

The Treasury

Advice on COVID-19 Response - Tranche Two Information Release

September 2022

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**Treasury Report: COVID-19 economic support: advice for 22 November
Cabinet paper**

Date:	Friday 12 November	Report No:	T2021/2804
		File Number:	SH-1-6-1-3-3

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss with officials at the Weekly Agency Meeting on 15 November Indicate what you would like covered in the 22 November Cabinet paper	15 November 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Ken Tsang	Analyst, Economic Policy	[39]	[35] ✓
John Beaglehole	Manager, COVID Economic Supports		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: COVID-19 economic support: advice for 22 November Cabinet paper

Executive Summary

We understand the wider COVID-19 context continues to change and that there is potential that all of New Zealand could move to the COVID-19 Protection Framework (CPF) in late November / early December.

To support the move to the CPF, we understand that on 22 November you will take a paper to Cabinet on the future of economic supports. This report provides you with advice on what this Cabinet paper could cover.

As all of New Zealand may move to the CPF at the same time, questions remain on the settings for the transition payment being paid on 10 December. We will provide you with advice on 15 November with options for this payment.

Given the macroeconomic environment and the fact that most businesses will be able to operate under the CPF with fewer restrictions than under higher levels of the Alert Level framework, the Treasury does not see a compelling case for ongoing broad-based support, even under the Red level of the CPF. This is consistent with the withdrawal of support seen in other countries as they have transitioned to less restrictive operating environments.

If you disagree with this approach, we recommend that you only commit to additional support during the first four months of operating in Red settings under the CPF. This will give us time to learn from the actual experience of businesses in this new operating environment and develop a set of steady state supports that is appropriate to the transition viable businesses will need to make to operate under all levels of the CPF. We recommend that any such support be provided only in response to prolonged periods under the Red level and be targeted at sectors that face the most hardship when operating under Red settings.

Further work is needed on what additional support would be required in localised lockdowns. Over the near-term, this is likely to be guided by what is operationally feasible. We intend to report back to you in December with advice in this area.

Treasury continues to progress exploratory work on the potential role of credit-based support, and will provide further advice in December on potential options. Initial work has identified significant policy and implementation challenges with a "COVID Loans" scheme. We will continue to consider this scheme, but our current assessment is that offering an additional loan facility through an adapted Small Business Cashflow Scheme (SBCS) would be a simpler and more deliverable means of providing credit support.

Recommended Action

We recommend that you:

Context

- a **note** that, subject to Cabinet decisions on 15 November, we understand:
 - i. all of New Zealand could move into the CPF in late November / early December, and
 - ii. the Auckland regional boundary may open in mid-December
- b **note** that inflationary pressure is increasing and that while demand has been affected by Alert Level settings for the current outbreak, in general fiscal support has been sufficient.

Scope of the 22 November Cabinet paper

- c **note** that we propose that the 22 November Cabinet paper covers:
 - i. the macroeconomic landscape
 - ii. economic supports as we transition to the CPF, and
 - iii. economic supports under the CPF going forward.
- d **discuss** the contents of this report with officials at the Weekly Agency Meeting on 15 November.

Transition – Business Support

- e **agree** that on implementation of the CPF, the Wage Subsidy Scheme (WSS) and the Resurgence Support Payment (RSP) should cease.
Agree/disagree.
- f **note** that the WSS and the RSP can be reactivated if the public health situation escalates and wider lockdown-style restrictions are necessary.
- g **agree** to setting the end date of the affected revenue period for the payments on 29 October, 12 November and 26 November 2021 of the RSP to the day before when any part of New Zealand shifts to the CPF (which we expect to be on 29 November 2021).
Agree/disagree.
- h **agree** that the application date for the RSPs referred to in recommendation i close six weeks after the affected revenue period (which, based on a 29 November 2021 transition date, we expect to be 10 January 2022).
Agree/disagree.
- i **note** that if you want another type of Resurgence Support Payment in January 2022, Inland Revenue requires decision from Cabinet as part of the 22 November Cabinet paper.

Transition – Support for Individuals

- j **note** that in case of a staggered transition to CPF across the country, we can provide further advice on the approach to discontinuing the WSSAUG21.
- k **note** that a joint Ministers meeting is scheduled for 18 November to discuss the possible role of the LSS and STAP under the CPF and localised lockdowns.

Steady state

- l **note** that the economic impact of the CPF on firms' and individuals' behaviours is highly uncertain, which makes it difficult to determine a coherent package of supports that should be available under the CPF.
- m **note** we recommend that you consider the next four months (up to April 2022) following the shift to the CPF be taken as an interim steady-state period where you will continue to monitor the implications of the CPF to better understand what ongoing support may be appropriate before committing publicly to any ongoing economic supports.
- n **note** that the Treasury does not see a role for ongoing broad-based support under any levels of the CPF, including under Red.
- o **note** that if, alternatively, you see a role for ongoing broad-based economic support under the Red level, the Treasury advises that it be limited to the interim period up to April 2022, be used only in response to prolonged periods at Red (six or more weeks), and be targeted to sectors which face the most hardship operating under Red.
- p **note** that the Treasury considers there to be potential options for ongoing loan-based economic supports and will provide you with further advice on this in early December.

Localised and widespread regional lockdowns

- q **note** that officials will advise on appropriate support for localised and widespread regional lockdowns in December. This will include consideration of the ongoing role of the LSS and STAP.

Small Business Cashflow Loan scheme

- r **agree** that the increase to the *Small business cashflow scheme* and *Initial Fair Value Write-Down Small business cashflow scheme* appropriations agreed by Cabinet on 8 November 2021 not be charged to the COVID-19 Response and Recovery Fund (CRRF), but instead be managed within the existing charge against the CRRF
Agree/disagree.

John Beaglehole
Manager, COVID Economic Supports

Hon Grant Robertson
Minister of Finance

Treasury Report: COVID-19 economic support: advice for 22 November Cabinet paper

Purpose of Report

1. This report outlines our proposed approach for the Monday 22 November Cabinet paper on the future of economic supports on transition to the COVID-19 Protection Framework (CPF). We are seeking your views on this approach and would like to discuss them with you at the Weekly Agency Meeting on Monday 15 November.

The context for decisions on the future of economic support

2. We understand that all of New Zealand could move to the CPF in late November / early December, with the Auckland regional boundary opening in mid-December. We also understand that it is likely that large parts of New Zealand could move to Red settings when the CPF is introduced. We appreciate that Cabinet is yet to make final decisions on these matters. Based on recent modelling, there is a likelihood that a lot of New Zealand will be at the Red settings of the CPF for much of 2022 (T2021/2738 refers).
3. We understand Cabinet will discuss the operation of the CPF on Monday 15 November 2021, and particularly the situations in which areas will shift to local lockdowns.

Macroeconomic context

4. Inflationary pressures have increased due to capacity constraints and supply side disruption, with monetary policy starting to tighten in response. While demand has been affected by the elevated Alert Level settings in Auckland and other parts of New Zealand, in general fiscal support has been sufficient to mitigate the impact. In this context, the Treasury has recently cautioned against increasing the level of COVID economic support (T2021/2424 and T2021/2654 refer) to avoid compounding macroeconomic pressures.
5. There is, however, considerable uncertainty in the economic outlook. In particular, it is unknown how the economy will respond as we transition to the CPF. The easing of public health restrictions in Auckland should reduce supply chain disruption, but in aggregate inflationary pressures may increase as demand increases as people emerge from lockdown.
6. Outcomes will also depend crucially on the spread of the virus in the months ahead – in addition to the risk of public health restrictions tightening, consumer behaviour will be impacted by increased prevalence of the virus in the community. In this environment, we recommend maintaining flexibility to tailor economic support to outcomes.

Cumulative economic impact and support provided since August 2021

7. The Treasury estimates that between 17 August 2021 and 5 November 2021, the cumulative economic impact of Alert Level restrictions for Auckland was around \$4.5 billion (approximately 5.6% of expected national GDP over the period). For the rest of New Zealand, the estimated economic impact was around \$3.4 billion (approximately 4.2% of expected national GDP over the period).
8. Substantial fiscal support has been provided. As of November 10, \$4 billion has been paid out from the Wage Subsidy Scheme (WSS), and \$1.4 billion of Resurgence Support Payments (RSP) have been made. A significant proportion of this spending has gone to Auckland-affected firms. In addition to these broad-based support schemes, the Government has also provided significant support through other targeted

schemes and programmes such as the Tourism Communities Package, the Regional Business Partner Network, and the recently announced support for the events sector.

9. You received advice earlier this week on the preliminary Half-year Economic and Fiscal Update (HYEFU) fiscal forecasts and what these mean for the fiscal outlook (T2021/2792 refers).
10. ^[33]

Proposed scope of the Cabinet paper

11. We understand that on 22 November 2021 you want to discuss with Cabinet the landscape of COVID-19 economic supports that will be available as New Zealand moves to the CPF. Based on this, we propose the Cabinet paper should cover the following areas:
 - a **The macroeconomic landscape.** Similar to that set out in paragraphs 4-10 above, the paper could include contextual information on the cumulative economic impact experienced and the cumulative level of support provided through the RSP and WSS since New Zealand moved to Alert Level 4 in August.
 - b **Economic supports as we transition to the CPF.** The paper will seek agreement from Cabinet on the economic supports available on transition to the CPF. This includes cessation of the RSP and the WSS under all levels of the CPF and would cover necessary Cabinet decisions for the remaining RSP payment on 26 November as well as for the transition payment that is scheduled for 10 December.
 - c **Economic supports under the CPF going forward.** The paper will also cover the economic supports available in the interim steady state (up to April 2022), and the steady state beyond that. We provide further advice in this report and this is an area we would like to discuss with you. This section of the Cabinet paper could also include initial estimates of the impact to economic activity we expect under the different levels of the CPF.
12. The paper will also include the Order in Council necessary to activate the 26 November RSP previously agreed to by Cabinet CAB-21-MIN-0459 refers). The remainder of this paper advises on other matters required to support development of the upcoming Cabinet paper.

Support provided as we transition to the CPF

13. Ahead of preparing a draft Cabinet paper for 22 November which includes a section on support available for transitioning to the CPF, there are some areas where decisions still need to be taken. These issues are outlined below. Once you have made decisions on these issues, we will reflect these in the draft Cabinet paper.

Economic support for business and Auckland

Remaining RSP and transition payment on 10 December

14. There is an additional RSP expected to be activated on 26 November. This will be the final ordinary RSP before the transition payment on 10 December.
15. In preparation for the payment on 10 December and the move to the CPF, we recommend setting a close date for the Resurgence Support Payments activated on 29 October, 12 November, and 26 November.
16. In practice, this is done by setting the end date for the affected revenue period. This is the period businesses must demonstrate a 30 percent revenue decline over seven consecutive days. We recommend this is set to end on the day before the date any part of New Zealand shifts to the CPF. This is expected to be on 29 November, which means we recommend setting the end date to 28 November 2021.
17. Setting the close date of traditional RSP before the date when New Zealand moves to the CPF acknowledges that the remaining RSP payments are limited to a time where Alert Level restrictions were in place.
18. For previous RSPs, the application window closes four weeks after the end of the affected revenue period. However, due to the Christmas and New Year period, we recommend that the application date for the traditional RSPs closes six weeks after the affected revenue period. Based on a 29 November implementation date for the CPF, the application date would be 10 January 2022.

Payment on 10 December

19. To support the transition to the CPF for businesses, we note that the transition payment on 10 December will be reframed as a more generous and unique payment. Following advice provided (T2021/2795 refers) and discussions with you at the meeting with you and the Minister of Revenue on 11 November, we will provide further advice on 15 November with options for this payment.

Wage Subsidy Scheme

20. Cabinet agreed to continue extending WSSAUG21 payments for a further six weeks from 11 November (payments 7, 8 and 9), should Alert Level 3 or higher remain anywhere in the country on the agreed trigger dates (11:59pm on 12 November, 26 November and 10 December respectively). Cabinet also agreed the approach to the revenue decline test if a region moves to the CPF during a Wage Subsidy payment period (CAB-21-MIN-0458 refers) and noted the Minister of Finance would report back in case of a staggered transition to the CPF across the country.
21. We now understand that there is a chance that the entire country will move to the CPF simultaneously in the week of 29 November.
22. Assuming Auckland, or another part of the country, remains at Alert Level 3 (any step) on 26 November, then Wage Subsidy Payment 8 would be triggered.
23. In case of a staggered transition to CPF across the country, we can provide further advice on the approach to discontinuing the WSSAUG21. At this stage, we understand your preference in this scenario is to leave the WSSAUG21 open and retain the Alert Level 3 trigger until the last part of New Zealand moves to the CPF. We agree this would be the prudent option in this scenario.

Auckland support package

24. We understand that a support package specific to Auckland remains under consideration. If this package progresses, we see a case for including this as part of your upcoming paper to Cabinet. The Treasury is not well placed to advise on this area

however, and you may wish to ask Minister Nash and the Ministry of Business, Innovation and Employment to consider this proposal further.

Support to individuals with public health restrictions

Leave Support Scheme and Short-Term Absence Payment

25. Cabinet agreed a ‘holding position’ on 8 November (CAB-21-MIN-0458 refers) to limit support through the LSS and STAP to public health restrictions with an individual basis rather than providing broad-based support for restrictions that have a geographic basis (i.e. local or regional lockdowns).
26. The 22 November Cabinet paper would need to either confirm or revisit this decision. If the LSS and STAP were allowed in case of local or regional lockdowns, we would recommend controls to avoid a return to broad-based support. Officials are working through operational options that could achieve this. We will provide further advice on this next week. Given timeframes, feasible near-term options may be limited, and some might not be implementable in time for transition to the CPF.
27. We understand the Director-General of Health has recently agreed changes to how contacts and cases are managed. Officials are working through the implications for the LSS and STAP rules and guidance to ensure these are aligned with the new approach and will seek decisions from Ministers if changes are required. If Cabinet decisions are required, we will include these in the 22 November decisions.

Update on support under the steady state

28. We understand that you may want to update Cabinet on the support that would be available under the CPF, once we are through the transition and into the steady state.
29. There is significant uncertainty about the implementation of the CPF on firms’ and individuals’ behaviours and therefore the economic impact. These uncertainties include the effect that Red, Orange, and Green settings will have on consumer spending and behaviours and firms’ abilities to operate, and how transitioning between levels will work in practice – for example, prolonged periods under the Red level could have a different impact on behaviours than rapid shifts between levels on a week-to-week basis.
30. This makes it difficult at this stage to determine in detail the appropriate type and level of economic supports that should be available under the steady state. In particular, this applies to businesses which will be able to operate with fewer public health restrictions under the CPF, and will be able to resume most activity.
31. We note that the move to the CPF provides a good opportunity to ‘reset’ the package of economic support available under the steady state. There are risks to pre-committing in detail to a package of economic supports ahead of the CPF coming into effect. This includes the risk of a support package which is unsustainable or inappropriately targeted, or which creates an ongoing expectation that the government will continue to provide support to businesses which may inhibit adaptation.
32. You could signal to Cabinet that the next four months (up to April 2022) following the shift to the CPF be considered an interim steady-state period. This would align with the availability of the recently announced Events Transition Support Payment scheme and the potential availability of more credit-based support (see paragraph 36).
33. You could state that during this period you will continue to monitor the implications of the CPF for businesses and individuals and will reassess and report back to Cabinet on the appropriate support going forward after.

Support under the Red setting

34. If you wish to communicate what support may be available under the Red setting, the Treasury's advice is that broad based business support (both the RSP and the WSS) should cease under all levels of the CPF, including under the Red setting. We consider this prudent as:

- a Recent COVID-19 modelling suggests a possibility that significant periods at the Red level may be needed over the foreseeable future (T2021/2738 refers). We are concerned that providing ongoing subsidies to businesses in these conditions will reduce the rate at which businesses transition to a new normal, and will lead to some businesses continuing to operate when (absent taxpayer subsidies) they would have stopped.
- b Most businesses will be able to operate with few restrictions under all levels of the CPF, with the exception of some businesses that choose not to implement COVID-19 Vaccine Certificate (CVC) requirements. This suggests that broad based support should not be needed.

For CVC compliant businesses and customers, settings under Red are very similar to those under Alert Level 2. Since 7 September most of New Zealand (outside of Auckland) have been operating under Level 2. Despite firms being eligible for the RSP under Alert Level 2, we have not seen evidence that they are continuing to access the RSP.

Some firms outside Auckland continue to access the Wage Subsidy, but these are primarily firms impacted by Auckland's Alert Level 3 settings (e.g. those that are part of a national business or who rely on Auckland customers or suppliers). For WSSAUG21 Payments 3-6 (where New Zealand outside Auckland has been at Alert Level 2), one-third of payments have gone to employees outside Auckland as at 5 November. Take-up in Alert Level 2 regions, has been just under 10% for the scheme. The highest Alert Level 2 uptake has been in accommodation and food services and arts and recreation services sectors. These impacts will mostly cease once Auckland moves to the CPF and the Auckland regional border is relaxed.

Overall, this suggests that businesses in Alert Level 2 regions are managing to adapt to the public health settings. Therefore, if you are seeking to recreate support that was available under Alert Level 2 for equity, it may not be necessary.

Some specific sectors (such as hospitality) may require further ad-hoc support but we would advise a 'wait and watch' approach to better understand what type and level of support may be appropriate.

- c [33], [34] and [39]

- d Reducing broad-based support as vaccination rates increase is in line with other highly vaccinated countries (T2021/2338 refers).

35. Alternatively, if ongoing business support under the Red setting is desired, we would only recommend providing support if the purpose is to acknowledge businesses experiencing some form of hardship while being in heightened restrictions for a prolonged period.

- a A payment similar in structure to the original RSP could be appropriate, where some form of one-off grant is provided to support firms following an extended period at the Red setting (for example, after six or more weeks at the Red level).
- b It might be more appropriate to target such support to sectors that have difficulty operating at Red settings and are using CVCs.
- c We would, however, not recommend broad-based support if it is intended to achieve the same purpose as the original RSP. The original RSP was intended to help with accumulated fixed costs (excluding wages, for which there was the WSS) during lockdown-style public health restrictions which prevented trade (CAB-20-MIN-0531 refers). As businesses will still be able to trade under Red, there is a less compelling argument for some form of RSP to be available.
- d If support under Red is desired, we would recommend that you limit this for the time being to the interim period up to April 2022. Doing so would allow more time to observe the actual impacts of Red on business and better inform decisions on what ongoing support may be needed over the long-term.
- e This approach would also provide more time to explore the potential to pivot ongoing support away from grants and towards more credit-based measures.
- f Our current assessment is that offering an additional loan facility through an adapted SBCS would be a simple and more deliverable means of providing credit support. There are potential improvements to the scheme that may now be more feasible for Inland Revenue to deliver post-Business Transformation implementation (such as allowing businesses to draw down multiple loans). This would still take time to develop and build. If you remain interested in credit-based support in the steady state, we will provide advice on options.

Support for widespread and localised lockdowns

- 36. In terms of widespread and regional lockdowns, we note that the original RSP and WSS could be appropriately reintroduced for wider lockdowns where restrictions are similar to those under Alert Levels 3 and 4 for large parts of New Zealand.
- 37. For localised lockdowns, the Treasury is developing advice on what support may be appropriate. There is considerable uncertainty on how localised lockdowns will be used, what impact they may have on activity, and what support may be appropriate. Upcoming Cabinet papers by other agencies regarding critical public health factors such as the testing, tracing and isolation strategy, as well as the Care in the Community model, will inform what may be appropriate.
- 38. The ongoing provision of the LSS for individual employees (via their employer) who cannot work due to COVID-19 may also overlap with any need for the WSS in such a case. A key consideration is at what point to move from the LSS and trigger the WSS. We note that options over the near-term are likely to be dictated by operational feasibility.

Cabinet paper and steady state support

- 39. Based on the advice in this section, we recommend that your advice to Cabinet on 22 November on steady state support asks Cabinet to:
 - a Note that the LSS and the STAP will remain for those that meet the eligibility criteria. These schemes remain important tools to reduce financial barriers to complying with public health requirements such as self-isolation.
 - b Confirm that the RSP and the WSS will cease, upon implementation of the CPF. These schemes will remain available if the public health situation changes and reactivation is required.

- c Note that you consider the next four months up to April 2022 to be an interim steady state period, where you will monitor economic activity under the different levels of the CPF to understand what ongoing support may be appropriate.
- d Additionally, as set out in paragraph 35, if support for prolonged periods at the Red level is desired, you could signal that such support will be available, but only temporarily during the interim period up to April 2022. You could also signal your intent to explore further the idea of ongoing loan-based support.
- e Signal that you will continue to consider what support is appropriate for localised lockdowns and will aim to report back to Cabinet in December before the Holidays.
- f Invite you to report back to Cabinet in April 2022 with further advice on whether changes to the economic supports available under the CPF are desirable. This would enable advice that is based on a better understanding of the economic impact the CPF has on businesses and individuals and reassess what type and level of support (if any) is necessary.

SBCS appropriation issue

- 40. An issue has been identified with a recent appropriation increase for the SBCS. This issue does not need to be addressed in the 22 November Cabinet paper.
- 41. On 8 November 2021, Cabinet agreed to increase the appropriation limits for the SBCS, in light of greater than anticipated demand for loans this year (CAB-21-MIN-0459 refers). Cabinet also agreed, on officials' recommendation, to charge the increase to the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020. Officials now recommend that the change should not be considered an additional charge against the CRRF, but instead should be counted against the existing charge against the CRRF for the SBCS.
- 42. This is possible because the initial amount charged against the CRRF is expected to be significantly higher than the actual cost of the scheme. The initial estimate charged against the CRRF was based on some high-level assumptions and there was a degree of uncertainty around the actual costs. Officials now consider it desirable that the increase in appropriation is met from the original charge against the CRRF (rather than increasing the charge against the CRRF), as there is less time for the SBCS to run, and hence the likelihood of it being substantially more expensive than anticipated is lower.

Next steps

- 43. We would like to discuss the approach outlined in this report with you at the Weekly Agency Meeting on 15 November. Following this, we will provide you with a draft Cabinet paper by 17 November for your comments. This would be ahead of a lodgement date of 19 November and Cabinet on 22 November.
- 44. We plan to provide you with advice in December on the longer-term future of economic supports under the CPF. This advice will likely cover what economic supports could be appropriate under the CPF steady state and initial advice on support for localised lockdowns. This advice will also cover loan-based COVID-19 business support, and any further advice on the use of CVCs as a means of determining eligibility. Please let us know what other advice you would like in December.