

The Treasury

COVID-19 Information Release

April 2020

This document has been prepared for release by the Treasury.

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).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Treasury Report: Essential Service Workers COVID-19 Leave Scheme

Date:	29/03/2020	Report No:	T2020/808
		File Number:	SH-1-6-1-3-1 (Coordination and Programme Management)

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to re-open the original COVID-19 Leave scheme for Essential Services workers only, and amend the payments to be 4-weekly (rather than fortnightly as per the original scheme).	29 March 2020
Hon Carmel Sepuloni Minister for Social Development	Direct officials to advise workers of non-essential services who may be left out of the Wage Subsidy and without income.	
Hon Iain Lees-Galloway Minister for Workplace Relations and Safety	Note the recommendations in this report.	29 March 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Avril Gillan	Analyst, Welfare And Oranga Tamariki	N/A (mob)	✓
Jordan Ward	Acting Manager, Welfare And Oranga Tamariki	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: Yes (attached)

Treasury Report: Essential Service Workers COVID-19 Leave Scheme

Executive Summary

Some Essential Service workers need to stay away from work for public health reasons. As Essential Services can remain open, many of them may not experience a 30 per cent revenue drop which is required to qualify for the Wage Subsidy scheme which can support workers unable to work. If Essential Services workers cannot work from home, have exhausted their sick leave, and/or do not have income assurance, they may then feel pressured to work against public health advice. Not all essential service workers will be in this position, but for those who are, it is a significant problem as they could be left without income for the period they have to stay away from work. For some workers this could be for the duration of the lockdown and possibly beyond.

Officials have identified three high level options for a payment scheme to support these workers:

- a) Re-open the original COVID-19 Leave scheme for Essential Service workers only, and amend the payments to be 4-weekly (rather than fortnightly as per the original scheme).
- b) Amend the eligibility criteria for the Wage Subsidy for Essential Service employers (only) to access the Wage Subsidy for a named worker(s), without having to pass the revenue test, if:
 - a. the named worker(s) belongs to one of the four groups identified in this paper, and
 - b. the employer is not in a financial position to fully support them to do so for the length of time they need to self-isolate and/or go on sick leave as a result of COVID-19.
- c) Require Essential Service employers to provide special leave for workers as a result of COVID-19 (at the same weekly rates as the Wage Subsidy), and allow employers to claim a refund for this in the future.

We recommend that Ministers progress with Option A as this provides adequate cover for all four groups identified as needing support, is a clearer division between wage subsidies and leave payments, allows for flexibility going forward and better targets the subsidy payments to contain fiscal risk.

We do not recommend Option B as there is a larger deadweight cost associated with this option. For example, for every 1,000 workers who stay only away from work for two weeks but receive a 12 week subsidy, the cost of the 10 weeks of subsidy which are not needed but paid out is approximately \$6 million. In addition, larger employers may not be eligible under option B, due to the caveat around employers' financial positions. As such, their vulnerable employees may still be unable to access leave, which will not achieve the public health objectives of the policy.

We do not recommend Option C as this relies on Essential Service employers having sufficient cash resources to pay out for the special leave whilst waiting for the refund, which puts the Public Health objectives at risk.

As directed by Cabinet, there is also work underway to look at support for Essential Service workers in the health workforce. There will likely be some crossover between those workers and employees eligible under this new Leave scheme.

Recommended Action

We recommend the Minister of Finance and the Minister of Social Development:

- a **agree** to re-open the original COVID-19 Leave scheme for Essential Services workers only, and amend the payments to be 4-weekly (rather than fortnightly as per the original scheme).

Agree/disagree.

- b **note** that in re-opening the original COVID-19 Leave scheme for Essential Services workers only, some technical changes may need to be made to ensure that all Essential Service workers who need to access the scheme are able to.

Noted.

- c **note** that **Annex A** sets out some talking points for announcing Ministerial intentions for a scheme on Monday 30 March 2020.

Noted.

- d **note** that officials will prepare a set of recommendations for you to take to CVD Ministers seeking their agreement to this scheme, and that these will set out more of the operational details of this scheme.

Noted.

- e **direct** officials to advise on workers of non-Essential Services who may be left out of the Wage Subsidy and without income

Agree/disagree.

- f **note** that there is an issue with this scheme, similar to the Wage Subsidy, where an employee's normal income may be below the amount of the subsidy they can qualify for.

Noted.

- g **agree** that if an employee's normal income (from the period before COVID-19) is below the amount of the leave subsidy, the employer can pay the employee their normal salary.

Agree/disagree.

- h **note** recommendation (g) is consistent with the way this issues is treated under the wage subsidy scheme

Noted

Jordan Ward
Acting Manager

Hon Grant Robertson
Minister of Finance

Hon Carmel Sepuloni
Minister of Social Development

We recommend the Minister for Workplace Relations and Safety:

- a **Notes** the recommendations in this report.

Noted.

Hon Ian Lees-Galloway
Minister for Workplace Relations and Safety

Proactively Released

Treasury Report: Essential Service Workers COVID-19 Leave Scheme

Purpose of Report

1. This report sets out options for an Essential Service Workers COVID-19 Leave Scheme.
2. It also sets out our recommended option, which is to re-open the original COVID-19 Leave scheme for Essential Service workers only and amend the payments to be 4-weekly (rather than fortnightly under the original scheme).

Background

3. On 16 March 2020 Cabinet agreed to establish a financial assistance scheme to compensate and incentivise workers to self-isolate to help manage the spread of the COVID-19 virus in New Zealand [CAB-20-MIN-0105 refers]. The scheme provided a payment equal to the Wage Subsidy scheme for a period of 14 days (or for the full duration of recovery for infected workers), and eligibility was open to all firms, the self-employed, contractors, and for workers unable to work from home.
4. Alongside this scheme, Cabinet also established a temporary COVID-19 Wage Subsidy scheme to help affected employees and business to adjust to the impact of COVID-19 [CAB-20-MIN-0108 refers]. Employers were only eligible for the subsidy if they suffered revenue loss of at least 30 per cent which was attributable to the COVID-19 outbreak.
5. On 27 March 2020 delegated ministers agreed to simplify worker-related financial assistance by collapsing the Leave Scheme into the Wage Subsidy scheme. This is anticipated to cover most (if not all) non-Essential Service firms. The practical effect is that this leaves a gap in support for Essential Service firms still in operation that cannot demonstrate a 30 per cent reduction in revenue, but may be placed under financial stress in supporting their workers who need to stay away from work as a result of COVID-19 and who cannot work from home, or may not be amenable to funding leave in addition to employees' accrued entitlements. Delegated ministers agreed that further work be undertaken to support employees in this situation, and that Ministers of Finance and Social Development will report to CVD on this as soon as possible.

Workers left out of the Wage Subsidy scheme

Essential Service workers risk not being supported when they are required to stay away from work for public health and cannot work from home

6. There are four groups that are of particular concern:
 - a The first are essential service workers that are particularly at-risk to COVID-19 who, in accordance with Public Health guidance, are recommended to stay home for the duration of the lockdown (and potentially longer) – for example, a supermarket worker over the age of 70.

- b The second are essential service workers who come into contact with someone who has contracted the virus (or have contracted the virus themselves) who, in accordance with Public Health guidance, are required to self-isolate for 14 days.
- c The third are essential service workers who have household members who are particularly at-risk to COVID-19 and need to stay away from work for the duration of the lockdown (and potentially longer) to reduce the risk of transmitting the virus to that household member.

33

- 7. Some essential service employers may be able to absorb the cost of continuing to pay these workers, but other employers may be less able, or less willing, to do so without meeting the 30% drop in revenue required to be eligible for the Wage Subsidy. This may for example include small firms whose revenue may remain static, but who would be unable to meet replacement labour costs if their staff need to stay away from work and cannot work from home.
- 8. If workers in either of these groups cannot work from home, have exhausted their sick leave, and/or do not have income assurance, they may then feel pressured to work against public health advice or find themselves with no income.
- 9. Not all essential service workers will be in this position, but for those who are it is a significant problem as they could be left without income for at least the duration of the lockdown or their period of self-isolation, and possibly beyond. This encompasses broader situations than the original COVID-19 Leave scheme, which was only designed for self-isolation when there had been a potential transmission (or caring for a dependent in this situation).
- 10. 33

Some other workers are also not being supported by the Wage Subsidy

- 11. Some non-essential businesses can continue operating with employees working from home, and therefore may not meet the 30 per cent revenue drop test. There may be some workers in this situation who cannot work from home without specialised equipment (e.g. in order to help with a disability) or have roles that simply cannot be performed at home (e.g. a receptionist for a consultancy firm). If the workers are not able to get this specialised equipment and therefore cannot work, they would not be covered by this scheme (as they are not working for an essential service). The worker may have to rely on private savings or benefit payments. This paper does not propose a scheme to support these workers. Officials can develop advice on these workers.
- 12. 33
- 13. Consistent with previous decisions, State sector employers would not be eligible for this scheme as there is an expectation that State Sector Employers are providing full wage replacement for workers who need to stay at home.

Options for an Essential Service Workers COVID-19 Leave Scheme

Key considerations for a Payment Scheme

14. We understand the primary objectives of the scheme is to support Essential Service workers to stay away from work when necessary for Public Health, and prevent these workers returning to work against Public Health guidance because they need a source of income.
15. The key drivers for the wage subsidy scheme are to protect public health (ensuring people continue to stay home) and preserve the employment relationship so the economy can come out faster from the Alert Level 4 restrictions. These objectives also apply when thinking about essential services who may not be eligible for the wage subsidy scheme as many essential businesses will see increased cost pressure that may drive them to reorganise (by, for example, reducing the numbers of people in their workforce who are more medically at-risk).
16. In advising on this issue we have also considered that:
 - a some Essential Service workers are being placed at high risk of infection and transmission due to their close and repeated interactions with members of the public,
 - b there is some uncertainty about what self-isolation will be required for Essential Service workers (for example, a supermarket may need to be closed for a couple of days if someone who has the virus enters a supermarket, while other essential service workers whose work does not bring them into contact with others may only need to ensure they self-isolate),
 - c the Ministry of Social Development (MSD) is already under considerable burden administering the Wage Subsidy scheme. Managing interactions with another separate scheme creates a risk of delayed processing for applications to the Wage Subsidy scheme, as well as impact other developments such as improving automation due to load, and
 - d the situation is moving at pace and any scheme implemented needs to be able to change and adapt quickly as the epidemic progresses.

Treatment of surplus subsidy

17. Ministers should also note that there may be an issue with this scheme, similar to the Wage Subsidy, where an employee's normal income may be below the amount of the subsidy they can qualify for. This will create windfall gains for either the employee or the employer. Ministers will need to choose how those windfalls should be treated. In the Wage subsidy scheme, surplus subsidy does not need to be passed on to the employee. Ministers have indicated they expect employers to use any remainder to meet their other wage costs for other employees.
18. We recommend applying the same rule for the leave scheme (i.e. if an employee's normal income is below the amount of the subsidy, the remainder can be used by the employer to meet the wage costs of other employees). Having the same rule will ensure extra benefit from the leave payments will accrue to employees. It will also help reduce confusion for employers trying to apply the rules of the schemes.

Options for a Payment Scheme

19. Officials have identified three high level options for a payment scheme, the details of which are set out in **Annex B**:
 - a Re-open the original COVID-19 Leave scheme for Essential Services workers only and amend the payments to be 4-weekly (rather than fortnightly as per the original scheme).
 - b Amend the eligibility criteria for the Wage Subsidy for Essential Service employers (only) to access the Wage Subsidy for a named worker(s), without having to pass the revenue test, if:
 - i the named worker(s) belongs to one of the four groups identified in this paper, and
 - ii the employer is not in a financial position to fully support them to do so or the length of time they need to self-isolate and/or go on sick leave as a result of COVID-19.
 - c Require Essential Service organisations to provide special leave for workers as a result of COVID-19 (at the same weekly rates as the Wage Subsidy), and allow employers to claim a refund for this in the future.
20. **We recommend that Ministers progress with Option A** as this provides adequate cover for all four groups identified as needing support whilst also targeting the subsidy payments to contain fiscal risk. Amending the payments to be monthly will reduce the amount of repeat applications under this scheme by half, and therefore ease any operational burden on MSD.
21. **We do not recommend Option B** as there is a larger deadweight cost associated with this option: for every 1,000 workers who stay away from work for two weeks, but receive a 12 week subsidy the cost of the 10 weeks of subsidy which are not needed but paid out is approximately \$6 million.
22. **We do not recommend Option C** as this could require additional implementation work and relies on Essential Service employers having sufficient cash resources to pay out for the special leave whilst waiting for the refund, which puts the Public Health objectives at risk.

Fiscal Implications

23. The original COVID-19 Leave scheme was provided with funding of \$161.700 million. Approximately \$57.6 million has been spent to date for just under half of the 26,000 applications received. The current appropriation for the COVID-19 Leave scheme remains unchanged despite the recent decision to collapse the COVID-19 Leave scheme into the Wage Subsidy scheme.

Costs of Option A (recommended option)

24. As with the original COVID-19 Leave scheme, there is considerable uncertainty in this estimate due to uncertainty in the number of staff continuing to work on the premises of essential services, the proportion of these in high-risk groups for COVID-19, and the financial position of essential services firms. The costings below could therefore be a significant over or under estimation.

25. In a high-uptake case of no Essential Services meeting the 30 per cent revenue test and 100 per cent of these applying to the leave scheme for affected staff, the fiscal cost of Option A could be approximately \$280m for a scheme that is open for 12 weeks (if the same assumptions around workforce need used in the situation below are true).
26. The cost of Option A could be \$110 million if the following were true:
 - a the scheme remains open for the next 12 weeks,
 - b 370,000 staff are currently working in Essential Services outside of the public sector, of which 25 per cent are assumed to be able to work from home, leaving 278,000 employees on work premises during this period,
 - c 15 per cent of the workforce of Essential Services have to stay away from work because they are in a high-risk group or have a high-risk person in their household
 - d Essential Service workers who are sick or exposed to COVID-19, or caring for a sick dependent, form only a fraction of the workforce in this period (assuming only a few thousand cases in New Zealand) and so are not a significant driver of the costs,
 - e 50 per cent of these Essential Services will have experienced a 30 per cent drop in revenue, and therefore be eligible for the wage subsidy and ineligible for the leave scheme, and
 - f only 80 per cent of eligible businesses, with workers who are affected by COVID-19 will take up the scheme, because they are in need of additional financial support to cover the worker absence.
27. Depending on policy settings, there is a risk of 'double dipping' if a separate scheme is re-opened (i.e., workers in essential services qualifying for the wage subsidy also apply for COVID-19 leave payments). This could be partially mitigated by ensuring that there are clear rules that do not entitle a person to payment from both schemes for the same period of time. Eligibility for the essential workers leave scheme can be restricted to those who are not already receiving the wage subsidy.

Costs of Options B and C

28. Option B (use the Wage Subsidy scheme) would have a higher cost as a 12-week lump sum payment would be paid to Essential Service employers for each worker, rather than a 4-week lump sum payment under Option A (with an option to re-apply every 4 weeks if the worker needs to continue to stay away from work).
29. The majority of payments under the scheme over the next 12 weeks, however, would likely be for those who are at-risk or have at risk-dependents and who may need to be off work for a period in the region of 12 weeks or more, until the risk of COVID-19 infection has diminished.
30. There is however, significant deadweight associated with a 12-week lump sum in a scenario where the scheme continues beyond 12 weeks and a significant proportion of the essential services workforce being exposed or infected to COVID-19. The additional deadweight of a 12-week lump sum versus a 4-week lump sum for a 52 week scheme, within this scenario is estimated at \$290 to \$390 million (if the majority of the costs of the scheme come from workers who are exposed to the virus rather than at-risk). If this became the case, the scheme could be adjusted accordingly.
31. We have not been able to estimate the cost of Option C (refund).

Implementation Implications

32. MSD advise that it would take a couple of days to implement Option A (re-open leave scheme). MSD would have to re-open the original Leave scheme system, as well as changes to MSD guidance and communications.
33. MSD advice that Option B (deliver through wage subsidy scheme) could be implemented within a day. MSD would have to make changes to the application form, MSD guidance and communications.
34. Both options will impose greater burden on MSD processing and likely delay other payments and processing enhancements (e.g. automation) under the wage subsidy scheme. Option A has an increased risk of this compared to Option B as Essential Service workers will have to re-apply for the subsidy every 4 weeks if their work (r)s continue to need to stay away from work, whereas Option B would provide a 12-week lump sum payment for this. 4-week lump sum payments would require three applications to cover a 12 week period of work absence. T This lifts the estimated volume of workers claimed for from approximately 17,000 to 52,000 over the next 12 weeks – although there would likely be front-loading of this number.
35. We expect that this scheme may need to continue to operate beyond the period of the lockdown. We will advise you at a later point of the wind-down and transition plans.
36. IRD and MSD are also working together to explore whether IRD can pick up processing some of these application to ease the burden on MSD, as well as working together on automation and audit.

Consultation

37. MSD, the Inland Revenue Department and the Ministry of Business, Innovation and Employment have been consulted on this advice and support the recommended option.

Next Steps

38. We understand you intend to announce Ministerial intentions for a scheme on Monday 30 March 2020. **Annex A** sets out some talking points for this.
39. Officials will prepare a paper for you to take to CVD Ministers on Tuesday 31 March 2020 or Wednesday 1 April 2020

Proactively Released

Annex B: Options for a Payment scheme for Essential Service workers required to self-isolate

Option	Description	Meets Public Health objectives?	Limited to genuine need?	Limits fiscal risk?	Can be easily implemented?	Any other risks?
Option A: Re-open the original COVID-19 Leave Scheme for Essential Service Workers, 4 weekly payments. (MSD delivery)	<i>Re-open the original COVID-19 Leave scheme for Essential Services workers only. Expand payments to be a 4 week payment, with an option to re-apply every four weeks if the worker(s) continue to need to stay away from work. Delivery by MSD.</i>	Yes. When an Essential Service worker needs to stay away from work they will receive the same rate as the Wage Subsidy scheme for the duration of their time away from work. They are therefore just as incentivised to stay at home as non-essential service workers under the Wage Subsidy scheme	Yes. Payments are made for a 4 week time period, tied to the time the worker must remain away from work. This recognises the difference in need for this scheme compared to the Wage Subsidy.	Partially. Payments made are limited as they are tied to the time the worker is away from work and limited to when workers are required to self-isolate or on sick leave. However, with MSD having to run two different schemes there is a risk that Essential Service firms who see a 30 per cent reduction in revenue could apply for a receive a wage subsidy for the same worker under both schemes.	Yes. But slightly more complex than Option B: MSD would be required to run two different COVID-19 income support schemes, as they did with the original COVID Leave and Wage schemes. Dealing with the potential interaction of the two schemes would take additional resources. MSD are currently not able to process as many applications in an hour as they receive.	There is a risk of having one agency (MSD) running multiple critical COVID-19 income support schemes. Higher risk of systems falling over and higher impact if they do.
Option B: Remove the 30 per cent revenue test for Essential Services firms with workers who need to stay away from work	<i>Allow Essential Service firms to access the Wage Subsidy, without having to pass the revenue test, if the following criteria has been met: 1. a worker needs to stay away from work as a result of COVID-19 and, and 2. the employer is not in a fiscal position to fully support them to do so for the length of time they need to self-isolate and/or go on sick leave as a result of COVID-19.</i>	Yes. Essential Service workers would be eligible for the full 12-week wage subsidy whenever they need to self-isolate or go on sick leave as a result of COVID-19.	No. Some workers will only need to self isolate for weeks (as a result of exposure to the virus), but the employee will receive the full 12-week subsidy. However, at-risk workers in such firms will likely need to self-isolate for the entire time Alert Levels 4, 3 and 2 restrictions apply.	The scheme would pay out 12 weeks of support for all claims, even when required support period much shorter.	Yes. MSD will not have to administer a separate scheme but is likely to face higher applications than expected for the Wage Subsidy scheme. Reduced amount of applications compared with Option A as employers will not need to continually re-apply for workers who stay away from work for 12 weeks.	Given the blanket 12-week subsidy, there is a heightened risk that Essential Service organisations will apply for and receive the wage subsidy when workers do not need to stay away from work.
Option C: Future refund of special COVID Leave to employers	<i>Require Essential Service organisations to provide special self-isolation and sick leave for workers as a result of COVID-19, and allow employers to claim a refund for this in the future.</i>	Uncertain. As employers bear the initial cost, they may not be in a financial position to provide the special leave even when it would be necessary to do so for Public Health reasons.	Yes. As employers bear the initial cost, there is an incentive to only provide it when there is a genuine Public Health reason.	Yes. And delays cost to the Crown as the refund would not happen immediately.	Uncertain. This could not be administered through the tax system. Officials are working on how such a system could be established.	