

The Treasury

COVID-19 Information Release

April 2020

This document has been prepared for release by the Treasury.

Context

This Aide Memoire informed decisions on the final design of the wage subsidy scheme reflected in CAB-20-MIN-0108.

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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Reference: T2020/780 SH-1-6-1-3-1 (COVID19 Wage Subsidy Scheme)

Date: 25 March 2020

To: Minister of Finance (Hon Grant Robertson)
Minister for Social Development (Hon Carmel Sepuloni)

Deadline: N/A
(if any)

Final Cabinet Paper and Advice on Enhanced Wage Subsidy

This morning, Ministers directed officials to prepare a Cabinet Paper for decision reflecting final design features of the wage subsidy scheme enhancement. This paper is attached. Draft communications material to support an announcement tomorrow is also attached.

The attached paper proposes that the subsidy be paid to employers as a lump-sum calculated for a 12 week period for each named employee (consistent with previous scheme). It also reflects key decisions that Ministers conveyed to officials about the enhanced wage subsidy scheme, namely:

- It will replace the leave payment entitlement for employers;
- It will soften the requirement on employers so they only have to pay employees at 80% of previous wage 'where this is possible'; and
- Employers will be required to pass through at least the subsidy rates to the employees

The rest of this note provides advice in response to your questions, based on further analysis by officials today. The advice has been prepared by the Treasury, MBIE, IRD and MSD.

There are two key recommendations from officials:

1. **Remove** the '30% income loss' eligibility test, to ensure wide access to the scheme to best reinforce public health and labour market objectives;
2. **Pay** the enhanced subsidy to businesses as a 12-week lump-sum, to ensure income adequacy for households in the short-term.

Further explanation and some trade-offs are discussed below.

Removing the '30% income loss' eligibility test

Your policy objective is to maintain labour force attachment and provide some income to as many workers as possible during this period of disruption. Officials recommend

that this objective is best met by allowing any employer eligible to receive this wage subsidy, who is struggling to pay their employees.

There is a public health objective reinforced by maintaining broad eligibility to the wage subsidy. There is a risk that firms not covered by the subsidy would not provide special leave to workers who are required to self-isolate and can't work from home. This could create an incentive for essential service workers to go to work.

It is difficult to attempt to design and implement a test that filters needy businesses from ones that may be able to absorb the lockdown. Retaining the eligibility test may create a regulatory hurdle for some small and large firms to access this subsidy quickly, or at all. Minimising this real and perceived burden has benefits in allowing immediate and broad financial support to business and workers.

Retaining a more objective eligibility test may discourage employers from taking the subsidy when they do not need it. For example, larger businesses could have more ability to use existing working capital, or raise more from their banks to manage the lockdown period, and so not in fact need a wage subsidy. Also, some 'essential services' businesses may not require the support given they will remain available and operational during the Alert Level 4 disruption.

However, officials are not able to forecast how such a test could control the overall fiscal cost of the wage subsidy, as we cannot forecast the numbers of firms and employees that would actually be constrained by any objective requirement.

Even if this wage subsidy scheme is as broad as possible, there will be some employers who may consider reducing staff levels. Ministers will receive further advice tomorrow on a proposed legislative change to require employers who receive the wage subsidy to maintain employment connection. This would reinforce the labour market attachment objectives of this enhanced wage subsidy scheme.

Paying the enhanced wage subsidy as a 12-week lump-sum

The Cabinet paper proposes that the subsidy be paid to employers as a lump-sum calculated for a 12 week period for each named employee (consistent with previous scheme). The amount must be used to subsidise the named employees who must also be retained for the 12 week period. Officials recommend that this option would provide the most clarity for this enhanced wage subsidy scheme, and is most likely to meet income adequacy needs for households who will face immediate financial pressure.

The current wage subsidy scheme allows employers to claim for 12 weeks, so there is a case to ensure that the enhanced scheme retains this feature, for fairness between firms who apply under the previous and new schemes.

The net income support available under the scheme is higher than for someone on a main benefit. Delivering this financial support through the employer, is most likely to incentivise workers staying attached to their current employers. It also prevents an

immediate and large operational burden being placed on MSD, which may slow the pace at which money can be delivered to households.

Any subsidy amount that is paid will have to be passed on (in part or full) as wages which will be counted as income. People will be eligible to supplementary assistance if their income is less than the applicable rates.

There is a risk that some firms may receive a 12-week lump sum payment, and then may be forced to close their operations in this subsequent period. If this happens, the full subsidy may not be passed on to households who require financial support. This fiscal risk could be mitigated by providing the lump-sums in 4-week 'tranches'. However, this could add some uncertainty for firms, and could provide less immediate support for some households who will face immediate financial stress.

Transitional arrangements for firms that accessed the existing wage subsidy schemes

The existing schemes will be collapsed into the enhanced scheme outlined above in the following way:

- MSD will disable applications under the current schemes shortly after announcement and will require a short window to upload the new application form;
- Applications made under the existing scheme will be processed in line with those criteria;
- Grants will be for a 12 week period for named employees;
- Grants will only be open while the stage four warning is in place;
- A person who received a grant under the old scheme can only apply under the new scheme in relation to employees not previously claimed for, and will receive a subsidy for a 12 week period for those employees (e.g. if they previously applied for 5 employees they will have received 12 week lump sum for them – if they apply under the new scheme 2 weeks later in relation to 6 more employees, they will only get a 12 week sum in relation to the new employees)

If the Alert Level 4 is still in force when grants start to expire (12 weeks after first grant) officials will provide advice on how to apply the scheme.

Udayan Mukherjee, Senior Analyst, COVID Policy and Strategy, ³⁵
Mark Vink, Acting Director, COVID Economic Response,