongside the potential macroeconomic trade-offs.

27. At a general level, there are three ways you could manage these trade-offs:

    a where possible consider non-fiscal (regulatory) measures that further mitigate hardship during lockdown (e.g. reinstating rent/eviction freezes, and encouraging households to talk with their banks about their mortgage options),

    b ensure that any further supports are targeted to those in need and are time-limited, and

    c if we find that economic support offered through the current lockdown has added to macroeconomic pressures (e.g. activity is deferred rather than lost) then there may be options to reprioritise lower value expenditure, including in the CRRF funded programmes, towards Budget 2022 pressures or rephase some expenditure.

Should a greater response become necessary, there is considerable fiscal headroom

28. We do not consider that fiscal headroom should be a primary concern limiting the economic response to this outbreak. The current level of debt is prudent, and we remain of the view that fast elimination of the virus will be the most effective measure to support the economy.

29. The fiscal position has improved significantly since BEFU [T2021/1869 refers].[3] Absent a prolonged lockdown and/or a material fall in GDP, it is likely that net core Crown debt as a percentage of GDP will still be lower at the Half Year Economic and Fiscal Update (HYEFU) than forecast at BEFU, despite the lockdown.

[3] In our recent advice [T2021/1869 refers], prior to the delta outbreak our estimates were for net core Crown debt as a percentage of GDP (including the impact of the Reserve Bank's Funding for Lending Programme) to peak at least 4% lower than forecast at Budget 2021 (around 37% of GDP in 2024/25 compared with 41.4% in the BEFU forecasts) and around 8.5% lower than forecast at HYEFU 2020.

30. Nevertheless, medium-term challenges remain with several known and significant funding pressures. The trade-offs between spending more on the response to this outbreak and the opportunity cost of addressing these challenges should be considered.

Economic support should evolve depending on the length of restrictions

31. As noted above, the primary objective of economic support should be to support the public health response. How economic support does so will however need to adapt, primarily depending on the duration of current public health restrictions.

Current economic support measures are appropriate for a short lockdown (for the next two weeks), but targeted in-kind support for vulnerable communities is vital

32. Overall, we consider current support settings appropriate in achieving the objectives set out above in response to a shorter lockdown. The Wage Subsidy Scheme (WSS) and the Resurgence Support Payment (RSP) are currently active. The Short-term Absence Payment, Leave Support Scheme, and Small Business Cashflow Scheme also remain available at all Alert Levels.

33. Initial uptake of the WSS and RSP is in-line with expectations. Bank chief economists have noted that businesses are more prepared for this lockdown and were confident in a strong rebound in activity. Household and business balance sheets have also strengthened. The Treasury is also working with the Reserve Bank of New Zealand (RBNZ) to monitor business requests for greater flexibility (such as through overdraft extensions), as well as banks' responses.

34. A current area of concern is the **provision of in-kind support** (such as food, medicine, childcare resources, and internet data) to help vulnerable communities comply with lockdown. Several community programmes like those used during the initial 2020 lockdown have been restarted, and the Treasury is working with the Ministry of Social Development (MSD) on this area. Government will need to continue to work in partnership with Māori and Pacific community leaders to ensure that support reaches those who need it. Experience from 2020 highlighted that iwi, Māori and Pacific NGOs appeared to be effective in providing Manaakitanga.[4] At this stage, we are of the view that MSD does not yet need to expand in-kind support, but this will continue to be monitored.

If heighted Alert Level restrictions are maintained for longer, further economic support measures may be needed

35. If Alert Level 3 or 4 restrictions are maintained for longer, we consider current settings broadly appropriate. However, as the time spent under heightened Alert Levels increases, the importance of further supporting some groups with the economic burden of complying with public health restrictions will grow.

36. Beyond exacerbating the need for sufficient in-kind support for vulnerable communities, a longer lockdown could increase the need for other **non-business support**, such as:

    a **Education support:**

        i Demand may increase for the recently reintroduced Childcare for Workers of Alert Level 4 Businesses and Services Scheme, Emergency payments for casual staff in in State and State-Integrated Schools, and Distance learning support.

[4] Using He Ara Waiora, the partnership approach should aim towards: **Mana Āheinga** (enable iwi and communities to design and implement their own solutions), **Mana Tuku Iho** (enabling actions for them to protect their culture, including their elders and kaumatua), **Mana Tauutuutu** (support social cohesion through equitable resourcing and combatting of misinformation), **Mana Whanake** (drive towards sustainable prosperity beyond the pandemic).

ii In a longer lockdown, we would expect demand from the sector for further measures to support the sustainability of the early learning sector; support students at risk of disengaging from education; and enable the Ministry to meet its contractual obligations to the construction sector where there have been unavoidable COVID-related cost increases.

b **Income support:**

i A prolonged lockdown may place greater financial pressure on low-income families, including casual workers (including through additional lockdown costs such as heating). In addition, job losses may increase the number of people supported by main benefits.

ii Any options to increase income support payments requires a relatively long implementation period. Given the recent benefit increase in July 2021 (and upcoming increase in April 2022), we do not, at this stage, see a case emerging for additional broad-based income support.

iii We do not yet see a need to reintroduce the COVID-19 Income Relief Payment, especially while the WSS continues to support widespread labour attachment. This may need to be revisited if substantial changes are made to the ongoing role of the WSS (see paragraphs 41 to 46).

c **Residential tenancy support:**

i Critically, support should ensure that residential tenancies are maintained during lockdown, with moves only when necessary (eg. in situations where the safety of household members is at risk).

ii The Ministry of Housing and Urban Development (HUD) has advised that current settings are sufficient for a shorter lockdown (less than three weeks). However, in a prolonged lockdown, HUD has advised that Ministers may wish to consider reinstating the temporary measures introduced previously.

iii This included temporary legislative changes restricting tenancy terminations, imposing a freeze on rent increases, and empowering the Tenancy Tribunal to operate flexibly.[5]

d **Mortgage relief:**

i We do not see a need to reintroduce a mortgage deferral scheme, unless there is a prolonged lockdown that causes a drop in incomes and job losses. We expect banks have the capacity to deal with a modest volume of deferrals without a regulatory concession from the RBNZ.

A longer lockdown could also increase non-wage costs for firms

37. The Treasury is currently analysing cost pressures firms may face. Our provisional view is that existing support is enough if the total time spent in lockdown is four to six weeks. Beyond this, further and/or different forms of support for **viable** firms with **non-wage business costs** could be warranted if cashflow becomes a concern, particularly for small business.

38. Support could be provided through new schemes or regulatory measures, or through amended versions of existing schemes. This could include:

a additional RSP payments during a single resurgence;

b changing the terms of the Small Business Cashflow Scheme (depending on operational deliverability – eg. adding grant components, delaying payment deadlines, or increasing loan amounts for existing customers);

[5] Homelessness accommodation could also be expanded. At this stage, HUD has not advised that additional motel capacity is required, but will continue to monitor the situation.

c revisiting other credit support mechanism (eg. the Business Finance Guarantee Scheme); or

d revisiting tax measures introduced to support business, such as the Tax loss carry-back scheme.

39. **The Treasury will provide advice by 9 September on support for non-wage business costs** following discussions with the business community, RBNZ and delivery agencies, further analysis of the cost pressures on businesses, and legal advice. Given the relatively stronger economic context, there may be options in how the mix of such support is balanced (eg. between grant and credit-based schemes).

40. **An intervention for commercial lease disputes** could also help. The Ministry of Justice has not proceeded with further work on the extent to which intervention is needed or the nature of that intervention. If this is a priority for you, we recommend you ask the Minister of Justice to set commercial leases as a work priority for his officials, specifying that this work explore both short and long-term options.

There could be ways to reduce the cost of further Wage Subsidy payments – but this must be considered with the public health objective in mind

41. The WSS remains a core tool in the COVID response. The WSS supports the public health response by reducing the economic burden individuals and businesses face in complying with public health restrictions. We consider this to remain a critical objective of the WSS in this current outbreak.

42. With an expectation of a deep and prolonged economic contraction in March 2020, the WSS was also designed with another key objective of supporting labour attachment. This remains important in supporting a robust rebound after the current outbreak, particularly as there is considerable uncertainty ahead. However, the better-than-expected rebound in the labour market since 2020 may have reduced the criticality of the labour attachment objective. In addition, household and business balance sheets have strengthened over the last year.

43. While considerable fiscal headroom remains, the WSS has substantial fiscal implications if used for extended period, and there is an opportunity cost.[6] There may be a risk that the WSS contributes to inflationary pressures once Alert Level restrictions are removed (if unnecessary payments are made). It may also support firms that will not be viable in the economic environment that we are moving to.

44. **Given the above, there may be a case to consider changes to future WSS settings, such as reducing the generosity of subsequent payments**. Other options could be to delay payments until sometime after Alert Level changes so that revenue losses are clearer, or to require repayments if any bounce-back offsets the initial revenue loss.

45. Treasury has not yet assessed such options, and any substantial changes to generosity would need to be made with several factors in mind.[7] This includes the potential impact on the public health response (impact on social licence and compliance with public health rules), the overall mix of economic support in place, particularly for more vulnerable communities (this may create a greater need for other income/ community measures), and macroeconomic considerations (including to business confidence and certainty). Operational feasibility under the high trust model is also a key constraint on possible changes.

[6] We currently estimate the fiscal cost of the WSS to be $1,800 to $2,100 million per fortnight under nationwide Alert Level 4 restrictions.
[7] Analysis of uptake data for the current scheme will help inform the assessment of options.

46. **The Treasury will provide you with initial advice on the ongoing role of the WSS**. This will be provided ahead of advice on the availability and settings of the WSS for the report back which is required by Cabinet should you wish to extend the scheme beyond the initial six-week period that Ministers with Power to Act have approved [CVD-21-MIN-0004 refers]. This would be separate to more immediate advice on options to improve current settings for the Wage Subsidy August 2021 Scheme (i.e. moving to one-week payments, due by 3 September).

Over the longer-term, the risk of reescalation in Alert Levels means a flexible approach is needed

47. Beyond a longer lockdown, there is also a risk that a reescalation in Alert Levels is needed to control a subsequent outbreak over the next three months. Outside of the longer-lockdown issues noted above, we consider current settings broadly appropriate for such a scenario. Precedent effects of any decisions to increase supports in the present scenario should however be considered. Continued monitoring and flexibility will be important to ensure the response remains appropriate at the time.

COVID economic support once vaccine rates are higher

48. As vaccination rates increase, this will provide more options in how to control community transmission. While some level of public health restrictions will likely still be needed, high and broad vaccine coverage should reduce the need for higher Alert Level restrictions.

49. The mix of economic support will therefore need to be reviewed to ensure they are appropriate for a high vaccine rate landscape. While existing economics measures have been effective in supporting the public health response and reducing the economic disruption caused by outbreaks, they can limit transition and adaptation to a COVID-resilient economy and there is a material fiscal cost.

50. While any changes made in response to current Alert Level settings should bear in mind the longer-term trajectory, the immediate priority should be in responding to the current outbreak. This will also provide time to develop a better understanding of the potential long-term public health settings.

51. This also highlights the importance of vaccinating quickly and ensuring that the roll-out is equitable amongst potentially vulnerable groups. The faster we reach high levels of vaccination, the sooner we can control outbreaks without using economically (and fiscally) costly public health restrictions.

Annex 1 – Further detail on COVID economic support measures

Measure	Summary	Status
Housing		
Residential tenancies	During last year's Alert Level 4 lockdown, temporary legislative changes were made restricting tenancy terminations, imposing a freeze on rent increases, and empowering the Tenancy Tribunal to operate flexibly. These changes were made on the understanding that New Zealand could be in an Alert Level 4 lockdown for some time, and that the economic impact of COVID-19 on individual households could be considerable. These changes have now expired.	**'Watch and wait'.** The Ministry of Housing and Urban Development (HUD) has advised the Associate Minister of Housing (Public Housing) that current settings and guidance to landlords and tenants are sufficient for a shorter lockdown (defined as less than three weeks). However, should there be a prolonged Alert Level 4 lockdown (longer than three weeks), HUD has advised that Ministers may wish to consider reinstating the temporary measures introduced previously. While it is unlikely that new funding would be required to implement these changes, they would require reinstating previous legislation. Consideration would also need to be given as to whether, and through which legal mechanisms, these changes could be brought into effect at lower Alert Levels, including across regions.
Homelessness	As part of last year's Alert Level 4 response, HUD received $107 million to secure approximately 1,200 new motel places to house individuals and households experiencing homelessness. HUD received funding at Budget 2021 to extend a significant portion of these places.	**Active.** At this stage, HUD has not advised that additional motel capacity is required, but HUD is continuing to monitor the situation with providers. We understand that a small number of households have been placed into motels through the Ministry of Social Development's (MSD) Emergency Housing Special Needs Grant system.
Business and household finance		
Mortgage relief	Over 2020, deposit takers offered customers temporary mortgage deferrals. The Reserve Bank issued guidance that those deferred loans would not be treated as 'being in default', allowing the offering to continue without impacting capital requirements.	**'Watch and wait'.** We do not foresee a need to reintroduce a mortgage deferral scheme at this stage unless there is a prolonged lockdown that causes a drop in incomes and job losses. Banks have the capacity to deal with a modest volume of loans being deferred without a regulatory concession from the RBNZ. Should the situation change, the RBNZ would seek to be supportive of banks and their customers, consistent with its financial stability objective.
Financial regulatory relief		**'Watch and wait'.** The Council of Financial Regulators regularly meet with the financial sector in order to understand current and upcoming pressures and any regulatory relief that might be required to help financial institutions support their customers. The Treasury is also working closely with the Reserve Bank who is increasing their monitoring and talking to banks regularly.

Commercial property		
Commercial leases	Measures in this area could aim to make it easier to retain lease arrangements and get back to business as usual after lockdowns by giving parties more time to fulfil their payment obligations before the other side can take enforcement action.	**Awaiting direction.** The Ministry of Justice does not intend to prioritise this work unless requested by their Minister. The Treasury has business consultation scheduled in the next ten days, where we can test if commercial lease disputes are still a concern. The Treasury will provide updated advice on the outcome of these consultations by 9 September.
Education		
Funded childcare for essential workers	Essential workers who have children aged up to 13-years-old can access free childcare, so they are able to continue to provide the essential services we need during the current lockdown.	**Active**. The scheme is likely to continue to see demand while the country (or parts of it) is at Alert Level 4. In previous Alert Level 3 settings, children of essential workers have been able to attend educational settings in-person.
Emergency payments providing wage support for casual staff in State and State-Integrated schools	This scheme is available to day relievers, kairāhi and non-teaching staff or kaimahi who are paid by timesheet, and who will not receive any payment due to school and kura closures at Alert Level 4.	**Active.**
Measures to support distance learning		**Active.** Funding agreed by Cabinet to support a range of distance learning measures is likely to be sufficient for a period of approximately one month for hard packs to support distance learning (and a similar time for television content, though this content will take longer to produce and distribute), and for a longer period for internet connections and device provision.
In-kind and income support		
In-kind benefits for vulnerable communities	MSD has restarted a package of community support measures similar to those implemented previously. This includes funding for food banks, grants to community service providers, and support for Women's Refugees for additional accommodation. These measures address food security and provide support to vulnerable populations impacted by the shift to Alert Level 4. Funding for these measures under the current AL4, and an extended AL3 or above for an additional two weeks, is to be considered in a Joint MSD/TPK	**'Watch and wait'.** At this stage we do not think MSD needs to consider expanding its in-kind support measures, but this will continue to be monitored.

	Cabinet paper to be considered Friday 27 August.	
Income Support	In response to last year's Alert Level 4 lockdown, main benefits were increased permanently, and the Winter Energy Payment was temporarily doubled to support low income families. Budget 2021 agreed further increases to main benefits, with the first increase coming into effect from 1 July 2021. We also introduced the COVID-19 Income Relief payment. Due to the Wage Subsidy extension, the need for this payment was reduced.	**'Watch and wait'.** At this stage, we do not see a strong case to introduce additional income support directly to families via the welfare system, as was done in 2020. We are seeing an early increase in demand for Special Needs Grants (as with previous lockdowns) and will continue to monitor the situation, and changes in benefit numbers.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: COVID economic strategy - update

Date:	17 September 2021	**Report No:**	T2021/2338
		File Number:	SH-1-6-1-3-3

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Discuss** with the Treasury at the next Weekly Agency Meeting **Provide feedback** on any further advice you would like	Monday 20 September 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ken Tsang	Analyst, Economic Policy	s9(2)(k) (wk)	n/a (mob)	✓
Alastair Cameron	Manager, Economic Policy, Economic Policy	n/a (wk)	s9(2)(g)(ii) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (Annex)

Treasury Report: COVID economic strategy - update

Executive Summary

The primary objectives of economic support should continue to be supporting the public health response and reducing economic and social disruption from the outbreak. Overall, we consider current economic support settings remain appropriate to achieve these objectives for the next six weeks.

The economic outlook and appropriate macroeconomic response will be determined by the duration and severity of the outbreak and associated Alert Level restrictions, and the subsequent impact on consumer and business confidence. The Treasury will continue to monitor high frequency data and provide ongoing advice on policy options.

At this stage, we see no need for additional fiscal support (beyond the Wage Subsidy Scheme and Resurgence Support Payment) to stimulate the economic recovery post-lockdown, nor do we see any strong macroeconomic or fiscal reasons for reducing the current level of fiscal support.

Additional restrictions under Alert Level 2 are estimated to reduce activity by $10 million per week (0.2% of GDP). While small at an aggregate level, losses will likely be concentrated in the hospitality and events industries. Given further instalments of the RSP, we consider current support sufficient under Alert Level 2 settings to manage the current pressures.

As community vaccination rates increase, there will be more options for managing COVID-19. In broad terms, the option-set will grow from a reliance on lockdowns to include broad surveillance testing programmes, a range of possible permanent ‘baseline’ health restrictions, a risk-based relaxation of border restrictions, and more targeted lockdowns.

These options give rise to different economic and fiscal impacts related to choices around the level of investment in testing, tracing and health system capacity; the future role of MIQ capacity; the volume and risk-mix of international arrivals; and specific design of any ‘baseline’ health measures.

While supporting the public health response will remain a critical objective of economic supports, the Government may also need to give further consideration to its role in supporting a transition to a more COVID-resilient economy. Key factors to consider will include:

- the case for replacing broad-based measures with more targeted measures that support testing, tracing, and isolation;
- a shift from supporting firms to supporting individuals; and/or
- what government can or should do to assist firms to absorb costs related to the new operating environment and/or adapt and transition to the new normal.

Recommended Action

We recommend that you:

a **note** you will receive an update on the Treasury's 2021 half year economic forecasts in the week commencing 4 October

b **note** our advice that the current economic support measures in place are sufficient for the next six weeks, and that no further support is needed in response to recent changes to Alert Level 2 rules

c **note** that the Treasury and the Ministry for Social Development will provide further advice on additional options to support low-income households support

d **note** that the Treasury intends to provide advice on potential near-term changes to the Small Business Cashflow Scheme

e **note** that Treasury officials will support MBIE-led advice to explore opportunities to support the hospitality and events sector, including options to support the mental health of small business owners affected by the ongoing lockdown

f **note** that once the vaccination rate is high enough and the Government is able to rely less on lockdowns to manage domestic outbreaks, the Treasury's advice is that supporting the public health approach and supporting a transition towards a COVID-resilient should become the primary objectives of COVID economic support

g **note** that the Treasury will provide advice on the Leave Support Scheme and Short-Term Absence Payment in September

h **indicate** any other short-term or long-term issues you would like further advice on.

Alastair Cameron
Manager, Economic Policy

Hon Grant Robertson
Minister of Finance

Treasury Report: COVID economic strategy - update

Purpose of report

1. This report:
   - a updates you on the macroeconomic and fiscal context;
   - b provides an update on how well economic measures are continuing to meet your COVID support objectives during the current outbreak; and
   - c seeks your feedback on the direction of travel for the long-term COVID economic strategy as vaccination rates increase over the next 3-12 months.
2. We are seeking your comments at the Weekly Agency Meeting on Monday 20 September.

Objectives of COVID economic support

We are broadly tracking against the COVID support objectives set out in previous advice

3. We consider the overall objectives of supporting the public health response and reducing the social and economic disruption of outbreaks, as well as the tools supporting these objectives (eg Wage Subsidy Scheme [WSS], Resurgence Support Payment [RSP]), remain appropriate for the next 6 weeks.
4. With Alert Levels starting to fall, the impact of the current outbreak is likely to be more transitory. However, risks remain around Auckland given its importance to the rest of the economy, and a further Alert Level escalation would have longer-lasting impacts.
5. Evolving public health issues have presented some new challenges (eg new gathering restrictions at Alert Level 2). Economic support measures announced to date are helping to support confidence in the ability of the economy to recover, although concerns about the new operating environment post lockdown is impacting resilience in some areas (eg Pacific businesses).
6. The largest COVID impact for many businesses remains the border closure and its impact on labour supply and other supply-chain issues.

Macroeconomic and fiscal context

Prior to the move to Alert Level 4, the New Zealand economy had been performing more strongly than forecast at the 2021 Budget Update

7. As set out in our previous COVID economic strategy advice [T2021/2190], prior to the move to Alert Level 4, the New Zealand economy had been performing more strongly than forecast at the 2021 Budget Update. June quarter GDP growth of 2.8% was significantly above both the Treasury forecast (0.8%) and market expectations (1.1%). Strength was broad-based across sectors, with 13 of the 16 industries experiencing increases in activity. Tourism-exposed industries led growth, boosted by the trans-Tasman bubble.
8. Supply constraints had emerged as the biggest challenge to economic growth in the short-term, with a tight labour market and an increasing number of firms reporting difficulty in finding labour. Significant broad-based cost pressures were emerging, and these flowed through into higher CPI inflation as well as increases in expected inflation.

9. We expect capacity pressures, skills shortages and inflationary pressures to remain after Alert Level restrictions ease. Existing supply side constraints will have been exacerbated by higher Alert Levels. Inflationary pressures and the likely monetary policy response will be influenced by the level of fiscal support provided during and after the current lockdown.

Evidence to date suggests demand has held up better than in previous lockdowns, but supply-side constraints have been exacerbated by regional boundaries

10. On the demand side, electronic card spending data shows that spending during this most recent Alert Level 4 lockdown was around 40% down on pre-COVID levels compared to the March/April 2020 Level 4 period reduction of around 60%.

11. On the supply side, Auckland operating at a higher Alert Level than the rest of New Zealand has contributed to additional loss of activity outside of Auckland. Some business contacts have raised concern about the availability of Auckland-sourced inputs as a constraint to their own activity. However, some businesses outside of Auckland may operate at higher capacity than otherwise, which could partially offset any anticipated lost activity.

12. The size of these impacts is uncertain and likely varies across firms and sectors. On balance, we estimate that the loss of activity in areas outside of Auckland will be in excess of our standard assumptions by around $15 million - $50 million per week.

The economic outlook will be heavily influenced by the amount of time spent at higher Alert Levels

13. The shorter the time spent at higher Alert Levels, the more likely it is that activity will be deferred rather than lost. Conversely, the longer the period spent at higher Alert Levels (or the more often Alert Level restrictions are imposed) the more likely it is that longer-term losses in potential economic output will occur. This will influence the size of the transitory spike in demand driven by deferred consumption and lockdown-induced savings.

14. We will provide you with an overview of the preliminary 2021 half year economic forecasts in the week beginning 4 October. This update will include pathways for the economic outlook based on different durations of higher Alert Levels and assumptions regarding the subsequent recovery.

15. Based on the experience of the first national lockdown early last year, of a similar duration to date, we would expect economic activity to recover to pre-lockdown levels in the December 2021 quarter. However, if Auckland stays at higher Alert Levels for a longer period, the recovery is likely to be pushed out further. The overall impact is expected to be lower than last year's June quarter lockdown given that the rest of the country continues to operate at lower Alert Levels.

Increasing restrictions at Alert Levels imposes additional economic losses

16. The new restrictions for Alert Level 2 in response to the Delta variant is estimated to result in an additional loss in economic activity of around $10 million per week (0.2% of GDP) relative to being in the "old" Alert Level 2. These losses are concentrated in industries including hospitality, events, arts and recreation who are most impacted by the reduced cap on the number of people allowed in indoor venues (down from 100 to 50).

17. Our estimates of Alert Level impacts are direct impacts, rather than dynamic impacts (e.g. activity that is deferred rather than lost). While we base our estimates on what happened during previous lockdowns, household and business responses to each lockdown is likely to change as they adapt and respond to uncertainty. The stronger starting point for the economic outlook pre-lockdown and resilience shown from higher frequency data suggest a reasonably robust recovery, but the uncertainty around the length of lockdown restrictions means we cannot provide clear estimates of the path ahead at this time.

Based on what we have seen since the start of lockdown, the current fiscal approach remains appropriate

18. Based on what we have seen to date, we still see no need for additional fiscal support (beyond the WSS and RSP) to stimulate the economic recovery at this stage.

19. Similarly, we do not consider that there are strong macroeconomic or fiscal reasons for reducing the current level of fiscal support, given the benefits of maintaining certainty for businesses and individuals and minimising hardship:

    a Debt levels remain prudent and the deficit is expected to fall across the forecast period. Stronger than forecast fiscal outturns since Budget 2021 will also offset much, if not all, of the deterioration in the fiscal position arising from this outbreak (T2021/2190 refers). Absent a substantial worsening of the outbreak then the fiscal position at HYEFU is unlikely to be significantly different than forecast at BEFU.

    b Second, support is broadly proportionate to the size of the economic shock, which limits the risk that fiscal support significantly contributes to inflationary pressures. Our early assessment is that the inflationary impacts of the support measures currently in place are broadly sufficient to offset the disinflationary impact of the lockdown. That is, the lockdown combined with the fiscal support measures has neither increased nor decreased our early assessment of inflationary pressure or our assessment of likely monetary tightening.

20. As inflationary pressures build, it is likely that the Reserve Bank will lift interest rates. However, interest rates are starting from a very low base and are likely to remain low by historical standards. Fiscal spending over and above the support measures already announced would likely hasten or extend the expected monetary tightening, while a reduction in fiscal expenditure would delay or ameliorate the degree of tightening.

Given the uncertainty of the situation, the appropriate macroeconomic response will need to be kept under review

21. The appropriate macroeconomic response will be determined by the duration and severity of the outbreak and associated Alert Level restrictions, and the subsequent impact on consumer and business confidence. The Treasury will continue to monitor high frequency data and provide ongoing advice on policy options.

22. In pessimistic outbreak scenarios it is possible, absent additional fiscal support, that business failures increase as firms run down any buffers they had. This risks a slower economic recovery and more significant long-term scarring, and further fiscal support would likely be warranted to limit such impacts and any subsequent supply side contraction.

23. We would provide advice on options for further macroeconomic support if businesses failures increased. In this situation it would still be important to get the right mix of supply-side and demand-side support.

24. Alternatively, a quick return to lower Alert Levels and inflationary trends that were emerging pre-lockdown may warrant a reconsideration of the overall fiscal stance. That is, tightening fiscal policy to ease pressure on monetary policy. However, any decision would depend on the overall costs and benefits of different levels of spending as well as the macroeconomic implications. We therefore recommend that in this situation the macroeconomic strategy is considered through the Budget 2022 process, while also factoring in how the economy adjusts in the medium- to long-term as New Zealand's border restrictions are eased.

Supply-side response

At this time, we do not believe further labour market interventions specifically designed to address the escalated Alert Levels are necessary

25. Border closures continue to impact labour supply shortages regardless of Alert Level restriction and separate work is already underway to understand and address the acute labour supply issues given the ongoing border constraints. In addition, the Government has undertaken significant investment in labour market supports such as the Apprenticeship Boost and Flexi-wage, which will support employment retention, employment growth and skills development. The WSS will also continue to support labour attachment during higher Alert Levels.

26. s9(2)(f)(iv)

Officials are preparing options for Ministers to address supply chain pressures and we continue to work with industry to address immediate constraints

27. Global shipping and supply chain congestion have not improved and are likely to last for the next 12 to 18 months and the recent Alert Level 4 restrictions have further impacted supply chains. The Interagency Group on Supply Chain Disruptions reports that with New Zealand outside of Auckland operating at Alert Level 2, export supply chains are reportedly recovering well.

28. Given the global scale, complexity and market-led nature of supply chains, Government's ability to intervene effectively has been limited.

29. Officials have largely focussed on smoothing regulatory hurdles, facilitating industry collaboration, providing information and advice, and addressing specific areas of disruption.

30. Agencies will continue to work with industry and the freight sector on any impacts as they arise, and we will keep you informed about an upcoming Ministry of Transport paper discussing options for Government intervention to address supply chain issues.

The economic support strategy is appropriate for the near-term

Current economic support measures are appropriate for the next six weeks

31. The primary objective of economic support should continue to be supporting the public health response and reducing the economic and social disruption caused by the outbreak. Overall, we consider that current support settings are appropriate for achieving these objectives for the next six weeks while the RSP and WSS remain in place, and as long as Alert Levels continue to fall in a timely manner.

32. Overall business confidence has remained broadly strong and firms continue to expect a rebound in activity. However, the impact of restrictions remains uneven across groups, sector, and location. Evolving public health issues (including new gathering restrictions at Alert Levels 1 and 2) may impact some groups more than others.[2]

[1] The EET Secretariat is also progressing a review of New Zealand's active labour market policies (AMLPs) to advise Ministers on potential ways to improve cross-agency delivery, design and effectiveness. While this work in on a longer timeframe (stretching into 2022), it will help provide an overview and direction to better use AMLPs to improve labour market matching.

[2] Most sectors of concern were in a more robust position going into this outbreak (T2021/2218 refers).

Further support and policy changes to support individuals have been implemented during the current outbreak…

33. Since our last update, further support for individuals rolled out during the current outbreak has included additional non-business support and policy changes for: [3]

    a **Students:** More support through the Hardship Fund for Learners ($20 million), and by extending student loan living cost payment for students on study break.

    b **Vulnerable groups:** with funding to Whānau Ora ($23 million) to support testing, vaccination, and self-isolation; funding to MSD ($18.7 million) to meet increased community need for food and other essential items; and funding to Vote Women ($2 million) for community support for women and girls impacted by COVID.

    c **Residential tenancies:** to amend the Residential Tenancies Act (RTA) to restrict tenancy terminations under any move to Alert Level 4.

…and uptake of business-related measures like the RSP and WSS has been strong

34. More support to businesses with wage and non-wage ongoing costs has been provided through the WSS and RSP. Work to amend the Property Law Act 2007 to insert an implied clause in commercial leases requiring a rent reduction in emergency situations is also underway.

35. Both the RSP and WSS have worked well to reduce the burden for businesses and individuals in following public health restrictions and scheme uptake has been strong.

    a Demand for the RSPAUG21 have been in line with expectation, with $563 million (185,000 grants) disbursed as of 16 September, with the final cost of the first payment expected to be approximately $700 million.

    b Demand for the WSSAUG21 has been strong, but lower than the original March 2020 scheme.[4] We estimate the first payment will total $1.35 billion and the second payment may total between $850 million to $1 billion.[5]

36. Firms have been able to apply for more grant support relative to the March 2020 lockdown, and additional payments are planned. We estimate that over 6 weeks at Alert Level 3/4 last year, an eligible business with 10 full-time employees would have received up to $35,000 in support, whereas we expect this to be up to $47,000 during this outbreak.[6]

Current support remains appropriate and will continue to reduce the burden of public health restrictions…

37. The RSP and the WSS will continue to provide support with the burden of public health restrictions. A second instalment of the RSP is opening on 17 September, and further rounds have been announced for 8 and 29 October. A third payment of the WSS will also open on 17 September. We expect the uptake of future payments to be lower, but we consider them sufficient for the time being.[7]

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[3] Further detail on the current state-of-play of specific policy areas is provided in Annex 1.

[4] The March 2020 subsidy covered 1.63 million jobs. The first payment of the August 2021 subsidy covered 1.20 million jobs. T2021/2318 provides more detail of take-up and finalised costings for the third payment in accompanying advice.

[5] This includes approved and pending applications. Applications for the second payment close at 11.59pm on 16 September.

[6] This is the maximum possible support where all employees are full time and the business is eligible for every payment. Note that the March 2020 WSS was paid in a 12-week lump sum. Therefore, in terms of cashflow a given business could have received more within the first 6 weeks of the March 2020 outbreak than they have for the current outbreak.

[7] We estimate the second, third, and fourth rounds of the RSP will cost $430 million, $100-200 million, and $40-120 million respectively. If Auckland is at AL4 for at least 8 days of the revenue period, and the rest of NZ is at AL2, we estimate the WSS will cost $550-900 million [T2021/2318 refers]. Actual uptake will depend primarily on the evolution of Alert Level settings.

38. The extension of the RSP should also assist those businesses disproportionately impacted by additional restrictions imposed at Alert Level 2.

39. Continued public communication remains important to ensure support reaches the groups most in need. This includes continued engagement with Māori and Pacific networks to highlight the availability of these schemes and ensure that all those eligible can access them.

…and further advice is coming on options for additional support if needed

40. Maintaining a focus on Māori and Pacific groups remains important, especially given the high proportionality of both groups in the Auckland region. Engagement with Māori and Pacific groups has highlighted that beyond immediate monetary needs, issues include access to healthcare, discrimination, and mental health support constraints. A remaining issue may be casual workers (including students) affected by lockdown who may not receive the Wage Subsidy through their employer.

41. The Treasury will soon provide further joint advice with MSD on targeted income support options to support low-income households [T2021/2355 refers]. This includes options to more quickly implement a temporary increase to hardship assistance income limits, and options to provide more support via the NGO sector.

42. We understand that you have commissioned Ministers Nash and Clark to undertake further work to explore opportunities to support the hospitality and events sector, and that you have asked Minister Little to consider what mental health support could be made available to small business owners. We understand the trading banks have support schemes for existing customers, and business advisory support provided through the Regional Business Partners (RBP) network was met with strong demand last year, resulting in further funding to expand the service. While demand during the current outbreak is not a strong as last year, there has been increased demand from existing RBP businesses.[8] Treasury officials will raise these options with colleagues in MBIE and MOH to ensure they are considered as part of their ongoing work.

43. While in the first instance we do not see a need to extend the WSS to provide support at Alert Level 2, we have considered potential options for extending the WSS [T2021/2312 refers] and can provide further advice if directed, and should there be need to provide more targeted support to Auckland. Note that operational constraints at MSD will significantly limit the ability to target support to need, extending the WSS creates a precedent that risks fiscal management for future support, and unexpected rule changes will create unavoidable equity issues.

44. It may also be possible to bolster the near-term role of the Small Business Cashflow Scheme (SBCS), subject to delivery capacity at Inland Revenue. The Treasury is providing you with further advice on this.

The risk of reescalation in Alert Levels means a flexible approach is needed

45. There remains a risk that reescalated and/or substantially longer Alert Levels are needed to control a subsequent outbreak over the next three months. At this stage we consider the current set of COVID economic supports to be broadly appropriate for such a scenario.

46. Further consideration may need to be given to how to support the most vulnerable communities through a more protracted period of hardship, particularly given the potential for long-term scarring in the labour market. Continued monitoring and flexibility will be important to ensure the response remains appropriate.

[8] This is also not a direct comparison as services have since scaled back as increases in funding have expired.

47. Any additional support over the next three months should consider the transition to the new normal and is an opportunity to signal what economic support may look like in the future. In particular, support should start to be targeted to firms that can adapt to a new operating environment with ongoing public health restrictions. For example, providing additional support through loan-based, rather than grant-based, measures would deliver a signal that support over the long-term will be provided to firms with a future revenue stream to repay loans (see paragraph 61 for further detail).

COVID economic strategy – transitioning to the new normal (2022 onwards)

48. This section of the report sets out how vaccination rates might change both the public health and economic context from 2022. It outlines key decisions with significant economic and fiscal impacts and seeks your feedback on our initial thinking about how economic supports might need to change in response to this new context.

Vaccination changes the public health context…

49. As community vaccination rates increase, there are significantly more options for managing COVID-19. The health consequences of higher case numbers are significantly reduced, with a smaller impact on the health system relative to outbreaks in a largely non-vaccinated population.

50. The relationship between vaccination rates, the health impacts of COVID cases and the public health restrictions needed are being assessed through modelling and examining the experience of other countries (see Annex 2). There is no clear 'steady' or end-state but in broad terms the option-set grows from a reliance on lockdowns and strong border restrictions to include:

- broad surveillance testing programmes (including rapid, self-administered tests) and high-volume contact tracing to keep cases in-check;
- a range of possible permanent 'baseline' health restrictions to reduce the risk of superspreading (e.g. masking requirements, risk-weighted gathering limits);
- more relaxed border restrictions that reflect the different risks of incoming travellers; and
- more targeted lockdown-type public health measures that could focus on slowing identified clusters (e.g. individuals, workplaces, schools, suburbs) rather than large geographic regions.

…which will have significant economic and fiscal impacts

51. We see the key economic and fiscal impacts resulting from the new public health context arising from your choices about:

- **The level of investment in health system capacity**, including testing, tracing and isolation, the role of primary care in managing illness, and hospital capacity (ward and acute care), and ongoing vaccine purchasing. Many of these are not easy to change in the short term.
- **The future role and focus of MIQ capacity** (eg managed isolation for international arrivals, quarantine for community cases) and the Government's role as either a purchaser or provider of this service.
- **The volume and mix of international arrivals**. More relaxed settings will provide both economic and social benefits (e.g. business travel, skilled migrants, students, tourists, family and refugee reunification).
- **The specific design of any permanent baseline health measures**, which are likely to have larger impacts on the events, recreation and hospitality sectors (e.g. gathering limits).

- **The role of economic supports** for individuals and firms to comply with and adjust to public health measures, support the transition to a COVID-resilience economy and to bolster social license overall.

The direction and focus of economic supports will need to adapt to the new context

52. In previous advice we noted the five objectives for COVID economic support over the near-term listed below:

    a Support the public health response by supporting compliance and social licence for public health restrictions

    b Reduce the social and economic disruption associated with outbreaks

    c Support a transition to a COVID-19 resilient economy

    d Share the burden in an equitable and fair way

    e Manage the macroeconomic and fiscal implications associated with providing economic support (including via a timely, temporary, targeted focus for spending).

53. As vaccination levels increase, the role of economic supports in supporting the public health response will remain critical for better health outcomes and minimising the potential disruption to the economy of an uncontrolled outbreak. However, firms and households will also need to adjust to a new post COVID operating environment. There may be a role for government to support this transition and help build a more COVID-resilient economy. In light of this, we have set out below what we consider to be some of the key factors to consider in evolving the economic support package.

Supporting the public health response by supporting compliance

54. As the public health strategy evolves to the new context, economic supports will have a role to play in ensuring that the Government is well placed to deliver on this strategy. For example, this could be through measures that directly support test, trace, and isolate requirements for individuals and firms. This could include a larger role for measures such as the Leave Support Scheme (LSS) and Short-term Absence Payment (STAP) which were designed to support businesses and employees with the burden of complying with public health guidance on self-isolation.[9]

55. In addition, there could be scope to change the balance between supporting firms and supporting individuals directly. To date, most economic support has been provided through business, even if the result is to support staff. If public health orders are more targeted to specific individuals, it may be more appropriate to target support directly to those affected. Using the current resurgence as an example, in future the Government could more directly support those in particular clusters to stay home, rather than their workplaces. Further work is required to understand the viability of individual-focused support as well as the implication for firms in changing approach.

56. There may also be merit in reconsidering the role of broad versus targeted measures. If public health restrictions become more targeted at particular businesses (e.g. short-term closures of workplaces with high levels of transmission), a broad WSS or RSP is unlikely to be appropriate or effective. In these circumstances we would need to reassess both what costs/losses would be appropriate to cover and the length of time we would expect firms to manage those losses.

[9] A review of the LSS and STAP is underway and the Treasury will report back later in September.

Supporting the transition to a COVID-resilient economy

57. Building resilience in a new COVID operating environment is dependent on the ability of households and firms to absorb additional costs related to the new environment, adapt to the 'new normal', and in some instances transform themselves in order to maintain or improve their wellbeing in a different operating context.

58. There may be a role for Government to support firms with this transition. For example:

    a Meeting domestic public health requirements to reduce transmission risks in workplaces, such as through better ventilation, testing supplies, greater distancing between staff and capacity limits in public venues.

    b Adapting to a more volatile border – particularly if border restrictions become an active tool to reduce risk during periods of high domestic transmission. Firms are more likely to adapt to a relatively stable border policy but will find it harder if flows are regularly turned 'on or off'.

59. Baseline public health restrictions may have a larger permanent impact on certain sectors (eg events and hospitality) and they may need additional specific measures to support adaptation (such as business mentorship). Ultimately the transition may also mean some firms are no longer viable because they cannot adapt to ongoing public health restrictions.

60. Once there is more clarity about the public health strategy, we recommend examining the extent to which the Government should support these costs, and if so, the relative role of regulatory reforms, loans and grants.

61. If future lockdowns are shorter, activity is more likely to be deferred than lost and it may be possible to use loans instead of grants to support temporary dips in cashflow. Debt instruments are a better signal of the firms ongoing viability, although the role of government relative to private sector lenders would need to be tested.[10] Grants are administratively simple and may be appropriate for managing the initial round of impacts rather than ongoing costs.

62. We welcome your feedback on the points discussed above to help progress our thinking for future advice, which we will provide later at an appropriate time.

[10] We note that but the SBCS in its current form is unlikely to be a suitable instrument to manage future outbreaks in the long-term.

Annex 1: Further detail on COVID economic support measures

Updates from the previous advice for the strategy for COVID economic response [T2021/2190] are in red.

Measure	Summary	Status
Housing		
Residential tenancies	During last year's Alert Level 4 lockdown, temporary legislative changes were made restricting tenancy terminations, imposing a freeze on rent increases, and empowering the Tenancy Tribunal to operate flexibly. These changes were made on the understanding that New Zealand could be in an Alert Level 4 lockdown for some time, and that the economic impact of COVID-19 on individual households could be considerable. These changes have now expired.	**Progressing.** On 7 September, the COVID-19 Ministerial Group agreed to progress several amendments to the Residential Tenancies Act (RTA) to enable Ministers to respond to future COVID-19 outbreaks and alert level changes. These changes are aimed at restricting tenancy terminations and will come into force through an order by the Minister responsible for the RTA under section 11 of the COVID-19 Public Health Response Act 2020 in the move to a national or regional Alert Level 4.
Homelessness	As part of last year's Alert Level 4 response, HUD received $107 million to secure approximately 1,200 new motel places to house individuals and households experiencing homelessness. HUD received funding at Budget 2021 to extend a significant portion of these places.	**Active.** At this stage, HUD has not advised that additional motel capacity is required, but HUD is continuing to monitor the situation with providers. We understand that a small number of households have been placed into motels through the Ministry of Social Development's (MSD) Emergency Housing Special Needs Grant system.
Business and household finance		
Mortgage relief	Over 2020, deposit takers offered customers temporary mortgage deferrals. The Reserve Bank issued guidance that those deferred loans would not be treated as 'being in default', allowing the offering to continue without impacting capital requirements.	**'Watch and wait'.** We do not foresee a need to reintroduce a mortgage deferral scheme at this stage unless there is a prolonged lockdown that causes a drop in incomes and job losses. Banks have the capacity to deal with a modest volume of loans being deferred without a regulatory concession from the RBNZ. Should the situation change, the RBNZ would seek to be supportive of banks and their customers, consistent with its financial stability objective.
Financial regulatory relief		**'Watch and wait'.** The Council of Financial Regulators regularly meet with the financial sector in order to understand current and upcoming pressures and any regulatory relief that might be required to help financial institutions support their customers. The Treasury is also working closely with the Reserve Bank who is increasing their monitoring and talking to banks regularly.

Commercial property		
Commercial leases	Measures in this area could aim to make it easier to retain lease arrangements and get back to business as usual after lockdowns by giving parties more time to fulfil their payment obligations before the other side can take enforcement action.	**Progressing.** On 9 September, the COVID-19 Ministerial Group agreed to amend the Property Law Act 2007 to insert an implied clause in commercial leases requiring a rent reduction in emergency situations.
Education		
Funded childcare for essential workers	Essential workers who have children aged up to 13-years-old can access free childcare, so they are able to continue to provide the essential services we need during the current lockdown.	**Active**. The scheme is likely to continue to see demand while the country (or parts of it) is at Alert Level 4. In previous Alert Level 3 settings, children of essential workers have been able to attend educational settings in-person.
Emergency payments providing wage support for casual staff in State and State-Integrated schools	This scheme is available to day relievers, kairāhi and non-teaching staff or kaimahi who are paid by timesheet, and who will not receive any payment due to school and kura closures at Alert Level 4.	**Active.**
Measures to support distance learning		**Active.** Funding agreed by Cabinet to support a range of distance learning measures is likely to be sufficient for a period of approximately one month for hard packs to support distance learning (and a similar time for television content, though this content will take longer to produce and distribute), and for a longer period for internet connections and device provision.
Funding for vulnerable learners		**Active.** The schooling sector will be shifting its focus to reengaging vulnerable learners with the education system, and we will likely see a request for funding.
Early childhood care wage pressure		**Active.** The Early childhood sector has raised concerns around financial viability of ECE providers, in particular wage pressures.
In-kind and income support		
In-kind benefits and funding for vulnerable communities	MSD has restarted a package of community support measures similar to those implemented previously. This includes funding for food banks, grants to community service providers, and support for Women's Refugees for additional accommodation.	**Active.** Since 27 August, $23.032m has been allocated to Whānau Ora commissioning agencies, funded from the CRRF. Activities provided through this funding include establishing, operating and supporting vaccination and testing sites, distributing food and support packages and supporting whānau who are isolating. **Active.** Since 27 August, $2m has been allocated to Vote Women for a fund to be administered by the Ministry for Women, available to NGOs and community organisations that are supporting women and girls impacted by the COVID-19 resurgence.

		The fund will target population groups who are disproportionately impacted and struggle to access support from other services, including migrant and refugee women and women in isolated or rural areas. Distribution of the fund will commence during September and data from this process will help determine if gaps in this area remain. **Active.** MSD has been allocated $18.7m to meet increased community need for food access, other essential wellbeing items and community connectors due to heightened Alert Levels (funded by $4.5m from the CRRF, $4m by reprioritisation and $10.2m from a FNA from MoE). Joint Ministers can access an additional $3.1m from the CRRF should Auckland remain at above AL3 post the 23 September.
Income Support	In response to last year's Alert Level 4 lockdown, main benefits were increased permanently, and the Winter Energy Payment was temporarily doubled to support low income families. Budget 2021 agreed further increases to main benefits, with the first increase coming into effect from 1 July 2021. We also introduced the COVID-19 Income Relief payment. Due to the Wage Subsidy extension, the need for this payment was reduced.	**Progressing.** Treasury will soon provide further joint advice with MSD on targeted income support options to support low-income households, following Alert Level increases [T2021/2355 refers]. This includes options to more quickly implement a temporary increase to hardship assistance income limits, and options to provide more support via the NGO sector
Tertiary student support		**Active.** Since the 27th August, two additional support measures have been implemented directed at tertiary students: 1. Putting a further $20m into the Hardship Fund for learners. 2. Extending student loan living cost payments for tertiary students on study breaks for up to 8 weeks.

Annex 2: COVID public health restrictions and economic support settings in highly vaccinated countries[11]

Country (vaccination rate)	Public health restrictions			Economic support settings	
	Vaccine/negative test requirements	Social distancing	Other (e.g. masks, border restrictions)	Businesses	Individuals
Denmark (71% fully vaccinated, 76% partial)	Has been restricting access to some indoor spaces, but now phasing this out	No social distancing	Border restrictions (including negative test/self-isolation for 10 days for some travellers)	No current supports (Loans to start-ups and extended tax deadlines have ended)	No ongoing support identified
Iceland (70% fully vaccinated, 82% partial)	No vaccine/negative test requirements	Social distancing of 1m (with some exceptions) Gathering limit of 200	Mask mandates 11pm curfews for some bars/restaurants	Relief grants for businesses with revenue loss ending 30 Nov 2021 Grants for companies forced to close as part of infection management (ending 30 September 2021)	Increased payments for support of job-seekers' children will be extended through the end of 2021 Income-related unemployment benefit time period temporarily increased to 6 months
Ireland (75% partially vaccinated)	No vaccine/negative test requirement for entry (but capacity limits are higher if all attendees are vaccinated)	Phasing out physical distancing and gathering limits	Mask wearing on public transport, indoor retail, and healthcare settings. Vaccination or negative test for foreign visitors from most countries, with self-isolation for hot-spot countries	Commercial rates waiver (ending 30 Sep 2021) Tax debt warehousing (ending 31 Dec 2021) Business Resumption Support Scheme (single payment to struggling businesses) to be introduced in September 2021	Extending equivalent of wage subsidy until 31 December 2021 An extension of the reduction in VAT rate of 9% for the hospitality and tourism sector until 1 September 2022

[11] This table has been prepared at a particular point in time and some settings are expected to change over time (e.g. vaccination rates, economic supports).
In addition, the public health restrictions in some jurisdictions are expected to fluctuate in response to COVID outbreaks. While some jurisdictions may have low levels of restrictions at this time, they may need to impose further restrictions in response to an outbreak. In some cases, current restrictions are in response to an outbreak, with a plan to lift restrictions once the outbreak is under control (e.g. Iceland). In addition, other countries (e.g. UK) plan to enact stricter public health settings ("Plan B") if health system capacity becomes constrained due to COVID.

				A new COVID-19 Deferred Payment arrangement to support additional statutory redundancy costs	
Israel **(62% fully vaccinated, 68% partial)**	Vaccine or negative test to get access to venues or events	Caps on attendance at indoor and outdoor events. No event can surpass 75% capacity	Mask requirements for indoor venues, or outdoors when there is more than 100 people	No ongoing support identified	No ongoing support identified
NSW (plan when 70% fully vaccinated)	Re-opening freedoms only available for vaccinated adults (unclear how this will be enforced)	Limit of 1 person per 2sqm or 4sqm for most venues Limits on home gatherings, weddings, funerals	Mandatory masks for indoor public venues	Business grants JobSaver Payroll tax reduction/deferrals	Test and isolate payment Eviction moratorium
Singapore **(78% partially vaccinated)**	No vaccine/negative test requirement for entry, but caps on attendance at indoor events is higher if all attendees are vaccinated	Some limits on number of people at events, hospitality, and workplaces	Mask requirements Opened up 'green lanes' for fully vaccinated travellers with negative test from some jurisdictions Mandatory rostered testing in some business sectors	Targeted wage support (ending September 2021) Bridging loan scheme (ending September 2021) Targeted support through 2021 for specific industries (arts & culture, sports, aviation, land transport sector)	No ongoing support identified
UK **(64% fully vaccinated,** **67% partial)**	Planning to restrict access to crowded indoor events to only the vaccinated (but Wales and NI not implementing)	Self-isolation rules for those with COVID symptoms No general distancing or gathering rules	Green and red lists on border	Self-employment Income Support (ending 30 Sep 2021) Recovery Loan Scheme (ending Dec 2021) Furlough (ending 30 Sep 2021)	Test and Trace support payment for low income individuals

TE TAI ŌHANGA
THE TREASURY

Reference: T2021/2779 SH-3-6

Date: 5 November 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: None

Potential lump-sum payment to low-income families in Auckland

We understand there is Ministerial interest in a progressing a one-off regionalised lump-sum payment to low-income households impacted by prolonged COVID-19 Alert Level restrictions.

We understand you have been referred two pieces of advice:

- The Minister for Social Development and Employment has received advice from Ministry of Social Development (MSD) on options to target a payment to different subsets of MSD clients based in Auckland, Waikato and potentially Northland [REP/21/11/1194 refers].

- The Minister of Revenue's office received a note from Inland Revenue (IR) assessing the operational feasibility of a similar payment [BN2021/516 refers].

This note provides a summary of our high-level considerations, and then provides some more specific comments on the two papers.

From a macroeconomic perspective, Treasury does not support options for a regionalised lump-sum payment to low-income families in Auckland and Waikato. Such a payment risks contributing to higher inflation and interest rates by having a stimulatory effect on the economy. Moreover, the payment risks having precedent-setting effects which cumulatively could contribute to worsening fiscal sustainability, with potential impacts for your fiscal strategy. Supports under the new COVID-19 Protection Framework have not been settled, and there is risk that there could be demand for a similar payment if a region spends a prolonged period at RED.

There has already been significant investment to lift incomes for a range of low-income New Zealanders, both generally and relating to the impacts of COVID-19. This includes multiple increases to main benefits (April 2020, July 2021 and April 2022), Working for Families changes (April 2022), and increases to Student Support

(April 2022). Furthermore, there have been specific targeted changes responding to the current Delta resurgence (e.g. Student Hardship fund, Hardship income limits).

There is a lack of clear evidence around the case for this type of support. This is in part because it is unclear what the underlying rationale for the payment is. As noted above, we strongly advise against any one-off payments that may provide further stimulus to the economy.

Should you wish to proceed with a payment, the following scenarios may help guide your thinking in terms of possible rationales:

- Some families, particularly those with children, will have faced increased costs because services or supports that they normally rely on are unavailable (e.g. childcare and school lunches),
- Some individuals or families will have faced additional costs associated with staying home (e.g. additional utilities), and
- Some individuals or families will have experienced drops in income because they haven't been able to work. However, this has been a key driver for the Wage Subsidy (both income support and employment attachment).

From our perspective, any rationale must have a direct connection to the prolonged lockdown, rather than primarily addressing underlying hardship or poverty.

Comment on options for MSD or IR to deliver a one-off payment

As noted, the Treasury does not support a one-off regionalised lump-sum payment. However, should you wish to progress such an option, either MSD and/or IR could serve as delivery agency. Both involve significant trade-offs, particularly given the speed.

Regardless of other targeting, geographically constraining a payment comes with risks, as it is reliant on the accuracy of the address information these agencies can access. Issues with data reliability could mean that people inside Auckland/Waikato miss out, while people in other regions unintentionally receive the payment. This has been raised by both IR and MSD.

Choosing MSD as the delivery agency constrains the possible target group to only existing MSD clients. If this is the case, we would suggest the payment be narrowly scoped (for example main beneficiaries and non-beneficiaries receiving Accommodation Supplement and/or Temporary Additional Support). We do not see a case for including superannuitants, students, or those receiving the Disability (or Child Disability) Allowance as the connection to the lockdown for these payments is unclear.

The main group that misses out if MSD is the delivery agency are low-income working families with children (e.g. Working for Families recipients). As noted above, there may be a stronger rationale for targeting support to this group given the impact of lockdowns.

Next steps

If you are interested in progressing this idea further, we recommend commissioning further advice from joint agencies (MSD, IR and Treasury), once you have settled on a rationale for a payment. This advice could canvas options across agencies, and potentially extend to third party providers. It could also explore a hybrid option such as using MSD to pay Working for Families clients.

You may wish to consider other options to provide support to low-income families in the upper North Island. Funding public amenities – for example, making public pools or transport temporarily free, may provide some financial relief to those on low incomes. This could have the additional benefit of encouraging people in these regions to undertake activities. We understand that these options may be considered as part of a specific Auckland package.

Laura Browne, Senior Analyst, Welfare and Oranga Tamariki, s9(2)(k)
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