

Office of the Minister for Workplace Relations & Safety

Office of the Minister of Finance

Cabinet

COVID-19 Leave payment scheme

Proposal

1. This paper proposes that Cabinet agree the design and implementation option for a new scheme to provide financial assistance to incentivise and support those in self-isolation or on sick leave due to COVID-19.
2. A companion paper provides options for introducing a targeted wage subsidy.

Relation to government priorities

3. On Monday 9 March Cabinet agreed in principle to an economic package and directed officials to develop further targeted firm support options with priority on:
 - 1.1 a wage subsidy scheme for workers in the most adversely affected sectors (including possible financial support for leave requested by employees as a result of public health directions);
 - 1.2 training and re-deployment options for affected employees; and
 - 1.3 targeted working capital support for firms that face temporary credit constraints [CAB-20-MIN-0090]
4. On Saturday 14 March Cabinet agreed to a package of measures to support New Zealand's response to the COVID-19 pandemic, including strengthened border measures and a wider package of support for the public health response and the economy [CAB-20-Min-0106]. This included direct support to incentivise people to self-isolate and slow the spread of the virus. Further work is also underway separately on giving firmer direction from the Government on the need to self-isolate where required and on increasing community support to those unable to support themselves in isolation.
5. The proposals in this paper support the Government's public health response to the COVID-19 pandemic. Encouraging high levels of self-isolation is fundamental to preventing the spread of COVID-19.
6. The proposals also support the Government's objective of limiting economic impacts through maintaining incomes and hence consumption. The proposals will particularly protect the most vulnerable workers, and will also help to cushion the impacts of COVID-19 public health measures on firms who will also bear significant costs in supporting workers through this period. The scheme is designed to share the burden as fairly as possible across Government, businesses and workers.

Executive summary

7. Self-isolation of people exposed to COVID-19 or sick with COVID-19 is critical to our public health strategy. The need for self-isolation will increase substantially as a result of the border changes agreed on 14 March to designate all countries as Category 1B apart from mainland China and Iran (which remain in Category 1A), and Pacific countries (which have been moved to Category 2).
8. Self-isolation places additional costs on firms and workers. In many cases, firms have not allowed for these costs, even if they have notionally generous sick leave entitlements. We are particularly concerned that loss of income may deter workers from self-isolating (even where those workers may be told to do so). This is especially likely for the lower paid, more vulnerable workers, where they are less able to meet ongoing costs of living. Also self-employed people and contractors generally have no paid leave entitlements, and are therefore very likely to be without income for the duration of any COVID-19 illness or self-isolation requirement including to look after dependents.
9. Many countries have moved to provide support for workers who are either sick with COVID-19 or self-isolating due to COVID-19. Some are fully compensating people for wages lost due to self-isolation (for example France).
10. There is a strong case for the Government to provide financial assistance given:
 - anecdotal evidence already of some workers missing out or being forced (illegally) to take annual leave or even encouraged to return to work against public health guidance;
 - that other countries are increasingly taking steps to enable self-isolation;
 - the number of people self-isolating is likely to rise significantly with the recent border changes and potential spread of disease; and
 - the potential to reduce health harm and additional costs from effective self-isolation by sick people or possible spread of disease.
11. The Ministry of Health supports the proposals in this paper as a key piece of the strategy to limit the spread of the disease.
12. To be effective in preventing the spread of COVID-19, such compensation needs to become available as soon as possible. Introducing a scheme after the onset of community transmission is likely to be too late to be effective in limiting the virus' spread.
13. We recommend the Government introduce a scheme that is administratively simple, based on high trust, and open to all firms and the self-employed so that it can be deployed quickly and is not too onerous to access where it is needed most. This means a scheme that has simple rules and minimal ex ante verification would be required.
14. The key parameters proposed for the scheme are:

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- a. an entitlement for a period of 14 days for those who self-isolate in accordance with public health guidance and register with Healthline, and for the entire period of sickness for those who contract COVID-19
 - b. eligibility will be only for those who are not able to work from home;
 - c. eligibility will be only for those legally working in New Zealand;
 - d. either
 - i. a payment equal to the Wage Subsidy scheme (\$585.80 per week per full time worker); or
 - ii. a payment equal to the full time weekly minimum wage (\$756 per week per full time worker)
 - e. employers apply for the entitlement on behalf of workers;
 - f. payments are made to employers on agreement that they will be passed on in full to their employees or workers; and
 - g. eligibility is open to all firms, the self-employed, and for contractors.
15. For people who are sick with COVID-19 and have sick leave entitlements, employers are required under the current law to pay the worker at their full rate of sick leave until their paid sick leave is used up. This scheme does not reduce this obligation or peoples entitlements. We are encouraging employers to provide paid special leave beyond this period, or when workers are self-isolating, or to pay as normal where workers are not sick and can work from home. The proposed scheme will require employers to make a declaration on their application form that the worker cannot work from home and that all legal entitlements will be paid. The employer must have discussed the form with the worker.
16. It is recommended that the scheme be reviewed after an initial twelve week period, with monitoring of take-up, costs and effectiveness. Government will especially want to review the fitness for purpose of the scheme if widespread isolation or sickness breaks out. At that point, it may be that different or further interventions are required.
17. The scheme will be demand driven. The financial implications of the proposed scheme are extremely uncertain, and depend substantially on levels of uptake which in turn depend on numbers of people continuing to travel, the spread of cases in the community, and the number of close or casual contacts of cases.
18. Assuming current international traveller volumes continue (noting that it could spike over the next 2-3 weeks and fall back subsequently), this scheme could cost approximately \$189.8 million for the first 12 weeks. This is likely to be a high estimate at present especially with traveller volumes expected to fall substantially. If the average numbers of workers self-isolating reduces after an

initial spike, the cost could reduce to \$70.3 (assuming an average of 10,000 eligible workers self-isolating every week).

19. Around 10,000 people have self-isolated to date with only 8 confirmed cases in New Zealand. Our best estimate of the number of New Zealand travellers who will be self-isolating in the next couple of weeks – depending on travel decisions and route availability – is in the order of 39,000 per week. We expect this number will decline as travel restrictions impact globally. Of these, not all will be workers – for example, some will be children or superannuitants. Additional travellers who would be eligible are foreign nationals who are on temporary work visas returning to work in New Zealand. Not all workers will apply for the scheme, given workers who can work at home will do so and be paid normally, and it is paid at a low rate which will reduce the incentive for gaming. However, we expect to see more people self-isolating in the community if there are cases in New Zealand, even with reduced traveller volumes.
20. To manage the fiscal impacts, there is an option to limit the scheme to small and medium-sized firms, but we do not support this approach since excluding large employers would mean excluding a very large proportion of the workforce. This would undermine the public health objectives we seek.
21. The recommendations in this paper include the option of setting the payment at the same level as the wage subsidy. There is a risk that this option provides too little incentive for the lowest paid workers to self-isolate which would undermine the purpose of the scheme altogether.
22. We propose that the Ministry of Social Development administer this scheme, as an agency that has the appropriate infrastructure to process large volumes of transactions to employers at pace.

Background

23. On Monday 9 March Cabinet agreed in principle to an economic support package for COVID-19 and directed further work on a number of measures to support firms and workers.
24. On Saturday 14 March Cabinet agreed to a package of measures to support New Zealand's response to the COVID-19 pandemic, including strengthened border measures and a wider package of support for the public health response and the economy. In particular, as a result of the strengthened border measures to designate all countries as Category 1B apart from mainland China and Iran (which remain in Category 1A), and Pacific countries (which have been moved to Category 2), the requirements to self-isolate will increase significantly.
25. Encouraging high levels of self-isolation is fundamental to preventing the spread of COVID-19. The proposals in this paper provide direct support to incentivise people to self-isolate and slow the spread of the virus.

Self-isolation of people exposed to COVID-19 is critical to our public health strategy

26. Our public health strategy seeks to delay the onset of community transmission of COVID-19 in New Zealand, and to limit the infection's spread if community transmission occurs. Self-isolation of people exposed to COVID-19 is critical to this strategy. Self-isolation is especially critical for the healthcare and care and support workforces that work in close personal contact with vulnerable populations.
27. The Director-General of Health has advised that self-isolation applies to anyone who has transited through Category 1A and 1B countries (which is now all countries except for Pacific countries), or has been in close contact with someone confirmed with COVID-19 in the last 14 days. Self-isolation means staying away from situations where such people could infect others, including in workplaces.
28. As of 13 March, Healthline had registered a total of 10,100 people or households for self-isolation since the process began, and as at 13 March, there were 3,038 people or households registered for self-isolation. An additional 6,362 had completed isolation. These numbers would likely grow very substantially in the event of community transmission in New Zealand and with the border restrictions that have now been put in place and that are coming into effect on Sunday 15 March at 23:59pm.

Some workers may face financial barriers that deter them from self-isolating

29. It is important to remove barriers that may deter people from self-isolating. Loss of income is a key potential barrier. Whether this is a barrier will depend on personal, family, and employment circumstances. Some people may be well-placed to self-isolate without facing significant financial penalties. These circumstances include where people can:
 - work from home (assuming they are not unwell), and thereby earn normal income;
 - draw on paid leave entitlements; and / or
 - rely on savings, or partner incomes.
30. Employers should be encouraged to enable employees to work from home where this is feasible, and to pay them accordingly, and also to offer additional paid leave where they can do so.
31. Anecdotally, it is common practice in the private sector for employees' sick leave entitlement to be set at the 5 day statutory minimum. For employees in this category, I understand that the 5 day entitlement would typically be exhausted, or nearly exhausted, each year. For example, a 'Wellness in the Workplace' report completed in 2013 (with support from Business NZ) found that on average, workers in New Zealand took 4.5 sick days a year. The situation is worse for employees in 'vulnerable' categories (eg casual employees). Such workers are less likely to meet the 'six months with the same employer' requirement and will therefore be unlikely to have any sick leave entitlement to draw on.

32. However, people who cannot work from home, and whose employers struggle to provide sufficient paid leave, may face a financial penalty by self-isolating.
33. These workers may feel compelled to go to work, even in light of the broadened requirements to self-isolate. This is especially likely for the lower paid, more vulnerable workers, where they are less able to meet ongoing costs of living. Many workers who are contractors are in this category, along with self-employed owner operators, and have no leave entitlements.
34. This is particularly relevant for workforces who often work in close personal contact with those they support (eg, the care and support workforce). Many workers in healthcare, including those who are not public sector employees, work with people who are at a higher risk of complications from COVID-19, notably older people and people with existing health conditions and disabilities that increase their vulnerability to the virus. It is critical that these workforces follow self-isolation measures as required.
35. It is highly uncertain how many people may face such hard financial choices between forgoing income through self-isolating and going to work. The number of people facing these choices depends, in part, on the incidence of suspected exposure to COVID-19, the incidence of actual infection and employer and employee decisions.

Existing support mechanisms

36. MSD does offer an Emergency Benefit that may assist with financial support in situations where sickness prevents people from going to work, as well as Special Needs Grants.
37. However payments are low, and eligibility is not guaranteed. This is likely to still result in a significant reduction in income for many who are considering self-isolation, which may be an important factor for many when considering whether to self-isolate. Support available from MSD is provided in the annex to this paper.

Interaction with the wage subsidy

38. We note that the proposals in this paper and the Business Support Package targeted wage subsidy have different purposes. The Business Support Grant wage subsidy is an economic measure to help COVID-19 impacted firms to retain rather than shed staff for the period of transmission. This will be paid as a flat lump sum to all firms. The obligation here is for the employer to retain the employee.
39. The financial assistance for COVID-19 leave scheme discussed in this paper is a much more broadly-based public health measure intended to encourage self-isolation. This will be based on the numbers of workers needing to stay at home (because of sickness or self-isolation). As such, the compensation paid in this case will be much more dynamic. This is important to ensure that the public objective of keeping people at home when needed is met. We also note that this financial assistance will be applicable more broadly (and will cover self-employed

and contractors). Here the employer's obligation will be to pass the money on to the worker.

40. These are complementary initiatives and will act in tandem to mitigate against both economic and adverse health impacts. As such we think it is important that firms are entitled to both the wage subsidy and compensation under this scheme. This will ensure that firms and workers receive payments where staff need to stay at home and also helps manage the liquidity issues that firms may be facing given the impact of COVID-19 in New Zealand.
41. Some firms may be able to access both schemes at the same time, but there is no easy way to avoid this and both payments still make sense together.

Developments in other jurisdictions

42. We note that other jurisdictions are also introducing increasing supports for people who are self-isolating or sick with COVID-19.
 - a. For example, in France, pay outs are ensuring that people who self isolate receive 100% of their salary.
 - b. The United Kingdom has extended Statutory Sick Pay for people in self isolation.
 - c. To encourage workers to self-isolate Ireland has increased the size of the Illness Benefit, and increased eligibility for those self-isolating or sick with COVID-19 (for the duration of illness).
 - d. Officials are not aware of any changes to Australia's provisions for paid leave to enable self-isolation. The Australian Government's recently announced fiscal stimulus package includes payments of up to \$25,000 to SMEs to enable them to continue to pay wages.

The Government should provide compensation where workers face financial barriers that may deter them from self-isolating

43. In our view, there is a strong case for the Government to provide compensation where workers face financial barriers that deter them from self-isolating.
44. Firms and workers will likely not have budgeted for contingencies or insured against pandemics such as COVID-19. If the costs are left solely to firms and workers, many will be incentivised against self-isolating. This will undermine our public health objectives. The provision of compensation would also contribute to our economic objective of sustaining consumption through maintaining incomes. The loss of income experienced by people in self-isolation risks exacerbating falling demand and consumption across the economy, especially if rates of self-isolation increase substantially.
45. These public health and economic objectives need to be weighed against the potentially very substantial fiscal impacts of a compensation scheme, and the challenge of delivering a scheme.

The scheme may need to be changed given dynamic environment

46. Once established, we also note it may be difficult to “unwind” any new entitlement, especially if the health situation is deteriorating. However, we note that the levels of uptake are extremely uncertain. It will depend on numbers of people continuing to travel, the spread of cases in the community, and the number of close or casual contacts of cases.
47. As such, it will be important to target the scheme effectively as circumstances change. Government will especially want to review the fitness for purpose of the scheme if widespread isolation or sickness breaks out. At that point, it may be that different or further interventions are required. As the numbers sick or self-isolating go up, the need for this scheme will increase.
48. It is recommended that the scheme be reviewed after an initial twelve week period, with monitoring of take-up, costs and effectiveness. Signalling the intent to review the arrangements after twelve weeks at the onset, will also help the Government manage expectations about the potential role of such a scheme in different environments. It will also enable to test that workers are receiving the payments.

Proposed scheme parameters and design choices

49. At its heart, the compensation scheme will need to find a balance between the fiscal costs on the one hand and a scheme that is effective in encouraging self-isolation.
50. A highly targeted scheme with strong verification would help to manage cost and limit payments to firms and workers who really need assistance. However, tighter targeting and verification would delay implementation, complicate administration, and risk excluding people in real need. On the other hand, a less targeted scheme, applied in a “high-trust” context, would cost more, while more effectively encouraging self-isolation. Such a scheme would cost more due to the wider eligibility criteria and the greater risks of deadweight cost, and moral hazard.
51. We recommend that at this stage, the Government introduce a scheme that is administratively simple and based on high trust. This would mean that the scheme would be less targeted and that minimal ex ante verification would be required. This would be high cost, but limiting the initial duration of the policy would help to manage these costs. We would expect that the scheme effectively cover those who would be unable to work remotely.
52. The key parameters proposed for the scheme are:
 - a. an entitlement for a period of 14 days for those who self-isolate in accordance with public health guidance and who register with Healthline, and for the entire period of sickness for those who contract COVID-19
 - b. eligibility will be only for those who are not able to work from home;
 - c. eligibility will be only for those legally working in New Zealand;

- d. either
 - i. a payment equal to the Wage Subsidy scheme (\$585.80 per week per full time worker); or
 - ii. a payment equal to the full time weekly minimum wage (\$756 per week per full time worker)
- e. employers apply for the entitlement on behalf of workers;
- f. payments are made to employers on agreement that they will be passed on in full to their employees or workers; and
- g. eligibility is open to all firms, the self-employed, and for contractors.

53. In determining the parameters of the scheme, the key policy choices are

- a. The level of payment to be made under the scheme (including the interaction with payment for sick leave)
- b. Whether the scheme should be available to self-employed and contractors, in addition to employees
- c. Whether the scheme should be apply to workers in all firms or only small and medium sized businesses

Level of payment

54. Payment levels would need to be set to remove the potential disincentives for workers to self-isolate in contravention of public health guidelines. A very low payment is unlikely to affect incentives. A high payment would be both costly, and increase deadweight cost. Two feasible options in striking this balance would be either to align the payment rate with the wage subsidy or at the minimum wage. Both would likely help share the costs of self-isolating and mitigate against any disincentives to do so. While the minimum wage would likely have a more pronounced effect on those objectives, it will have a higher fiscal cost. Setting the level at the wage subsidy would partially mitigate against the fiscal exposure, but would likely have less of an impact on self-isolation.
55. We recommend setting the compensation level at either the same level at either
- i. the same level as the Wage Subsidy scheme (\$585.80 per week per full time worker); or
 - ii. the full time weekly minimum wage (\$756 per week per full time worker)
56. This wage would be treated as normal wage income and so would be subject to tax.
57. While the payment is intended to compensate workers for lost working hours, it will not be feasible, in the time available, to reflect actual hours worked. Instead, it will be necessary to make payments at either a rate for below 20 hours (\$350 per week) or full and a rate for those who would have expected to work over 20 hours (\$585.80 per week).

58. The inability to add more distinction to worker hours in the scheme creates the likelihood that some payments will be more than the wages foregone by the worker, which may leave the worker better off. The IT and payments system being readied for immediate deployment is unable to reflect the nuances in hours worked between workers (in the time available until this scheme is stood up).
59. I note that there is a further risk with the windfall being received by the employee, that the amount received could impact on their social assistance and Working for Families. This is only for a small number of people earning below the full time and part time payment rate. Most people normally earn more than the proposed rates so we do not expect entitlements to be affected.

Interaction with sick leave

60. Currently many people have entitlements under the law which provide them paid leave (at their normal rate of pay) for at least some of the period during which they would be self-isolating or sick.
61. Unless the COVID leave payments are at full wage compensation levels, leave entitlements will still be used (and in the case of sick leave, will be a legal requirement on employers until the entitlement is fully used up).
62. If Ministers wish to discourage people from using their leave for COVID matters, then the Government would need to fully offset individual's pay. This appears to be the approach taken in some jurisdictions, but would significantly increase fiscal costs, and would likely be higher than necessary to achieve the public health objective of encouraging people to stay at home when they should. It would also substantially remove or dampen the incentive for firms to continue to pay staff where they can and to encourage working from home where relevant. This is not recommended.
63. Equally, we do not recommend that there would be a requirement for workers to use-up their existing sick leave, annual leave or other paid leave entitlements before accessing the scheme. This would be difficult to administer and would likely impact on more vulnerable workers' decisions to self-isolate. However, employers will still be expected to pay any leave entitlements where legally required (such as when the person is actually sick).
64. This means that people will get top ups to the COVID payment in some cases, and that COVID payments will sometimes offset employer's legal obligations – this is the trade off for a simple and fast scheme. The offsetting can be justified by the notion that the Government is essentially cost sharing here with employers and workers.
65. We do, however, want to encourage employers who are able to provide special paid leave to their workers to do so where they think it is feasible. This proposed COVID leave entitlement should not be seen as support for firms who would otherwise help themselves, but there will be a degree of substitution.
66. The table below sets out some scenarios that are useful. Annex 2 also sets out some worked examples:

Situation	Leave entitlements	Payment
Worker is self-isolating and is working from home	No leave required	Employer pays as normal
Worker is self-isolating, and is not able to work from home	We want to encourage employers to consider whether special paid leave, sick leave and/or other leave entitlements (including annual leave or paid special leave)	Employer can apply for COVID assistance for the period of self-isolation and must ensure that it is passed through to the worker (as a condition of receiving the assistance). Employer can top up payment.
Worker is self-isolating and is not able to work from home	No remaining leave entitlements	Employer can apply for COVID assistance for the period of self-isolation and must ensure that it is passed through to the worker (as a condition of receiving the assistance). Employer can top up payment.
Worker is sick (and as such not able to work from home)	Sick leave is used, but runs out.	Employer can apply for COVID assistance for the entire duration of sickness. While leave entitlements are used, the employer must ensure that all legal entitlements are paid. Once leave entitlements run out, the full amount of COVID assistance must be passed through to the worker. Employer can top up payment. Employer and employee can agree also to use other leave (eg. Annual leave).

Employment Status

67. In respect of employment status, we think it is important to encourage *any* person to self-isolate. As such, we think the scheme should remain agnostic to the form of labour provided (ie. full time employee, casual, contractor or self-employed). Rather the payment would cover foregone hours of paid employment for part of the time off work that the worker would otherwise have undertaken, if not for the need to self-isolate.
68. In the case of self-employed, the self-employed person should be able to declare that they were earning an income at the minimum wage at the time that the person decided to self-isolate. This will ensure that people do not seek to self-isolate simply to get an uplift in income.

Firm Size

69. Eligibility could also be limited by firm size or wage and salary levels. Firm size could be a proxy for a firm's capacity to absorb the costs of worker self-isolation. It is likely that larger firms and higher paid workers are better-placed to absorb these costs. However, large firms employ large numbers of workers. Where such firms face liquidity issues, they may be incentivised against supporting workers to self-isolate – which could have a disproportionate impact on a large number of workers. They could also have to self-isolate large numbers at once due to exposures.

70. As such, we do not recommend restricting eligibility by firm size.

State Sector employers

71. We note, however, that this scheme should not be available to any state sector employee. This is specifically because we expect that State Sector employers will pay employees their normal wages through periods of self-isolation, without drawing on leave balances (where they are not able to work remotely).

Considerations for health sector workers

72. It is worth noting that there are large portions of the health and disability sector that are not public sector employees, and therefore would be subject to this proposal.

73. There are additional factors to consider in health when conducting a response to public health events such as COVID-19, namely:

- a. many people's wellbeing depends on continuity of care provided by the health and disability workforce
- b. this workforce frequently interacts with people who might be particularly at risk to poor outcomes from COVID-19 (e.g. people with co-morbidities such as diabetes or health disease, and older people)
- c. effective management of the COVID-19 response depends on people within this workforce functioning to the top of their scope
- d. many within this workforce are at an increased risk of exposure to COVID-19

74. Given this, there is a compelling case to carve out sectors essential to the public health response, and to prioritise these workforces for financial assistance for absence from work. Self-isolation is especially critical for the healthcare and care and support workforces that work in close personal contact with vulnerable populations. Further work needs to be done on whether this scheme would be sufficient for the Health workforces or whether something more tailored is required. A report back will be provided shortly.

Process for administering the payment

75. We expect that there is likely to be a spike in numbers of people self-isolating over the next few weeks, as the new border measures take effect. It will therefore be important that the scheme is available to those needing to self-

isolate as soon as possible. We propose that people be entitled to the financial assistance under this scheme for any self-isolation undertaken from 17 March onwards.

76. We recommend that applications for this assistance (and consequent payments from the Crown) be made from and to employers. This is administratively simplest for government, since this would limit the number of transactions the government would need to administer. We recommend the administering agency make payments, based on high trust, relying on the employers' declaration confirming that the criterion apply and that they have discussed the issue with the subsidy and that the employee consents to the provision of information. This will mean that the scheme can be deployed quickly and is not too onerous to access where it is needed most. To mitigate any overpayment, the employer will agree to repay any payment if determined at a later date that the employer was not entitled to that payment or their entitlement has subsequently changed.
77. We note that an Order in Council under the Goods and Services Act 1985 will need to be made to ensure this payment is not a taxable grant or subsidy to remove GST. This Order in Council will need to be made as soon as practicable and have retrospective effect from 17 March 2020.
78. Unlike the wage subsidy (which could be a single lump sum payment), the financial assistance provided under this scheme will depend on the number of people self-isolating or sick within a firm. This will be a dynamic picture. As such, the administration of the COVID leave payment scheme will require more regular engagement with employers.

Administrative Agency

79. MSD is currently implementing other responses to COVID-19 such as the removal of initial income stand downs and delivering the wage subsidy. We recommend that MSD be appointed as the delivery agency for this scheme. This creates some synergies with other functions MSD has in relation to COVID-19.
80. We note that MSD may also be required to deliver other initiatives being considered by Cabinet in response to COVID-19 including elements of a fiscal stimulus package, and an enhanced income support package (for those that do lose their jobs). This demonstrates that MSD does have the infrastructure to administer the scheme but is already facing significant pressure to deliver COVID-19 responses as well as routine services.
81. Administering this scheme will require more resources and staff from MSD. There is a limit to the number of initiatives MSD can deliver in the short term. There will also be an increased demand for MSD's services (e.g. income support and employment services) if COVID-19 continues to spread, or the economic impacts put people out of work.
82. There is an ongoing risk if MSD is the only agency which has the capability to deliver services in response to COVID-19. As more schemes are introduced, MSD may not have the ability to deliver and it will take time to build that capability in other agencies. There is also the risk that if MSD staff were to get

sick or self-isolate it could reduce MSD's capacity to deliver existing initiatives and services. Equally if MSD's IT systems crash, this creates critical risk that all the systems are unable to deliver any of the COVID related functions. We therefore also recommended that officials across government give consideration to how other agencies could begin building capability, so they can quickly deliver future services in response to COVID-19.

Financial implications

83. The financial implications of the proposed scheme are uncertain, and depend substantially on levels of uptake, what happens with travel demand, and the duration of the scheme. We note that the course of the COVID-19 pandemic may take many months or even over a year. The need for people to self-isolate will likely to carry on through that time. The scale of self-isolation required during the course of the pandemic, however, remains uncertain. Monitoring the scheme and reviewing its settings within an initial twelve week period, would enable Government to ensure that the scheme remains fit for purpose or whether a different approach may be warranted (for example, if the virus becomes widespread).
84. On current international traveller volumes, we have assumed an upper estimate of 27,000 workers per week self-isolating (70% of current New Zealand citizen and resident returning travellers) which would cost approximately \$189.8 for the first 12 weeks. This is likely to be a high estimate at present especially with traveller volumes expected to fall substantially. If the average numbers of worker self-isolating reduces after an initial spike, the cost could reduce to \$70.3m (assuming an average of 10,000 workers self-isolating every week).
85. On the other hand, these figures will very likely undercount those sick or self-isolating if there are outbreaks or community transmission of COVID-19 in New Zealand.
86. The following table provides highly indicative cost estimates, based on a range of assumptions.

Indicative costs for varying levels of uptake and duration the policy is in place (\$m)			
Number of workers paid under the policy in any given week	Duration policy in place		Costing assumptions
	12 weeks	26 weeks	
10,000	\$70.3	\$152.1	<p>All workers paid maximum entitlement ie assume all people qualifying for the policy would have otherwise worked full-time 40 hours per week, 80 hours per fortnight, and hence qualify for the full entitlement. This means these indicative costs will be an over-estimate.</p> <p>Payment is equivalent to the gross Business Support Package wage subsidy (@\$585.80 per week). This would increase if the full time minimum wage weekly rate was included.</p> <p>No allowance is made for any offset in income tax paid back to the government or for part-time hours which would reduce the costs.</p>
20,000	\$140.6	\$304.2	
27,000 <small>(estimates of NZ workers returning over the next few weeks)</small>	\$189.8	\$410.6	
	\$244.9 <small>(If calculated at \$756 per week rather than \$585.80)</small>	\$530.7 <small>(If calculated at \$756 per week rather than \$585.80)</small>	
50,000	\$351.5	\$760.5	
100,000	\$703	\$1521	

87. Officials will monitor costs and update the Ministers of Finance and Workplace Relations and Safety regularly on uptake and fiscal impact. This would enable Ministers to monitor the affordability and effectiveness of the scheme.
88. Only limited increases to 2019/20 appropriations are possible once the 2019/20 Supplementary Estimates are completed in May 2019. If uptake is higher than 27,000 every two weeks, there is a risk of unappropriated expenditure occurring. Therefore we are proposing to appropriate at the higher 50,000 level in order to mitigate this risk.

Administration costs

89. The scheme would also create administration costs in proportion to its complexity and levels of take-up. These costs would need to be funded.
90. The Ministry of Social Development advises that administering the scheme for twelve weeks will be in excess of what can be absorbed within agency baselines. Additional funding is needed for MSD to administer the subsidy. The exact amount is being calculated and a final decision will be delegated to Ministers.
91. The Government's expectation that is that State Sector employers will pay employees their normal wages through periods of self-isolation, without drawing on leave balances (where they are not able to work remotely), and hence can be expected to meet the cost within baseline in the first instance, and not need to call on the proposed scheme.

Consultation

92. The Ministry of Social Development, the Accident Compensation Corporation, Inland Revenue, the Ministry of Health, the Department of Prime Minister and Cabinet and the Treasury were consulted.
93. The Ministry of Health supports the proposals in this paper as an important contribution to managing the risks of COVID-19 spreading in New Zealand.
94. Officials have also spoken to social partners about the proposals at a high level and both Business NZ and the NZCTU are supportive of the proposals in this paper. NZCTU indicated that the levels might be too low to be effective for some lower pay workers with limited ability to meet their costs already. The NZCTU pointed out the risk with a high trust model that is paid through employers (that the money may not be passed through).
95. When this is reviewed at the end of the twelve week period, it would be useful to assess whether this model remains appropriate.

Communications

96. We propose that the Prime Minister announce the establishment of the scheme.

Recommendations

97. We recommend that Cabinet:
 1. **note** that self-isolation of people exposed to COVID-19 or sick with COVID-19 is critical to our public health strategy;
 2. **note** that self-isolation imposes unbudgeted costs on firms and workers, and that some workers may face financial barriers that deter them from self-isolating;
 3. **note** there is a strong case for the Government to provide financial assistance in these cases, both to support the Government's public health strategy, support the economic objective of maintaining incomes and consumption, and share the burden of COVID-19 fairly across Government, workers and businesses;
 4. **note** that, to be effective in limiting the spread of COVID-19, such compensation needs to become available as soon as possible, to help prevent the onset of community transmission;
 5. **note** that the key objective of providing financial assistance would be to encourage people to self-isolate and thereby help to limit the spread of the infection;
 6. **agree** 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;
 7. **agree** that the key elements of a scheme will comprise:

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- 7.1. an entitlement for a period of 14 days for those who self-isolate in accordance with public health guidance and register with Healthline, and for the entire period of sickness for those who contract COVID-19
- 7.2. eligibility will be only for those who are not able to work from home;
- 7.3. eligibility will be only for those legally working in New Zealand;
- 7.4. either
 - 7.4.1. a payment equal to the Wage Subsidy scheme (\$585.80 per week per full time worker); or
 - 7.4.2. a payment equal to the full time weekly minimum wage (\$756 per week per full time worker)
- 7.5. employers apply for the entitlement on behalf of workers;
- 7.6. payments are made to employers on agreement that they will be passed on in full to their employees or workers; and
- 7.7. eligibility is open to all firms, the self-employed, and for contractors.
8. **agree** that the scheme be reviewed after an initial twelve week period, with monitoring of take-up, costs and effectiveness, especially to review the fitness for purpose of the scheme if widespread isolation or sickness breaks out;
9. **agree** that the Ministry of Social Development will administer the payment;
10. **note** that MSD will administer the scheme in the following way:
 - 10.1. Employers will make applications in relation to affected employees;
 - 10.2. Employers will have to declare that:
 - 10.2.1. They meet all of the eligibility criteria;
 - 10.2.2. They have discussed the application with named employees, who consent to sharing information in the application and for the purposes of verification
 - 10.2.3. The employer consents to the details in the application may be verified with other agencies;
 - 10.2.4. The employer is aware that they may be audited and prosecuted for fraud if they have provided false information;
 - 10.2.5. The employer will notify MSD if circumstances change that affect their eligibility
 - 10.2.6. The employer will repay any amount which they are not entitled to;

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- 10.3. MSD will not verify information in the application before paying, but will have the ability to later audit the application, verify information with other agencies and refer possible instances of fraud for investigation
11. **note** that an Order in Council under the Goods and Services Act 1985 will need to be made to ensure this payment is not a taxable grant or subsidy to remove GST. This Order in Council will need to be made as soon as practicable and have retrospective effect from 17 March 2020.
12. **note** the Ministry of Social Development will need additional operating funding to administer the scheme
13. **delegate** authority to the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development to appropriate funding for the administration of the scheme (establishing any new appropriations as necessary)
14. **note** that the Minister of Finance is preparing advice on a funding framework for considering COVID-19 related responses alongside Budget 2020
15. **note** that the potential fiscal implications are highly uncertain, and likely to be very significant, especially if uptake is high, and the scheme remains in place for an extended period;
16. **agree** to establish the following new appropriation:

1. Vote	2. Social Development
3. Minister	Minister for Social Development
4. Title	<i>Financial Assistance to Support Worker Self-Isolation</i>
5. Type	Non-Departmental Other Expense
6. Scope	This appropriation is limited to <i>supporting workers to self-isolate in response to the COVID-19 virus.</i>

17. **agree** to a performance exemption under s15D(2)(b)(ii) of the PFA, as additional performance information is unlikely to be informative as this appropriation is solely for payments related to the COVID-19 response
18. **approve** the following change to appropriations to fund the 12 week leave scheme with a corresponding impact on the operating balance and net core Crown debt (if the rate is set at wage subsidy rate):

Vote Social Development Minister for Social Development	\$m - increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Non-Departmental Other Expense:					

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Financial Assistance to Support Worker Self-Isolation	189.800	-	-	-	-
Total Operating	189.800	-	-	-	-

19. **note** that only limited increases to 2019/20 appropriations are possible once the 2019/20 Supplementary Estimates are completed in May 2019 and that, if uptake is higher than 27,000 every two weeks, there is a risk of unappropriated expenditure occurring
20. **agree** to the following change to appropriations to mitigate the risk of unappropriated expenditure outlined in paragraph 20 above, reflecting the possibility of an addition 23,000 workers qualifying for the full leave payment every two weeks, with a corresponding impact on the operating balance and net core Crown debt (if the rate is set at wage subsidy rate):

	\$m - increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Vote Social Development					
Minister for Social Development					
Non-Departmental Other Expense:					
Financial Assistance to Support Worker Self-Isolation	161.700	-	-	-	-
Total Operating	161.700	-	-	-	-

21. **agree** that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply
22. **agree** that expenses incurred under the recommendations above will be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt
23. **agree** that any underspends with the implementation and the costs of the leave scheme as at 30 June 2020 be transferred to the 2020/21 financial year to ensure that funding is available for this purpose
24. **authorise** the Minister of Finance and the Minister for Social Development jointly to agree the final amount to be transferred, following completion of the 2019/20 audited financial statements of the Ministry of Social Development (or beforehand if necessary), with no impact on the operating balance and/or net core Crown debt across the forecast period
25. **note** the Government's expectation that State Sector employers will pay employees their normal wages through periods of self-isolation, without drawing on leave balances (where they are not able to work remotely), and hence can be

expected to meet the cost within baseline in the first instance, and not call on the proposed scheme

26. **direct** officials in MBIE and the Ministry of Health to explore whether this scheme would be sufficient for health workforces or whether something more tailored is required and to report back the Minister of Health and the Minister for Workplace Relations and Safety
27. **delegate** authority to the Minister of Finance, and the Ministers for Social Development and Workplace Relations and Safety to approve other policy matters and operational details of the scheme (including implementation costs incurred by the Ministry of Social Development)
28. **delegate** authority to the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development to appropriate funding for the administration of the scheme, and

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29. **invite** the Minister of Workplace Relations and Safety and the Minister for Social Development to provide regular updates to the CVD Committee on the implementation of the scheme, including uptake and ongoing costs.

Authorised for lodgement

Hon Iain Lees-Galloway

Minister for Workplace Relations and Safety

Hon Grant Robertson

Minister of Finance

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Annex 1: Current support available from the Ministry of Social Development

Individuals and families are able to access MSD's standard suite of financial assistance. This could include ongoing assistance such as a main benefit for those who no longer have an income. The table below sets out the current rates of Jobseeker Support.

Note: The Emergency Benefit is usually paid at the appropriate Jobseeker Support rate.

Table: Current weekly Jobseeker Support Rates¹

Benefit Type	Net Rate (Tax at 'M')	Gross Rate
Single, 18 -19 years, at home	\$145.98	\$163.11
Single, 18-19 years, away from home	\$182.47	\$203.88
Single 20 - 24 years (and half married, civil union or de facto couple rate)	\$182.47	\$203.88
Single 25 years and over	\$218.98	\$244.67
Married, civil union or de facto couple (without children) each	\$182.47	\$203.88
Married, civil union or de facto couple (without children) total	\$364.94	\$407.76
Married, civil union or de facto couple (with children) each	\$195.50	\$218.44
Married, civil union or de facto couple (with children) total	\$391.00	\$436.88
Sole Parent	\$339.69	\$388.90

MSD's standard suite of assistance also includes on-going additional assistance such as the Accommodation Supplement to help with housing costs, and Temporary Additional Support. MSD also offers one-off payments such as Special Needs Grants to help with food and other essential and immediate needs.

¹ These rates will be increasing by 3.09 percent from 1 April 2020, in line with movement in the net average wage over the previous year (CAB-20-MIN-0050 refers).

Annex 2: Worked examples of the scheme in practice (these are illustrative only)

1) A person returning from overseas, who can work from home (Mrs A, a lecturer)

Mrs A has returned from a Category 1B country after an academic research trip and is obligated to self-isolate for 14 days under public health guidelines.

Since Mrs A can work from home, her employer is expected to pay her as normal.

There is no need, and no entitlement, to access the COVID-19 paid leave scheme.

2) A person returning from overseas, who cannot work from home (Mr B, a sales representative)

Mr B is a sales representative who has returned from a Category 1B country after a business trip and is obligated to self-isolate for 14 days under public health guidelines.

As a sales representative who must meet with customers, Mr B cannot work from home while he self-isolates.

Mr B's employer is encouraged to consider whether special paid leave, existing sick leave and/or other leave entitlements (including annual leave) can be paid. (These payments would be made at a higher rate than the leave scheme, providing "full wage replacement" for the period of self-isolation, and hence be more attractive to Mr B).

Mr B's employer can also apply for the COVID assistance for the period of self-isolation, regardless of whether the employer pays special paid leave, existing sick leave and/or other leave entitlements (including annual leave).

But if those payments are made, the employer must (under existing law) ensure that Mr B continues to receive payment at full wage. (In this case, the COVID assistance is effectively a reimbursement to the employer for lost productivity while Mr B self-isolates).

3) A person who has been exposed to COVID-19, who cannot work from home, and has no remaining leave entitlements (Mrs C, a caregiver)

Mrs C works in a rest home where there has been a confirmed COVID-19 case. She is obligated to self-isolate for 14 days under public health guidelines.

As a caregiver, Mrs C cannot work from home. She also has no remaining leave entitlements.

Mrs C's employer can apply for COVID assistance for the period of self-isolation and must ensure that it is passed through to her (as a condition of receiving the assistance).

Her employer can top up the payment.

Mrs C normally receives Working for Families payments, and the Accommodation Supplement. The COVID leave payment is treated as normal income, so her payments such as Working for Families and the Accommodation Supplement are not affected.

4) A person who is sick (Mr D, a city council bus driver)

Mr D drives buses for the city council. He develops COVID-19-like symptoms, and must self-isolate. He is subsequently diagnosed with COVID-19.

Since he is sick, and also a bus driver, working from home is not an option.

Mr D has four sick days owing, and he uses those for the first four days of his illness.

He is subsequently eligible for the COVID-19 leave payment for the duration of his convalescence.

His employer can top up the payment.

5) State sector employees (except employee of a state owned enterprise or mixed ownership model company) (Mr E a nurse, and Mrs E, a policy advisor)

Mr E and Mrs E need to self-isolate. Their state sector employers – a District Health Board and a Department – are expected to continue to pay them their regular salaries during self-isolation. They therefore do not need to access the COVID leave scheme, and are not eligible to do so.

6) Contractors / self-employed, part-time workers

Contractors / self-employed and part-time workers have the same entitlements under the scheme as employees, and full-time workers – although may not have any existing leave entitlements. In all cases, they are eligible for compensation for the time they would have worked, if not for the need to self-isolate.

Part-time workers will receive payment as if they would have worked 20 hours per week. They may be eligible across a number of part-time jobs.

7) A retired senior citizen

A retired senior citizen, either returning from overseas, or who has been exposed to COVID-19 in New Zealand, **would not be eligible** for the paid-leave entitlement because this person is not subject to a loss of income from inability to work during self-isolation.

8) A work visa-holder, or New Zealand resident

Work visa-holders, and New Zealand residents **have the same entitlements** under the scheme as New Zealand nationals.

9) Workers in a firm seriously impacted by COVID-19 disruption and receiving support from the Business Support Package wage subsidy

Certain firms that are adversely affected by the pandemic, and that are considering releasing staff because the firm cannot meet wage costs, may be eligible for the Business Support Package wage subsidy.

This partial payment provides less than the minimum wage, but employers will be obligated to top it up to ensure that workers receive at least the minimum wage.

Where a firm is receiving this subsidy to help pay staff, and those staff subsequently need to self-isolate, and cannot work from home, then the firm could also apply for the paid-leave entitlement (just like any other firm).

Therefore, such a firm could be eligible for both the leave payment and the subsidy, potentially at the same time.

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Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

COVID-19: Financial Support Paper B: COVID-19 Leave Payment Scheme

Portfolios **Finance / Workplace Relations and Safety**

On 16 March 2020, Cabinet:

- 1 **noted** that self-isolation of people exposed to COVID-19 or sick with COVID-19 is critical to the government's public health strategy;
- 2 **noted** that self-isolation imposes unbudgeted costs on firms and workers, and that some workers may face financial barriers that deter them from self-isolating;
- 3 **noted** there is a strong case for the government to provide financial assistance in these cases, both to support the government's public health strategy, support the economic objective of maintaining incomes and consumption, and share the burden of COVID-19 fairly across government, workers and businesses;
- 4 **noted** that, to be effective in limiting the spread of COVID-19, such compensation needs to become available as soon as possible, to help prevent the onset of community transmission;
- 5 **noted** that the key objective of providing financial assistance would be to encourage people to self-isolate and thereby help to limit the spread of the infection;
- 6 **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;
- 7 **agreed** that the key elements of a scheme will comprise:
 - 7.1 an entitlement for a period of 14 days for those who self-isolate in accordance with public health guidance and register with Healthline, except if the self-isolation relates to travellers who leave New Zealand after 15 March 2020, and for the entire period of sickness for those who contract COVID-19;
 - 7.2 eligibility will be only for those who are not able to work from home;
 - 7.3 eligibility will be only for those legally working in New Zealand;
 - 7.4 a payment equal to the Wage Subsidy scheme (\$585.80 per week per full time worker);
 - 7.5 employers apply for the entitlement on behalf of workers;

- 7.6 payments are made to employers on agreement that they will be passed on in full to their employees or workers;
- 7.7 eligibility is open to all firms, the self-employed, and for contractors;
- 8 **agreed** that the scheme be reviewed after an initial eight week period, with monitoring of take-up, costs and effectiveness, especially to review the fitness for purpose of the scheme if widespread isolation or sickness breaks out;
- 9 **agreed** that the Ministry of Social Development will administer the payment;
- 10 **noted** that the Ministry of Social Development will administer the scheme in the following way:
- 10.1 employers will make applications in relation to affected employees;
- 10.2 employers will have to declare that:
- 10.2.1 they meet all of the eligibility criteria;
- 10.2.2 they have discussed the application with named employees, who consent to sharing information in the application and for the purposes of verification;
- 10.2.3 the employer consents to the details in the application may be verified with other agencies, and that this information may be published;
- 10.2.4 the employer is aware that they may be audited and prosecuted for fraud if they have provided false information;
- 10.2.5 the employer will notify the Ministry of Social Development if circumstances change that affect their eligibility;
- 10.2.6 the employer will repay any amount which they are not entitled to;
- 10.3 the Ministry for Social Development will not verify information in the application before paying, but will have the ability to later audit the application, verify information with other agencies, and refer possible instances of fraud for investigation;
- 10.4 there will be clear penalties for fraudulent misrepresentation;
- 11 **noted** that:
- 11.1 an Order in Council under the Goods and Services Act 1985 will need to be made to ensure this payment is not a taxable grant or subsidy to remove GST;
- 11.2 the Order in Council will need to be made as soon as practicable and have retrospective effect from 17 March 2020;
- 12 **noted** that the Ministry of Social Development will need additional operating funding to administer the scheme and to audit the scheme retrospectively;
- 13 **delegated** authority to the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development to appropriate funding for the administration of the scheme (establishing any new appropriations as necessary);

- 14 **noted** that the Minister of Finance is preparing advice on a funding framework for considering COVID-19 related responses alongside Budget 2020;
- 15 **noted** that the potential fiscal implications are highly uncertain, and likely to be very significant, especially if uptake is high, and the scheme remains in place for an extended period;
- 16 **agreed** to establish the following new appropriation:

Vote	Social Development
Minister	Minister for Social Development
Title	<i>Financial Assistance to Support Worker Self-Isolation</i>
Type	Non-Departmental Other Expense
Scope	This appropriation is limited to supporting workers to self-isolate in response to the COVID-19 virus.

- 17 **agreed** to a performance exemption under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative as this appropriation is solely for payments related to the COVID-19 response;
- 18 **approved** the following change to appropriations to fund the eight week leave scheme with a corresponding impact on the operating balance and net core Crown debt (if the rate is set at wage subsidy rate):

Vote Social Development Minister for Social Development	\$m - increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Non-Departmental Other Expense:					
Financial Assistance to Support Worker Self-Isolation	126.500	-	-	-	-
Total Operating	126.500	-	-	-	-

- 19 **agreed** that the changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 20 **agreed** that expenses incurred above will be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt;
- 21 **agreed** that any underspends with the implementation and the costs of the leave scheme as at 30 June 2020 be transferred to the 2020/21 financial year to ensure that funding is available for this purpose;
- 22 **authorised** the Minister of Finance and the Minister for Social Development jointly to agree the final amount to be transferred, following completion of the 2019/20 audited financial statements of the Ministry of Social Development (or beforehand if necessary), with no impact on the operating balance and/or net core Crown debt across the forecast period;
- 23 **noted** that the government's expectation that State Sector employers will pay employees their normal wages through periods of self-isolation, without drawing on leave balances (where they are not able to work remotely), and hence can be expected to meet the cost within baseline in the first instance, and not call on the proposed scheme;

- 24 **directed** officials in the Ministry of Business, Innovation and Employment and the Ministry of Health to explore whether this scheme would be sufficient for health workforces or whether something more tailored is required, and to report back the Minister of Health and the Minister for Workplace Relations and Safety;
- 25 **delegated** authority to the Minister of Finance, and the Ministers for Social Development and Workplace Relations and Safety to approve other policy matters and operational details of the scheme (including implementation costs incurred by the Ministry of Social Development);
- 26 **delegated** authority to the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development to appropriate funding for the administration of the scheme;
- 27 **invited** the Minister of Workplace Relations and Safety and the Minister for Social Development to provide regular updates to the Ad Hoc Cabinet Committee on COVID-19 Response on the implementation of the scheme, including uptake and ongoing costs.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:

Prime Minister
Deputy Prime Minister
Minister of Finance
Minister for Workplace Relations and Safety

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