

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: T2020/655

Date: 14 March 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: Urgent
(if any)

Aide Memoire: Wage subsidy scheme note

This note:

1. raises a technical change suggested by the CTU to the scheme that you may wish to present at Cabinet on Monday;
2. provides you with indicative costings for expansion of the wage subsidy scheme across the economy;
3. provides options for limiting the cost of the scheme;
4. recommends ³³ [REDACTED] the wage subsidy scheme.

1. Recommended change to Rec 24

Dean Ford (MBIE) has proposed socialised design settings with CTU and BusinessNZ. Both were broadly happy about where the scheme was getting to. **CTU has recommended a technical change, raising the threshold for the income that employers must continue to pay their employees from 60 percent to 80 per cent.**

The current proposal includes a recommendation (rec 24) that “employers will need to make a declaration setting out their commitment, on best endeavours, to retain the number of employees identified in the declaration as subject to the targeted wage subsidy in employment on at least 60 per cent of their regular income.”

The 60 percent threshold is intended to allow employers flexibility to reduce worker hours while still benefiting from the scheme and therefore being supported to retain staff. A higher threshold would likely mean some firms choose to let go of employees instead of reducing their hours and receiving the wage subsidy. We have not quantified the effect.

Officials are comfortable with the threshold being raised to 80 per cent while noting that this could result in fewer staff being retained compared to there being a 60 per cent threshold.

2. Upper bound cost estimate of wage subsidy scheme

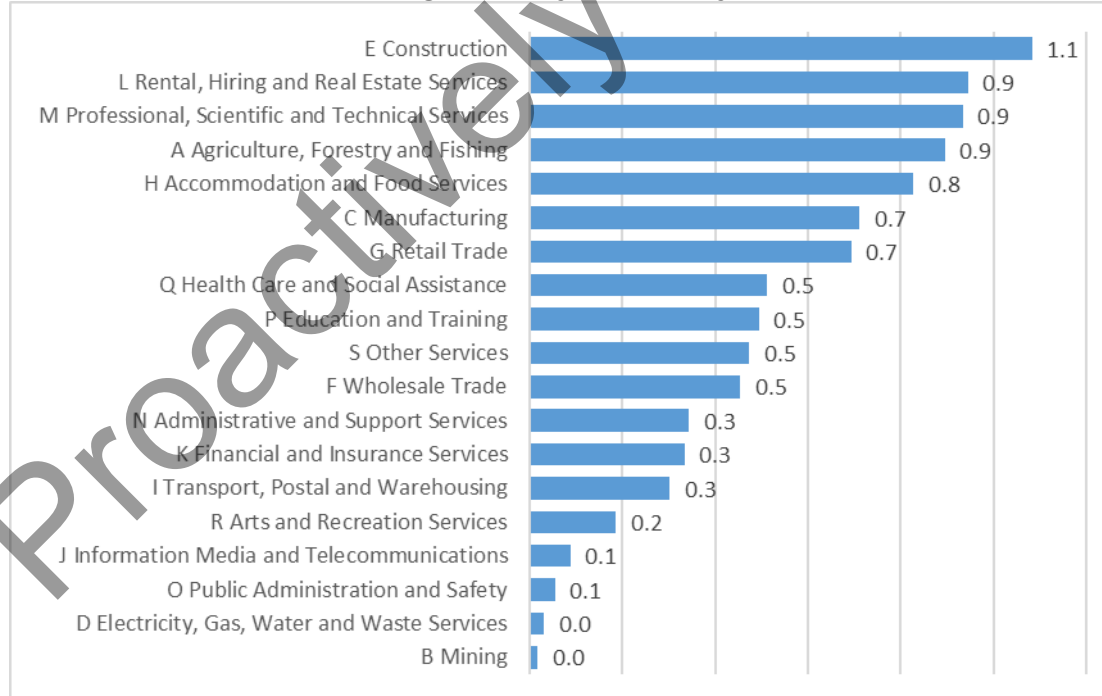
You requested advice on the upper bound fiscal cost of the proposed wage subsidy scheme if it were expanded across additional sectors in the economy.

Our preliminary upper bound estimate is approximately \$9.4 billion. This assumes all firms meeting qualification tests (including 30% loss of income, and being impacted by COVID), and all firms take up the scheme. It does not account for avoided costs, such as reduced benefit payments. It is based on a scheme paying a maximum of \$585.80 per week for 12 weeks per full time employee.

- **Large firms:** Approximately 16,000 firms would be paid the maximum amount of \$150,000 at a cost of \$2.5 billion
- **Smaller firms:** Approximately 140,000 firms with 1 – 21 employees would be paid a total of \$4.2b – an average of approximately \$30,000 per firm.
- **Zero-sized firms:** There are approximately an additional 390,000 firms that report having zero employees but with significant economic activity (>\$30k turnover). We have assumed they would claim for 1 full time worker, claiming ~\$7,000 each. This would cost \$2.7 billion. These firms are concentrated in rental, hiring and real estate services (\$800m), professional services (\$300m), as well as agriculture (\$300m). We have assumed they would claim for 1 FTE

A sector break down of the total \$9.4b cost is provided below.

Upper-bound estimates of wage subsidy scheme by sector (\$b)



These costings are indicative only and have prepared in very limited time with high-level firm demography data that does not fully capture all elements of the scheme.

Implementation challenges

MSD have advised that if the wage subsidy is extended across the all sectors of the economy this would significantly increase volumes and in terms of MSD's delivery of the scheme it would:

- Have a significant impact on MSD's capacity to deliver
- Impact on the pace that we could deliver i.e. create processing delays (compounded if we are to deliver other packages)
- Require additional funding and resources (yet to be estimated)
- If coupled with us delivering the self-isolation package and other packages (eg transfers via the benefit system), this would impact our ability to deliver core services within current timeframes and standards.

3. Options for managing costs of the wage subsidy scheme

There are options for reducing the cost of the wage subsidy scheme

(a) Cost of lump some payment

Current lump sum settings deliver a relatively high one-off grant of ~\$7,000 per full time FTE. There are approximately 2.8m workers in New Zealand.

You could choose to:

- Reduce the level of support (currently \$585.00 per full time FTE)
- Reduce the duration of support (currently 2 weeks)

This means upper-bound cost estimates would change to:

- ~\$3b if the duration period of support was reduced to 4 weeks
- ~\$6b if the duration period of support was reduced to 8 weeks
- ~\$5b if the level of support was roughly halved to \$300 per full time FTE

(b) Size of cap

You could choose to reducing the cap from \$150,000. Costings are less sensitive to reductions in the cap because there are relatively few large companies that hit the cap (~16,000). Reducing the cap by half to \$75,000 would reduce the cost by much less than half.

(c) Eligibility

You could choose to:

- restrict the scope of qualifying sectors and supply chain linked businesses, although there is likely to be significant pressure to expand

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Consultation

MBIE have been consulted in the drafting of this note. MSD have provided advice on implementation.

Jordan Ward, Acting Manager, Wel are And Oranga Tamariki,
Bryan Chapple, Deputy Secretary (Macroeconomics & Growth),

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