

The Treasury

Advice on COVID-19 Response - Tranche Two Information Release

September 2022

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Treasury Report: Future of COVID support: Update

Date:	8 October 2021	Report No:	T2021/2529
		File Number:	SH-1-6-1-3-3

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Discuss with officials at the WAM on Tuesday 12 October</p> <p>Provide feedback on areas you would like further work</p> <p>Return the signed report with your decisions on actions</p>	Tuesday 12 October

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Ken Tsang	Analyst, Economic Policy	[39]	n/a (mob) ✓
Kerryn Fowle	Director, Economic Strategy Directorate		n/a (mob)

Minister's Office actions (if required)

Return the signed report and decisions on actions to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (annex)

Treasury Report: Future of COVID support: Update

Executive Summary

This report seeks to facilitate a conversation with officials at the Weekly Agency Meeting (WAM) on 12 October – The purpose of this conversation is to further develop the package of COVID-19 economic supports necessary as we move to a less restrictive and more targeted public health framework (which we term the RAG framework in the remainder of this advice).

This report builds on previous advice and discussions on the objectives and options for supports under the new framework. It seeks discussion as well as decisions from you on recommended options for this package, across:

1. The immediate near-term (until mid-November)
2. The transitional period (mid-November to January 2022)
3. The steady state (2022 onwards)

The recommended settings for each of these phases of the transition to the new RAG framework is set out in **Annex 2**.

The report also seeks feedback from you on key design choices for a modified Resurgence Support Payment (RSP) under the transitional period. Inland Revenue is urgently assessing whether the changes required to the RSP for it to operate in the RAG framework environment can be operationalised in time for 19 November. Your feedback will allow Treasury and Inland Revenue to provide further advice to support upcoming Cabinet decisions on the overall approach to economic supports.

Officials also seek indications of what further advice you would like on non-financial wraparound support for individuals, communities, and businesses across the transition and into the steady state.

Recommended Action

We recommend that you:

- a. **discuss** the contents of this report at the Weekly Agency Meeting on 12 October;

Immediate near-term (until mid-Nov, when the new RAG framework is expected to be implemented)

- b. **note** that we do not consider a need for imminent changes to support settings before the new RAG framework is implemented.
- c. **note** Inland Revenue can continue to deliver the RSP under the current settings and in accordance with the current Alert Level framework between 29 October - 19 November.

Transitional period (Nov/ Dec/ Jan)

- d. **note** that given implementation constraints across agencies, we recommend that transitional support primarily rely on existing measures, with consideration of large-scale changes focused for the long-term.**note** that the Treasury recommends turning off the Wage Subsidy Scheme (WSS) when the existing Alert Level framework is turned off and reactivating the WSS is only considered if the public health situation goes beyond Red settings.**note** we can provide more advice on considerations for reactivating the WSS, such as re-imposition of health restrictions beyond the Red level at a regional or national level and/or for a prolonged period.**note** that for individuals this would mean greater reliance on the Leave Support Scheme (LSS) and Short-term Absence payment (STAP).**note** that the Treasury will provide advice in the week of 18 October on whether changes are required to the LSS and STAP declarations to ensure they are viable for Section 70 related public health restrictions. This will also further advise on potential steady-state changes.**agree** to prioritise a communications push on the LSS and STAP to ensure that the public is aware of these, including specific communications plans to target Māori and Pacific people.

Agree/Disagree.

- j. **note** the Red settings as currently drafted are likely to impact hospitality and events sectors more than other industries; however we anticipate a strong rebound in overall economic activity to occur on exit from Alert Level 3 to this new setting.
- k. **note** that as a result there is a case for a more targeted, more generous, and one-off “exit-payment” of the RSP issued around the introduction of Red settings; this would be achieved by increasing the revenue drop threshold to 40% and increasing the payment rate to a \$2,000 base payment + \$500 per FTE for a single payment.
- l. **note** if your objective is instead to continue to support ongoing costs throughout a prolonged period spent under Red settings, we recommend increasing the revenue drop threshold to 40% to improve targeting but maintaining the current payment rate and issuing the payment every 3 weeks.
- m. **note** increasing the revenue drop threshold from 30% to 40% in any scenario will significantly reduce the number of firms receiving the RSP but increase the concentration of firms in the most affected sectors.

EITHER:

- n. **agree** to issue a one-off “exit payment” of the RSP on the introduction of Red settings to signal greater emphasis on the need for firm to adapt to new public health settings (**RECOMMENDED**).

Agree/Disagree.

OR:

- o. **agree** to issue 3-weekly payments of the RSP throughout the duration of a period spent at Red to support firms’ ongoing costs.

Agree/Disagree.

IF you agree to rec (n):

- p. **agree** to increase the RSP payment rate to a \$2,000 base payment + \$500 per FTE and to increase the revenue drop threshold to 40%; thereby increasing payments to the most affected firms (**RECOMMENDED**).

Agree/Disagree.

IF you alternatively agree to rec (o) EITHER:

- q. **agree** to maintain the current payment rate and increase the revenue drop threshold to 40%.

Agree/Disagree.

OR

- r. **agree** to maintain the current payment rate and the revenue drop threshold at 30%.

Agree/Disagree.

- s. **note** that Inland Revenue can make changes to the revenue drop test and the payment rate for an RSP issued from 19 November if Cabinet decisions are made by 26 October and assuming no significant administrative issues arise from the final Business Transformation release.

- t. **note** that Inland Revenue is currently urgently assessing what changes are required to the RSP for it to operate in the RAG framework environment, and whether this can be operationalised in time for a 19 November delivery. The Tax Administration Act 1994 will also need to be amended so the RSP can operate in the RAG framework.

- u. **agree** no further work should be done on altering the Small Business Cashflow Scheme in the transition period.

Agree/Disagree.

- v. **note** that the Treasury does not see a need for broad-based support, including the RSP, under Amber or Green settings.

- w. **note** that the LSS and STAP would remain available at all settings of the new RAG framework.

Steady-state (2022 onwards)

- x. **indicate** if you would like officials to undertake further work on the design of a 'kickstart payment' as a tool deployed on commencement of Green settings to support a re-start in business activity for the firms most heavily affected by COVID-19; with the intention for delivery in early 2022.
Yes/No.
- y. **indicate** if you would like officials to undertake further work on the design of a 'transition support payment' to support firms with the investment needed to comply with the public health strategy (e.g. ventilation, testing supplies); with the intention for delivery in early 2022.
Yes/No.
- z. **note** that in the future short-term cashflow credit will be an important way for firms to manage short term fluctuations in the public health situation and their revenue, a service usually provided by banks through (for example) overdraft facilities.
- aa. **indicate** if you would like officials to undertake further work on whether those existing credit channels will be sufficient from 2022 onwards as the public health situation develops and whether further government support is necessary;
Yes/No.
- bb. **note** that MBIE is developing high-level options to support the events sector.**note** that we consider there is a need to provide further 'wraparound' measures to individuals and businesses to support compliance with public health rules going forward. This includes measures such as mental health support and non-financial support for isolating.**note** that implementation constraints limit the ability to develop new 'wraparound' measures for the transition period.**indicate** if you would like us to explore options for increased NGO involvement in providing non-economic support options.**agree** to further work to develop a centralised communications plan in partnership with vulnerable communities to increase accessibility to existing support services.*Agree/Disagree.*

Next steps

- gg. **note** that the Treasury intends to provide further advice on economic support by 15 October. This will include draft cabinet material to support the Prime Minister's 26 October Cabinet paper on the new RAG framework.
- hh. **indicate** if you would like oral talking points on the direction of economic support to discuss with Cabinet as part of advice on 15 October.
- ii. **indicate** your plan to discuss this with your ministerial colleagues.
- jj. **indicate** your plan to publicly communicate the landscape of economic support.
- kk. **indicate** what further material you would like from Treasury to support the above.

Kerryn Fowlie

Director, Economic Strategy Directorate

Hon Grant Robertson
Minister of Finance

Treasury Report: Future of COVID support: Update

Purpose of Report

1. This report provides further advice on a package of COVID economic supports suited to a vaccinated world and the new public health framework under development which establishes Red, Amber, and Green public health settings. It is provided to support a conversation with you on Tuesday 12 October and includes:
 - a further choices and considerations for support options for the near term, the intermediate transitional period phase across November – January 2022, and the longer-term steady state, and
 - b the timing of advice, in light of changing timeframes for Cabinet consideration of the new public health framework
2. The report also includes initial advice on longer term options for wraparound support for individuals and business owners as we transition to the new framework.
3. The diagram in Annex 2 provides an overview of the support settings we recommend at each of the stages going forward.

Background

4. You have signalled that over the long-term, support will become more targeted to support the new RAG framework, and asked Treasury to develop a package of support that:
 - a shifts away from large broad-based economic support (e.g. the Wage Subsidy Scheme [WSS]), but that current broad-based supports are kept available for use in worst-case scenarios (e.g. if large lockdowns become necessary);
 - b shifts toward more individual-based support that is built off the Leave Subsidy Scheme (LSS) and Short-Term Absence Payment (STAP), and possibly more targeted income support;
 - c for business support, under the most permissive settings, is loan-based, except for any bespoke sectoral support and support for businesses to adapt to the new operating environment, while retaining the possibility of some form of targeted broad-based support at higher settings; and
 - d increases wraparound support such as mental health, and in-kind support.
5. While recognising the uncertain environment (e.g. the trajectory of Auckland cases), you have also signalled that:
 - a any intermediate changes to supports will be implemented from November;
 - b this will then be superseded by the new package of economic supports to be implemented in early 2022 (you have indicated that the Government

may announce this new package in October or early November, although this is not confirmed).

6. Considering the uncertain transition to the new RAG framework, and the ability of agencies to implement options beyond current measures, you indicated you wished to receive further advice on economic support options across three periods:
 - the near term (now to late October/early November)
 - an intermediate transitional period (early November to early 2022), and
 - a steady state (early-2022 onwards).

We recommend you maintain current support settings in the near term

7. Over the next few weeks, before the new RAG framework is in place, we recommend maintaining the current WSS and Resurgence Support Payment (RSP) settings. This provides continuity and certainty and reflects agencies' limited capacity to implement changes to schemes. This means:
 - a As previously advised, use of the WSS is only recommended at Alert Level 3 and above and not under the new Red setting.
 - b Inland Revenue has advised that additional payments of the RSP between 29 October and 19 November are possible without system changes as long as the payments retain the same payment settings as used throughout RSPAUG21. This additional payment must be based on the existing Alert Level framework.
 - c The relevant Order in Council would need to be amended and a decision to establish payments could be made nearer the time, based on our continued monitoring of economic impacts.
 - d A new SBCS product is not possible in this timeframe and we also consider it inappropriate to address immediate cashflow challenges in the coming weeks.

Intermediate transitional changes before a steady state in 2022

8. As outlined previously there are a range of economic support options that could be implemented to support a transition to the steady state in 2022, particularly to provide support under the new Red and Amber settings. These options would be based on either current or modified settings for existing supports, or be new initiatives, and acknowledge:
 - more time is needed to better develop the long-term package of support and understand what may be needed from 2022 onwards' and
 - changes made in this period should promote progress towards the longer-term vision of economic support (as outlined in the steady state section).
9. At a high-level, Treasury recommends turning off the WSS at the time the existing Alert Level framework is turned off and relying primarily on other existing

measures until any new measures can be designed and implemented. We note that in considering potential options:

- a Implementation feasibility must be considered – as making significant changes during transition is both limited by agencies capacity to implement changes, and that making changes now may constrain the ability to consider and implement other changes for the long-term steady state.
 - b The uncertainty of the trajectory of COVID-19 and the transition to the new RAG frameworks means there is likely to be more value in addressing minor issues and gaps where possible and focusing attention on large changes on the steady state. This is particularly the case for any changes that are transitional in nature, as the value of designing big changes that are only temporary is limited. Frequently changing the landscape of support may also cause confusion for businesses on what is available.
10. The sections below set out recommended support options under Red, Amber, and Green settings during the transition period to the new steady state. The role for wraparound support during the transitional period is covered later (see paragraphs 48-55).

Transitional support under a Red setting

11. Transitional support is most likely required under a Red setting of the new RAG framework due to its level of restrictions. Treasury recommends that the following transitional support settings be implemented during Red settings until 2022.

For individuals: *No WSS, with a greater focus on the LSS and STAP*

12. With the new Red setting under the new framework expected to be less restrictive than the existing AL3, you previously agreed with officials that there no ongoing need for the WSS. We propose that the WSS be retained as a backstop if public health conditions went beyond Red settings for a prolonged period or on a geographical basis. The LSS and STAP are likely to be able to provide analogous support in case of localised lockdowns achieved through health orders.
13. The trigger point for a return of WSS will need to be considered once we have seen further detail on the new health framework. Given the fiscal, macro-economic and signalling implications of a return to broad-based measures, reactivation of the WSS should be subject to Ministerial discretion at the time and ideally linked to a clear health event trigger.
14. With the removal of WSS as a support option under the new framework we propose that the LSS and STAP take an increased role in providing support, under broadly existing settings. As previously outlined, this will require changes to declarations to ensure these options are viable for Section 70 related public health restrictions.
15. Interim changes could be made to further clarify that employers should pass through payments reflecting average pay for casual workers in line with the average hours approach to whether part or full-time rates are available. Resourcing and capacity constraints on design and implementation mean we recommend you focus on considering substantive changes for the long-term

(2022 steady-state) so more time can be done to understand the potential gaps and design policy.

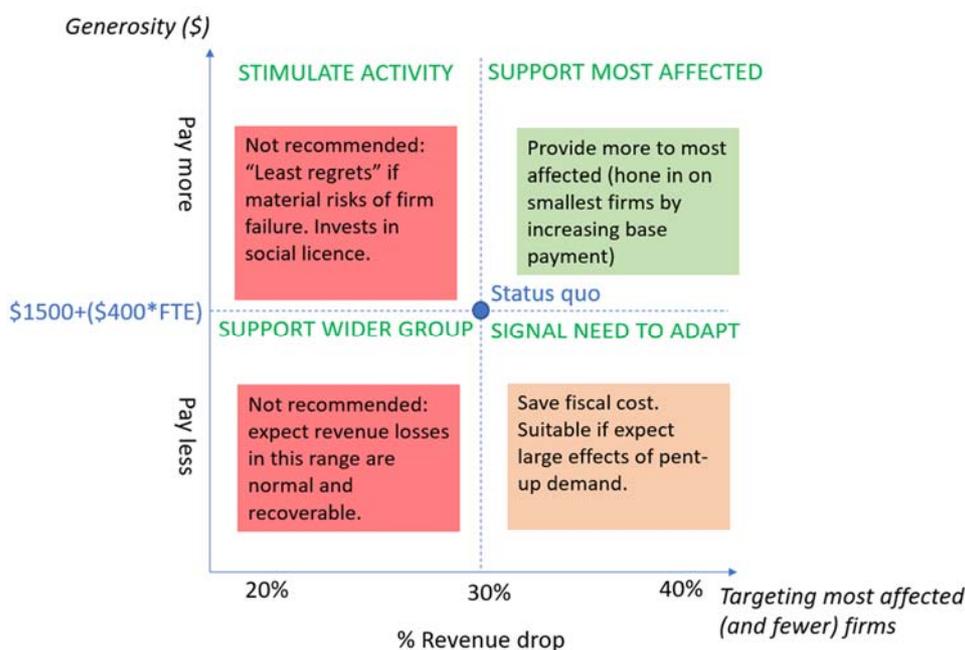
16. During the transition period, we recommend further publicity and promotion of the LSS and STAP to improve awareness that the scheme is available under the new framework and under health orders. We seek your direction on whether you would like officials to prioritise a communications push of the schemes to ensure that the public is aware of these. Note decisions will be needed on the lead agency and resourcing for this work.
17. Further advice on the application of the LSS and STAP under health orders, as well as on longer-term changes will be provided in the week of the 18 October. You may wish to indicate at the WAM on 12 October if you seek other interim changes to these schemes.

For businesses: *Non-wage costs - a modified RSP*

18. Treasury recommends a modified RSP as the most efficient means of supporting businesses to meet their non-wage costs through the transitional period.¹ There are a range of potential options to amend the RSP for the transition period, depending on the:
 - objectives sought from the initiative
 - the resilience of firms, and
 - expected level of activity rebound/pent-up demand.
19. Treasury notes that providing further fiscal support for ongoing costs too broadly, or at too generous a rate could prove unnecessary, and risks undermining business adaptation and sustaining unviable businesses for too long. Providing too little support risks business failure.
20. Choices made now on the RSP should also be made in-line with your steady state goals for the RSP. Crucially, in the steady state we consider the RSP should be more targeted, with only one payment at the start of any escalation to Red restrictions as well as a higher revenue drop threshold (as discussed in the steady state section below).
21. If you agree on this long-term trajectory, changes made during the transition period could make progress towards more targeting. Key choices you can make are:
 - a The **revenue drop threshold**, which defines who to target
 - b The **payment rate**, which defines how much to pay and determines the coverage of ongoing costs
 - c The **payment frequency**, which is determined by the scheme purpose and relates to the triggers for the scheme.
22. This is summarised in Diagram 1 below, with Annex 1 providing more detail on what the fiscal and distributional impacts could be.

¹ Please note that any changes to the RSP settings that related to a new public health framework will likely require amendments to the Tax Administration Act 1994

Diagram: considerations for amending the RSP under ‘red’ settings²



23. At this stage, we do not see a strong case to decrease the revenue drop threshold. This is because the impacts incurred to date have been relatively concentrated in Auckland and certain sectors and this is set to continue under Red settings.
24. We therefore suggest the RSP should be more targeted under Red in the transition period, by increasing the revenue drop threshold to 40%. As outlined in Annex 1, this would significantly reduce the overall number of firms supported but provide relatively more to those most affected by Red settings, which is an important trade-off to consider.
25. We also suggest that given firms are set to benefit from pent-up demand once Alert Level 3 is disestablished, and given the need for firms to transition to a new public health approach overall, the payment is issued as a one-off “Alert Level 3 exit payment”, on more generous terms to the targeted firms.
26. We recommend the payment rate be increased to a \$2,000 base payment + \$500 per FTE, which amounts to 110-120% of the weekly ongoing costs faced by the average hospitality business.
27. We also suggest this is a one-off approach taken during the transition period because frequent changes to the scheme are likely to result in customer confusion.
28. If your preference was to continue to support ongoing costs throughout the duration of Red settings being in place, we would recommend increasing the revenue threshold drop so that the most affected firms benefit, whilst keeping the payment rate the same and issuing the payment every 3 weeks.

² RAG ratings denote recommendations, not public health settings.

29. Inland Revenue is urgently assessing what changes are required to the RSP for it to operate in the RAG framework environment, and whether this can be operationalised in time for 19 November. Any changes to RSP settings that relate to a new public health framework will also likely require amendments to the Tax Administration Act 1994.
30. Assuming no significant administrative issues arise from the final Business Transformation release and decisions are made at Cabinet by 26 October, Inland Revenue advise that an amended revenue drop test and the payment is possible to rollout from 19 November.
31. The agency has requested we note that cumulative impacts of Inland Revenue delivering RSP payments, an SBCS loan, and potential future initiatives needs to be factored in, as significant resources would need to be diverted to process applications and answer calls from applicants.
32. Inland Revenue are currently focussing on delivering COVID-19 support and other critical activities. Further delays to returning to 'business as usual' activities (including integrity work) could begin to impact on the Government's tax take, lead to poor customer experience, as well as have reputational risks for Inland Revenue.

Transitional support under Amber or Green public health settings

33. Consistent with previous advice, Treasury does not see a need for broad-based support under Amber or Green settings (including localised Section 70 restrictions) and recommends a shift to more individualised support where possible.³
34. This individual support will largely take the form of the LSS and STAP (once amended to cover Section 70 restrictions), which we consider sufficient to manage the impact of localised public health restrictions (Note however that unlike the WSS there is no revenue drop test for firms under these options).
35. Based on an expectation that public health restrictions at Amber or Green settings will have a limited impact on businesses, we do not see a role for the RSP in such cases.
36. [34]

³ We note that 'individualised' refers to eligibility based on individual circumstances, rather than necessarily being provided and applied for directly by individuals.

[34]

37.

38.

Steady state economic supports from early 2022 onwards

39. The following section sets out further advice on the shape of economic supports from early 2022 as New Zealand moves into a steady state under the new RAG framework.

For individuals:

40. We recommend that changes to be implemented from 2022 focus on individualising support to ensuring coverage and entitlements.
41. More time is needed to understand the way self-isolation will be used in the steady state and design policy accordingly. For example, should self-isolation become a personal choice rather than a mandatory requirement, the rationale for the LSS may be weakened. On the other hand, current self-isolation settings combined with much higher community transmission could lead to much higher costs under the LSS and a need to target the scheme for fiscal sustainability.
42. Some further ideas that we are interested in your direction on, include:
- a Considering more substantial changes to schemes like the LSS/STAP or complementary supports for casual and vulnerable workers. Agencies continue to note implementation would be challenging (for example, if an employee-led scheme was introduced to target specific workers). There are also choices on delivery channels and agency.
 - b [33]

43. [33]

For businesses:

44. There is a case for a more **targeted form of the RSP** at Red settings that recognises the cost that moving into restrictions imposes, but incorporates a higher revenue drop test and is not regularly paid out in order to minimise the long-term fiscal cost and ensure businesses take action to adapt.
- a Our working assumption is that Red settings would only be applied for a limited time.⁴ In this situation a targeted and generous RSP would be appropriate and proportionate to the impact on affected businesses.
 - b If however, there is a wider and/or more sustained outbreak that requires a public health response beyond “red” settings, there is a case for a more general form of the RSP, similar to that currently being provided to businesses affected by the August outbreak.
 - c Further work is required to understand what this might entail, including on payment rates, frequency and revenue drop thresholds. Any more general and longer-term provision of the RSP would be informed by the economic circumstances at the time (including the level of business adaptation to the new environment and resilience to further lockdowns) and the fiscal impact.
 - d We recommend that should any widespread and/or extended payment of the RSP be contemplated, regular review points be included in the design so that the ongoing need for the payments, their level and targeting can be tested.
45. Across all public health settings, some firms are likely to require **short-term credit support to provide cashflow** to manage minor disruptions that are expected to be short and only defer demand and revenue. For example, a period at Amber or nearby localised restrictions could cause people to defer spending.
- a Bank and non-bank lenders already provide overdraft facilities and tailored hardship options for business customers (such as deferred payments, loan restructuring and interest-only repayments) up to a period of three months, and firms can negotiate with debtors, so the need for government intervention is unclear. As of 6 October, banks continue to receive low numbers of COVID queries and low volumes of hardship applications.⁵
 - b If further support was considered necessary, the SBCS could not meet these needs as it provides long-term concessionary finance, and financial institutions may be better placed to manage short-term credit facilities.
 - c Given the above, a continuation of the SBCS is not recommended under a steady state, but the Treasury would like to understand what role (if any) you see it could have in supporting the provision of ongoing short-term credit support for cashflow to enable business to manage minor COVID-19 disruptions in the steady-state.⁶

⁴ Given an expectation that in a highly vaccinated population outbreaks could be brought under control relatively quickly.

⁵ According to the RBNZ's weekly supervisory calls with banks. One large bank has observed a lower need for support among SME customers, although it noted that most of these customers were using their savings to get through the lockdown. We will continue engaging with the RBNZ on business credit conditions and report back to you with any significant updates.

⁶ Broader work on access to finance is also underway which may provide an avenue for further work.

46. We would also like to know if you would like further work on a **kickstart and/or transition support payment**. If so, we recommend you commission officials to commence work on design choices for a 2022 activation. An important decision is the objectives of such a payment:
- a We interpret the purpose of a 'kickstart' payment as supporting a re-start in business activity for the firms most heavily affected by the current period of restrictions, once a return to 'green' occurs. This is in line with the policy objectives of a similar scheme in Ireland.⁷ We therefore consider this would be more appropriate in 2022, providing the Government with time to design the new initiative (using the ongoing evidence on economic impacts).
 - b If the objective was instead to support a firm transition that involved investments to comply with the public health strategy (e.g. ventilation, testing supplies), this might require a different approach (e.g. loan schemes, voucher schemes, and regulatory measures). This would take time to design and implement and should also be considered for implementation in 2022.
47. The **events sector** has made requests to Government to provide confidence for planning and hosting events. MBIE is developing high-level options to support this sector for the Minister for Regional and Economic Development to consider. However, we understand that MBIE advice currently does not recommend support for an events fund/scheme.
- a MBIE advises that the events sector is difficult to define as it spans all regions in the country, involving event promoters, suppliers, venues, services providers, not for profits, educational institutes, and local and central government. Given the breadth in the numbers and types of events, there is a trade-off between cost to the crown, coverage of the full range of events and speed of delivery. Initial analysis indicates that any effective support directly to the events sector will come with significant fiscal cost to the Crown. The UK Government ran a Live Events Reinsurance scheme which is estimated to have cost over £800 million.
 - b MBIE advises that a priority for the events sector is clarity around use of the COVID Vaccination Certificate.

Wraparound support across transition and into the steady-state

48. Beyond the measures above, there could be a case for wraparound (non-financial) support through the transition and into a steady state in 2022.
49. **For individuals**, we see a need for wraparound measures for vaccinations and social support to manage the burden of public health measures, including:
- a Additional support for those required to self-isolate, as they cannot attend their place of work, or access essential services (such as grocery shopping) and experience the mental wellbeing impacts of isolation.
 - b Managing the mental health burden of COVID-19 on hard-hit communities.

⁷ The Irish Business Resumption Support Scheme is a one-off payment of up to €15,000 (\$25,000) to support vulnerable yet viable businesses which were significantly impacted throughout the Pandemic. Businesses are eligible if their turnover reduced by 75% in the period (1 Sept 2020 - 31 Aug 2021) compared to 2019.

- c Supporting households with low digital connectivity (eg. access to internet services) would reduce the detrimental impact that self-isolation requirements can have from having to isolate from community support systems. This would also support children's ability to engage in online learning and individuals' abilities to work from home.
 - d Those with children who may be impacted by a lack of childcare, particularly in single parent households, or households with high-needs children requiring special care.
50. **For businesses**, there could be a need for support to:
- a Address the mental health burden, particularly for SME owners who face relatively higher impacts of COVID-19.
 - b Better access government support schemes. The employer-led nature of many schemes means the burden of application sits with the employer and could lead them to not apply. This would leave individual employees without economic support, which may increase the risk of them continuing to work while presenting COVID-19 symptoms.
51. Potential options could be implemented to provide wraparound support or build on existing initiatives. Options for individuals and families during transition could include:
- a Increased devolution of services to NGOs. Many communities have more trust in NGOs than in government, and we have already seen success through the devolution of vaccination services (such as the vaccination buses). This has enabled services to come to individuals, overcoming accessibility barriers.
 - b In terms of access to support, there may be an opportunity to use devolution to high-trust partners to deliver these services, and to do so on a paper-based system. This would circumvent the issues of digital accessibility.
 - c NGOs may also be able to increase provision of essential goods to those self-isolating where partnerships exist. However, this may be increasingly challenging as community transmission occurs in more regions.
 - d Clear communication from Government and delivery partners that when accessing vaccination services people will not be challenged by Oranga Tamariki or Police on outstanding issues.
52. For businesses, streamlining the application process for economic support or providing an avenue for employees to apply for economic support may reduce the administrative burden. This may necessitate a shift to a higher-trust model. Further advice on this is to be provided with LSS/STAP advice in coming weeks.
53. Options to further address mental health issues are currently limited. The mental health system is at capacity and it is unlikely that we will be able to successfully deliver further initiatives addressing mental health concerns given our current labour force constraints. Given this, it may be more effective to partner with communities and NGOs to identify potential solutions.
54. In addition to economic support, the Minister for Regional and Economic Development is leading work re-establishing COVID-19 related business support provided by the Regional Business Partner network. It is expected that the support could be established 6-8 weeks from a Cabinet decision, and would be

available throughout all types of restriction (with most demand anticipated under Red settings).

55. As implementation constraints limit the ability to introduce new schemes during the transition period, increasing the accessibility to existing support services will be vital. This could be achieved rapidly in the transitional period through a centralised communications plan in partnership with vulnerable communities, which could include:
 - a A single access point for businesses to identify available supports
 - b Proactive contact via email addresses, collected through supports paid out to date, alerting potential recipients of any application periods
 - c Individualised support services promoted via partners who are trusted within their communities (e.g. Whānau Ora, churches, and Iwi)
 - d An outreach service to MSD clients to support them to access vaccinations and additional supports
 - e Communications available at vaccination sites, including support staff to help individuals to navigate them, so that in the 15-minute observation period people can increase their awareness of supports, and
 - f Simplified language to aid navigation of the support landscape.
56. Further development of the wraparound measures highlighted would be best placed in other agencies beyond Treasury. Given that, you may wish to discuss with your Ministerial colleagues to confirm which agencies lead.

Proposed timeline for further advice

57. The timelines previously discussed with you in T2021/2464 and at the 4 October WAM have shifted. We now understand the announcement of the new RAG framework is scheduled for Thursday 21 October, with initial decisions by Cabinet on 18 October followed by more detailed decisions on 26 October. The current timeline to achieve this is:
 - a DPMC will provide an overview briefing to the Prime Minister on 11 October on the work in progress (with information from health, modelling, the Skegg group), with an expectation that this can be shared with Ministers.
 - b The initial framework Cabinet paper is to be lodged on 15 October
 - c Cabinet will consider this initial paper on 18 October
 - d An announcement will be made on 21 October
 - e The second, more detailed framework paper will be lodged on 22 October, and
 - f Cabinet will consider this second paper on 26 October.
58. Based on this timeline and engagement with your office, we propose that you set out the future of economic supports in the detailed 26 October Cabinet paper.
59. If you agree, the Treasury will provide further advice to you on Friday 15 October that includes draft Cabinet paper material on the direction of economic support.

- a We would like to know if you require this advice to include oral speaking points to provide your Cabinet colleagues an initial overview of the future economic support settings on 18 October alongside consideration of the new framework
- b We understand that you also may wish to publicly communicate the direction of economic support in November, alongside communication on the Government’s economic strategy. If this is your intention, the Treasury can provide material to support this.
- c If you would also like to (or alternatively) announce economic supports alongside the PM’s framework announcement on Thursday 21 October, the Treasury can support that.

60. Based on the understanding above, the proposed timeline for advice is:

Date	Milestone
Tues 12 Oct	Discuss this Treasury Report with Treasury
Fri 15 Oct	Treasury provide follow-up, including: <ul style="list-style-type: none"> • draft Cabinet material with high-level overview of future of COVID support in the transition and steady state. • speaking points for potential oral item on 18 October (<i>if desired</i>) • material to support public communication (<i>if desired</i>)
Mon 18 Oct	Discuss follow-up and draft Cabinet material with Treasury
Mon 18 Oct	MoF to discuss potential oral item with Cabinet to provide a high-level overview of economic support package (<i>if desired</i>)
Tues 19 Oct	Treasury provides DPMC with final Cabinet material for inclusion in RAG framework paper
Fri 22 Oct	RAG framework paper lodged, for Cabinet to discuss on 26 Oct
Fri 22 Oct	Treasury to provide speaking points to support framework discussion on 26 Oct (<i>if desired</i>)
Tues 26 Oct	Cabinet considers RAG framework paper

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

61. We seek your feedback on your preferred approach (including on engagement as discussed below), and on any additional areas you would like advice on. We can report back in next week’s advice on a timeline of advice over the next four months.

Next Steps

62. We seek an opportunity to discuss this advice with you at the WAM on Tuesday 12 October 2021.

63. Based on your comments, we will provide further advice to support your upcoming decisions regarding a new package of supports.
64. In light of the work underway across MSD and MBIE, you may want to meet with Ministers Sepuloni, Nash and Woods in the near future on support options. If this is of interest, the Treasury can provide material to support those discussions.
65. You may also wish to refer this paper to the relevant ministers.

Annex 1 – RSP setting details

1. This annex provides further information to inform you on the potential fiscal and firm-distributional implications of choices on settings for the RSP. The variables to consider in relation to the above are as follows:
 - a The **revenue drop threshold**, which defines who to target;
 - b The **payment rate**, which defines how much to pay and determines the coverage of ongoing costs; and
 - c The **payment frequency**, which is determined by the scheme purpose and relates to the triggers for the scheme.
2. The total cost of a payment under the RSP is closely tied to the severity of the impacts of the public health restrictions on eligible businesses.
3. The duration, level and fiscal cost associated with the new public health framework for restrictions is uncertain and evolving. Ahead of decisions confirming the restrictions in place at the time of payment, there will be considerable uncertainty around the cost of any further payments.

Table 1: Indicative fiscal cost per payment under red settings, with different parameter settings (\$ million)

		Changes to the revenue drop threshold		
		Broader (20% revenue drop) – NOT RECOMMENDED	Status quo (30% revenue drop)	More targeted (40% revenue drop)
Indicative change in payment rate*	More generous payment (\$2000 + \$500 per FTE)	310 - 420	110 - 170	30 – 60 (RECOMMENDED)
	Status quo (\$1500 + \$400 per FTE)	240 - 330	80 - 140	25 - 50
	Less generous payment (\$1000 + \$200 per FTE)	140 - 190	50 - 80	15 - 30

**changes in payment rate are scalable*

4. Any re-escalation in restrictions regionally or nationwide, resulting in more severe restrictions such as use of lockdown conditions, would generate additional costs over and above those presented above.

Determining generosity: payment frequency vs payment rate

5. More frequent payments issued under red settings would tie the objective of the RSP to supporting costs on ongoing basis. This would potentially discourage adaption to the new public health operating model.
6. Increasing the payment rate for a one-off payment on commencement of new red settings may help acknowledge and compensate for impacts incurred to date, and in effect provide a one-off boost to firms as they adjust to a new framework.

7. Given the absence of the Wage Subsidy Scheme, and in light of potential stress on certain firms and consequential risk for increased unemployment, there may be a case for frequent payments during the transition period. However, we do not anticipate red settings will have significant impacts in aggregate; we also anticipate pent-up demand effects will help support firm resilience.
8. On balance, if your preference is to support non-wage costs on an ongoing basis during the transition period, we do not recommend increasing the payment rate. If your preference is to encourage firms to adapt but provide a final boost to assist with this transition, we recommend issuing one payment on commencement of red settings being introduced.

Payment rate

9. There is no scientific way to arrive at an ideal amount for the payment to firms. Even with the number of FTEs proxying firm size, the sufficiency of any payment amount in covering a firm's ongoing non-wage costs at higher Alert Levels will vary.
10. We suggest there is a case to calibrate the payment so that it goes further for the most affected regions and sectors. Accordingly, we focus on the costs faced by the hospitality sector.

Table 2: Ongoing costs faced by the hospitality industry

	Full-time employees		
	1-5	6 - 9	10 - 19
Mean ongoing costs (<i>per week</i>)	\$2,600	\$4,800	\$8,100
Average RSP payment at current payment rate	\$2,100	\$4,500	\$7,100
RSP coverage at current payment rate - \$1,500 + \$400 <i>per FTE</i>	83%	93%	87%
Average RSP payment at recommended payment rate - \$2,000 + \$500 <i>per FTE</i>	\$2,800	\$5,700	\$9,000
RSP coverage at recommended payment rate	108%	119%	110%

11. Red settings are significantly less severe than Alert Levels 3 and 4 under the framework used to date. An increased payment rate therefore represents an even greater increase in generosity when considered relative to the impacts being experienced by businesses.
12. The payment is calculated based on a per-firm and a per-FTE component, so as to weight the size of payments in favour of smaller firms. The choice of balance between the base payment and FTE component represents a choice to direct relatively more or less support towards small firms.

Revenue drop considerations

13. We understand you are keen to tilt support towards Auckland, assuming restrictions continue to be more severe in the city region than in the rest of New Zealand. In addition, we understand that economic activities would be limited in hospitality and events sectors in red settings, putting more pressure on these industries than others.

14. We continue to advise that the revenue drop test should serve as the targeting mechanism for economic supports during resurgence events, because it identifies the firms in need of economic support as a result of the impacts of public health restrictions. Evidence from previous resurgence events has shown the RSP targets support towards those sectors or regions on aggregate that are most affected by higher Alert Levels, while also ensuring firms in any connected sector or region benefit [T2021/775 refers].
15. Increasing the revenue drop test to 40% would in effect mean relatively more support would reach Auckland, with support provided to far fewer firms overall. It would ensure a greater share of support reached hospitality and events firms, which we judge to be fair in light of the anticipated impacts of red on these sectors.

Table 3: Support to hospitality and Auckland businesses under different revenue drop thresholds

A: Red nationwide

	Revenue drop threshold (%)	Businesses covered	Proportion of total support directed to hospitality industry, in dollar terms (number of businesses)	Proportion of total support directed to Auckland, in dollar terms (number of businesses)
<i>Least targeted</i>	20	120,000	22% (18,500 businesses)	35% (45,000 businesses)
	30	50,000	35% (12,500 businesses)	35% (16,500 businesses)
<i>Most targeted</i>	40	15,000	50% (6,500 businesses)	35% (5,500 businesses)

B: Red in Auckland, Amber outside of Auckland

	Revenue drop threshold (%)	Businesses covered	Proportion of total support directed to hospitality industry, in dollar terms (number of businesses)	Proportion of total support directed to Auckland, in dollar terms (number of businesses)
<i>Least targeted</i>	20	90,000	17% (10,500 businesses)	50% (45,000 businesses)
	30	30,000	25% (5,500 businesses)	60% (16,500 businesses)
<i>Most targeted</i>	40	8,000	40% (2,500 businesses)	70% (5,500 businesses)

Other considerations

16. Elements of the scheme which are set by Order in Council are also linked to alert levels. For example, the impacted period (the 7-day period businesses measure the necessary revenue decline) ends on the date alert levels return to one. This will not work in the new framework when alert levels are no longer used.
17. Related to the above issue is the period businesses measure their typical weekly revenue (referred to as the comparator period) is currently linked to the period before alert levels increase. A new measure for the comparator period will be needed for the RAG environment.

18. An amending Order in Council will also be required to set a new end date for the impacted period for the August payments, as well as for when applications close (currently application close one month after a nationwide return to Alert Level 1).
19. Officials are currently considering these issues and will provide advice on the changes necessary to ensure the scheme works well with the new framework.

Annex 2 – Recommended economic support settings at each phase of the transition to the new public health framework

Support	Current role	Recommended role of support in new public health phases:			Other comment
		Near term (up to mid-Nov)	Transition (Nov/ Dec /Jan)	New steady state (2022 onwards)	
Existing Measures					
Wage Subsidy Scheme	Available to all businesses expecting a 40% drop in revenue while any part of the country is in Alert Levels 3 or 4. Paid in a 2-week lump sum at: - \$600 per week for each full-time employee - \$359 per week for each part-time employee	Maintain current settings	Not officially available under any new public health settings. Reintroduction could be considered as a backstop if public health situation goes beyond 'Red' settings.	As for transition.	
Resurgence Support Payment	Supports viable and ongoing businesses or organisations which have experienced a decline in revenue due to a COVID-19 alert level increase to level 2 or higher (30% revenue or capital raising ability drop over 7 days) Payment is the lesser of: - \$1,500 plus \$400 per FTE employee, up to a maximum of 50 FTEs; or - four times (4x) the actual revenue decline	Maintain current settings.	Amended version for Red. Recommended settings as per advice. Not expected to apply in Green or Amber settings.	Targeted version under Red, with settings agreed closer to time based on economic conditions; Potentially current RSP available under backstop lockdowns (either a one off or regular payment)	IRD advise an amended RSP would be possible to rollout under the current Alert Level framework from 19 November. IRD is urgently assessing what changes are required to the RSP for it to operate in the RAG framework environment.
Leave Support Scheme	Available for eligible employers, including self-employed people, to help pay their employees who need to self-isolate and can't work from home. Rate is \$600 a week for each full-time worker and \$359 a week for part-time employees retained.	Remains available under all proposed settings Modify to enable to be paid under S.70 Public Health notices; provide for casual worker pass through	No change from near term.	Potential sustainable COVID-19-leave support framework, including employee-led and employer-led options, potential leave entitlements	Further advice from Treasury is coming on transitional and longer term options in week of 18/10; advice in November on scope and objectives of sustainable scheme.

Short-term Absence Payment	Available for eligible businesses, including self-employed people, to help pay their employees who cannot work from home while they wait for a COVID-19 test result. Paid at a new rate of \$359, effective from 24 August 2021	As for LSS above.	As for LSS above.	As for LSS above.	As for LSS above.
Small Business Cashflow Scheme	Supports small to medium businesses and organisations struggling with a loss of actual revenue due to COVID-19. Applications are open until 31 December 2023.	A new SBCS product is unlikely to be possible in this timeframe and not recommended under the new framework.	Not recommended under new RAG framework.	Not recommended under new RAG framework.	An alternative short-term credit support scheme is proposed (see below).
<u>Proposed measures</u>					
Ongoing short-term credit support to cashflow	Intended role could be to help firms manage minor disruption that temporarily defer demand and revenue	Not recommended – further time needed for design.	Not recommended – further time needed for design.	Recommend rollout in 2022 to provide time for design.	Must be considered with respect to what private banks should be providing this support to firms (eg. overdrafts)
Transitional and/or kickstart payment to businesses	Objectives of such support must be ascertained to progress design (see paragraph 46) A transitional payment could support firms with the cost of COVID mitigation strategies (eg. ventilation or testing supplies) A kickstart payment could support a re-start in business activity for firms most affected by current restrictions.	Not recommended – further time needed for design.	Not recommended – further time needed for design.	Recommend rollout at the end of the transitional period in line with a move to a Green setting (2022 onwards)	
Event sector support (underwriting/insurance for cancellations)	This could include event sector support under the 'Red' level if this results in restrictions which result in cancellations and/ or delays	Not recommended – further time needed for design.	Support may be required under Red settings (as event venues would likely face restrictions). Work underway to develop potential options.	Work underway to develop potential options.	The Minister for Regional and Economic Development and MBIE are leading this work.
Reestablishment of COVID-19 related business support provided by the Regional Business Partner network	This previously focused on non-financial support such as business advice to firms	Not possible for 6-8 weeks.	It is expected that the support could be established 6-8 weeks from a Cabinet decision and would be available throughout all types of restriction (with most demand anticipated under Red settings).	Expected to be available in 2022.	The Minister for Regional and Economic Development and MBIE are leading this work.