

The Treasury

Advice on COVID-19 Response - Tranche Two Information Release

September 2022

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Treasury Report: COVID economic support for localised lockdowns over the holiday period

Date:	3 December 2021	Report No:	T2021/3007
		File Number:	SH-1-6-1-3-3

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss the contents of this report with officials at the Weekly Agency Meeting on Monday 6 December	6 December 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Ken Tsang	Senior Analyst, Economic Policy	[39]	N/A (mob) ✓
John Beaglehole	Manager, COVID Economic Support Policy		N/A (mob)

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: See Annex 1

Treasury Report: COVID economic support for localised lockdowns over the holiday period

Executive Summary

As we move into the COVID-19 Protection Framework (CPF), we consider it vital that individuals continue to be supported to do the right thing and have the means to comply with public health requirements. We also consider it vital to maintain the signal to firms that ongoing broad-based support will not continue and instead it will be necessary to adapt to the new operating environment where a certain level of resilience is necessary.

Considerable uncertainties remain in how localised lockdowns will be used in practice. We have therefore provided this advice based on how economic support could respond based on the severity, duration, and geographic reach of a localised lockdown. Any additional support over the next three months (until the end of February 2022) should account for the substantial government support that has been provided recently through schemes such as the Resurgence Support Payment (RSP) and the upcoming Transition Payment.

Significant operational constraints also limit what additional support can be stood up over the near-term. These constraints mean that if support is needed for a localised lockdown over the near-term, that support will need to be based on existing schemes and there will be limited scope to make changes. Some initiatives may also be operationally unfeasible to open in the near-term. For example, MSD states they are unable to relaunch the Wage Subsidy Scheme (WSS) in the near-term due to operational constraints. ^[4]

We also note that these operational constraints make it difficult to pay support quickly if the decision for support is taken at very short notice.

As we expect the CPF to be in place for quite some time, we consider it important that firms are encouraged to build resilience that enable them to absorb the shocks caused by localised lockdowns. Support for firms for localised lockdowns that last 14 days or fewer should be limited to the existing LSS and other existing supports like the Small Business Cashflow Loan Scheme, and current sectoral supports like the Events Transition Support Payment Scheme.

For localised lockdowns longer than 14 days there may be a case for further support, but this would still need to be carefully considered given the need to encourage resilience. Constraints on immediate implementation mean we would need to rely on existing mechanisms such as the RSP and the WSS until at least the end of February 2022. We also consider the bar for reactivation of the RSP and the WSS should remain high (for example, if Alert Level 3 or higher was needed) given the shift to adaptation, the significant operational trade-offs and risks to integrity involved.

In all situations we see a public health need to support individuals to comply with the economic burden of following public health requirements. ^[34]

Recommended Action

We recommend that you:

- a **note** that there is considerable uncertainty in how localised lockdowns will be used.
- b **note** that more information on localised lockdowns will be provided to Cabinet on 13 December.

Economic supports to firms

- c **note** that the Treasury considers it appropriate not to provide additional COVID economic support for localised lockdowns of 14 or fewer days given the need to adapt to operating under the COVID-19 Protection Framework (CPF).
- d **note** that as the duration, and / or geographic scope, of a localised lockdown becomes greater, the case for additional economic support will grow.
- e **note** that implementation constraints limit the ability to implement new support measures or make changes to existing measures over the next three months.
- f **note** that the Treasury recommends that any support similar to the Resurgence Support Payment (RSP) and Wage Subsidy Scheme (WSS) should only be considered for Alert Level 3 and 4-type lockdowns only.
- g **note** that the earliest Inland Revenue could open applications for an additional RSP is 14 January 2022.

Support to individuals to support public health objectives

- h **note** that the Treasury considers it important to continue to support public health objectives with measures that support social licence and provide individuals with the means to comply with public health restrictions.
- i **note** that Cabinet previously agreed in principle to provide limited support through the Leave Support Scheme (LSS) for localised lockdowns, subject to further advice [CAB-21-MIN-0504 refers].
- j **note** that the Ministry of Social Development (MSD) is implementing an LSS scheme that allows for seven-day payments before Christmas.
- k [4]
- l **note** that MSD is leading the coordinated welfare approach for agencies to support people in self-isolation and has a significant focus on this work during the December/January period.
- m [34]
- n **note** that MSD are unable to stand up the WSS in the near-term due to reduced staffing levels.

Next steps

- o **indicate** if you would like to discuss with officials the medium-term work programme and delivery agency options for any support in localised lockdowns in the period post-February 2022.

Agree/disagree.

John Beaglehole
Manager, COVID-19 Economic Supports

Hon Grant Robertson
Minister of Finance

Treasury Report: COVID economic support for localised lockdowns over the holiday period

Purpose of Report

1. This report provides you with the Treasury's initial thinking on the possible approach to economic support for individuals and firms in the event the Government needs to implement localised lockdowns during the next three months (i.e. before the end of February 2022).
2. The advice in this report takes into account what we know about localised lockdowns so far. It also notes the significant operational constraints which exist for Inland Revenue and the Ministry of Social Development over the holiday period.
3. By February 2022 we expect to have a better understanding of localised lockdowns. This will enable us, Inland Revenue and the Ministry of Social Development to determine the viability of any changes required to the approach outlined in this report in terms of economic supports under localised lockdowns. We will provide you with advice in this space as part of the early 2022 report back, which will also cover our observations as to the initial economic impact the CPF has had on firms and individuals.
4. We seek your comments on this report at the Weekly Agency Meeting on Monday 6 December.

Support for localised lockdowns up to the end of February 2022

Context for this report

5. Considerable uncertainties remain in how localised lockdowns will be used in practice. This makes it difficult to know what impact they may have on individuals and firms, and therefore what support is appropriate. As we spend more time under the CPF, we will get a better picture of individuals' behaviours, and firms' abilities to operate in a highly vaccinated environment.
6. The ability for Inland Revenue and the Ministry of Social Development to implement any new measures over the next three months (or make changes to existing support schemes) is also extremely constrained.
7. This advice on what economic support to provide under localised lockdowns is therefore focused on what the response should be over the next three months (up to the end of February 2022).
8. Given the recent move away from broad-based support, we consider it vital to avoid signalling that ongoing broad-based support will be available as this could result in increased reliance on government support and disincentivise businesses to adapt to the new operating environment.

Our understanding of localised lockdowns

9. The policy work on localised lockdowns across government is in the very early stages of development. We have therefore made a range of assumptions in this report around localised lockdown policy settings in order to design the associated economic support. If, following further policy development on localised lockdowns, our assumptions are incorrect, we may need to revisit this advice.

10. We understand that localised lockdowns could be used as an additional protection on top of the CPF levels. We also understand that they could be used if for some reason (including a new COVID variant), Red under the CPF is not sufficient to prevent unmanageable pressure on the public health system.
11. We also understand that localised lockdowns will not be one-size-fits-all and they will be implemented on a case-by-case basis as and when necessary. This means that localised lockdowns could vary significantly in terms of the duration, the nature of restrictions, and the geographic reach. All these factors contribute to the economic impact that a localised lockdown will have on an area.
12. In terms of decision-making, Ministers with Power to Act would have the power to put in place localised lockdowns while the Director General of Health could use Section 70 of the Health Act 1956 to make closures of specific locations of interest (such as schools and workplaces).

Objectives of economic support for localised lockdowns

13. While considerable uncertainty remains on how localised lockdowns will be used in practice, when thinking about what economic impact such restrictions could have, and therefore what economic support to provide, we consider the most relevant characteristics of localised lockdowns are the:
 - a **Nature of restrictions** – we understand controls during localised lockdowns may look like past Alert Level 3 and 4 settings, with controls including stay at home orders, premises closures, and limits on gatherings and movement.
 - b **Geographic reach** – we understand that the default option would be city- or town-level restrictions and could also be Territorial Authority based. The Department of the Prime Minister and Cabinet (DPMC) have noted that lockdowns could range geographically from small closures (individual businesses or schools) to greater regional areas if required (Wairarapa).
 - c **Duration** – the necessary duration of restrictions is likely to be on a case-by-case basis. However, given that the objective of a localised lockdown would be to reduce pressure on the health system, we consider it likely that any restrictions would be for a matter of weeks, rather than days.
14. In previous advice we have noted that, in designing COVID economic supports, there are five objectives.
 - 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, and
 - e Manage the macroeconomic and fiscal implications associated with providing economic support (including via a timely, temporary, targeted focus for spending).
15. We previously advised that as vaccination rates increase and as we move into a world where we must adapt to operating with COVID in the community, the focus of COVID economic support should continue to be supporting the public health approach, but for firms, it should recognise the need to support a transition to a COVID resilient economy [T2021/2338 refers].
16. We consider that these objectives remain appropriate for localised lockdowns. That is, economic measures should continue to play a role in supporting the public health approach by giving individuals the means to comply with public health requirements. However, rather than doing so in a broad-based manner for economic purposes, it should target those most directly in need of support from a public health perspective.

We also consider it appropriate that, especially for firms, a certain level of resilience should be expected and promoted.

17. We also note that a considerable amount of financial support has been provided to date. That support to-date, as well as what other support would be in place before and during a localised lockdown should be taken into account when determining what additional support is needed for localised lockdowns (see paragraph 22).

Proposed approach for economic support under localised lockdowns over the next three months

18. The remainder of this paper provides advice on what support we recommend be available for individuals and firms if a localised lockdown is required before the end of February 2022.
19. Critically, this advice is provided in the context of the very limited operational capacity to introduce new scheme or make substantive changes to existing schemes over the holiday period. The proposed approach may differ from the ongoing approach which you may use over the longer-term.
20. Inland Revenue and the Ministry of Social Development have signalled significant integrity concerns and operational barriers and constraints to deliver initiatives like the LSS or the RSP in a localised lockdown. Using these levers may trigger new and significant integrity and fiscal risks, if they are implementable at all. These risks also extend to restarting the WSS.

Figure 1. Economic support for localised lockdowns until end of February 2022

Geographic reach	Large regional and large urban areas	For individuals: Some form of LSS	LSS RSP could be reactivated if restrictions like AL3/4 are needed. MSD are unable to stand up WSS in near-term.
	Small everything else	For firms: current support measures only	For individuals: Some form of LSS For firms: Potential case for further targeted support
		14 or fewer days	more than 14 days
Duration			

Support for localised lockdowns that are 14 or fewer days – firms

21. Assuming that localised lockdowns will be similar in severity to Alert Level 3, we consider the primary issue to be the duration of restrictions.
22. Our initial view is that firms should be mostly self-sufficient for localised lockdowns that are 14 or fewer days and it is reasonable to expect firms to absorb the cost of these shorter localised lockdowns. Setting such an expectation will also signal to firms that they must have some level of resilience operating under the CPF over the long-term. We also note that:

- a Firms would still have access to measures such as the LSS and the Short-Term Absence Payment (STAP) under existing individual eligibility criteria, as well as the Small Business Cashflow Loan Scheme. There are also targeted sectoral measures available and in place such as the Strategic Tourism Asset Protection Programme and the Events Transition Support Payment Scheme.
- b Considerable economic support has been provided to some regions in the last few months. For regions such as Auckland, where many will have received a significant amount of financial assistance in terms of the WSS and the RSP. In addition to this, many will qualify for the upcoming Transition Payment. In other areas now at Red, firms have been subject to Alert Level 2, which means they have still been able to trade and have not been subject to prolonged and significant restrictions.
- c At a macroeconomic level, the economy has continued to perform better than expected and any additional support must consider the potential risk of compounding inflationary pressure. Annual inflation increased to 4.9% in the September quarter and the latest unemployment rate of 3.4% is a record low.
- d Other countries are shifting away from broad-based economic supports to more targeted and sectoral based supports. For example, in Australia, other than the Pandemic Leave Disaster Payment (which is similar to our LSS), broad-based supports have stopped.

Support for localised lockdowns that are 14 or fewer days – individuals

- 23. We consider it important to continue supporting individuals to comply with public health requirements. An extended LSS that helps employers pay employees who are prohibited from working due to a localised lockdown would align with the objective of supporting the public health response, and reducing the economic disruption of restrictions, while also providing some support to firms to assist with wage costs. Cabinet previously agreed in principle that the LSS could be made available in localised lockdowns [CAB-21-MIN-0504 refers].
- 24. However, in considering how an extension to the LSS could be operationalised in a localised lockdown, MSD officials have come to the view that any extension options create critical integrity risks and transform the LSS into a *de facto* WSS but without a revenue drop test. ^[34]
- 25. ^[4]
- 26. However, we note that MSD's capacity to implement these measures is severely limited in the near-term due to its other work, so implementing the LSS for a localised lockdown is likely to require significant trade-off decisions between integrity risks and delivery of other priorities, such as the Care-in-the-community programme.
- 27. More detail on the risks and operational barriers and constraints to enabling high trust supports for localised lockdowns is provided in Annex 1. In case Ministers do wish to extend the LSS in a localised lockdown in the medium term, Annex 1 provides initial views on the criteria we recommend are used when deciding to extend the LSS.

Support through community programmes

28. MSD will provide support for those who have welfare needs after losing income due to a localised lockdown through baseline community programmes, in conjunction with the Care-in-the-community programme. This would cover those who have COVID or who are self-isolating because they are close contacts of a case. There is some flexibility and responsive resourcing in these delivery models which could provide some support in the event of localised lockdowns.
29. A core component would be delivery of food to homes by food banks. Hardship assistance would be available from MSD for low income individuals and households. Although Community Connectors might be able to play a role, people would primarily need to self-present for these services, risking some unidentified need. Being targeted to those at risk of hardship, this support is likely to provide lower coverage than an LSS in localised lockdowns.

Support for larger localised lockdowns longer than 14 days – firms and individuals

30. In previous advice under the Alert Level system, we noted that the WSS and the RSP would remain available in the background and could be activated in the event the public health situation escalates and reactivation of these schemes is needed because we shift to Alert Level 3 or 4-type restrictions.
31. If a localised lockdown becomes regionally large or lengthy in duration and starts to look more like past Alert Level 3 and 4 episodes, the case for more economic support would increase. Our initial view is that after 14 days, there could be a case to consider more support, particularly for firms. We outline some possible support mechanisms below. However, the case for support would need to be carefully considered. Given the need to promote resilience, the option of not providing support remains, even for a lockdown that lasts more than 14 days.
32. Given the current implementation constraints, it is not possible to design a completely new payment scheme and therefore Inland Revenue advises using the existing RSP infrastructure is the only viable option. ^[33]

To activate the payment, an Order in Council is required, and the earliest Inland Revenue could open applications is from 14 January 2022.
33. Notwithstanding the considerable integrity and operationalisation risks previously mentioned (see Annex 1) if the LSS were expanded, it could in theory also be extended to provide support for localised lockdowns beyond 14 days. It would operate similarly to the WSS.
 - a If a lockdown is of a substantial scale, duration, and economic impact, the LSS will not be the appropriate economic response given it is targeted to the impact of public health constraints rather than to economic impact. We recommend other supports like the WSS should be considered.
 - b We recommend a very high bar for introducing any future WSS. We recommend that a future WSS only be considered by Ministers under severe lockdowns in terms of size and duration (e.g. those similar to Alert Levels 3 and 4). Further, MSD advise they cannot reactivate the WSS over the Christmas period due to limited staff.

Table 2: RSP and WSS implementation over the next three months

	Implementation implications	Financial implications	Earliest possible reactivation date
Resurgence Support Payment	Order in Council is required to activate the scheme.	See below on <i>Fiscal management options</i> .	14 January 2022.
Wage Subsidy Scheme	Cabinet decision required to activate the scheme.	See below on <i>Fiscal management options</i> .	Not possible in the near-term given MSD operational constraints.

34. [33]

35. Implementation constraints do however limit near-term options. The Treasury has canvassed targeted support options with the Ministry of Business, Innovation and Employment and the Ministry for Primary Industries to support firms with grants and / or business advice during a localised lockdown. There are substantial administrative constraints, and alternative options would not be operationally possible during the next three months.

[33]

Next steps

42. We would like to discuss the contents of this report with you at the Weekly Agency Meeting (WAM) on Monday 6 December. Following your feedback at the WAM we can provide further advice on preparedness for the holiday period, as well as any necessary material to support discussions with your Ministerial colleagues, if needed.
43. As a contingency plan, Treasury will work with agencies to have Cabinet materials ready so that economic support options can be progressed quickly if needed.
44. You may wish to meet with officials and Ministers to discuss alternative delivery agency options to deliver medium-term support for localised lockdowns, given MSD operational constraints and integrity risks.
45. We will continue to monitor the economic impact of operating under the CPF has on individuals and firms. We will report back to you in early 2022 with further advice on what ongoing support (if any) may be needed under the CPF.
46. In our report back, we can further consider the need for support or localised lockdowns and can discuss if there is any need for support under Red, the need for any sectoral support, as well as the case for ongoing loan-based support.

[4] and [34]

[4] and [34]