

The Treasury

COVID-19 Information Release

April 2020

This document has been prepared for release by the Treasury.

Context

Decisions on the wage subsidy scheme were supported by additional advice on the design of the wage subsidy scheme [see "Aide Memoire: Wage Subsidy Scheme Note" and "Speaking Notes and Recommendations: COVID-19 Financial Support Paper 1: Business Continuity Package: Targeted Wage Subsidy Scheme"].

Decisions on the Winter Energy Payment were supported by additional advice on alternative options [see "Annex Three: Alternative options to extend the Winter Energy Payment and updated financial recommendations"].

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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Cabinet

Minute of Decision

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COVID-19: Overview of the Government's Response: Economic Package

Portfolio Finance

On 16 March 2020, Cabinet:

Background

- 1 **noted** that the economic outlook has deteriorated significantly as the COVID-19 outbreak has become a global pandemic, and that the government needs to prepare for a major slowing in economic activity;
- 2 **noted** that the situation makes an economic response package essential to address immediate public health risks, maintain economic confidence, cushion the impact of the economic shock and support the economic recovery;
- 3 **noted** that the government's economic response will have three components:
 - 1.1 support to the public health system, including sick leave measures to support incentives for self-isolation;
 - 1.2 a substantial business and worker support package to cushion the near-term impact on firms and workers and support confidence;
 - 1.3 a recovery package to support beneficiaries and confidence during the early phase of economic recovery;

Supporting New Zealand's public health system

Public health response

- 4 **noted** that the government will establish a \$500 million contingency to support the public health response to the outbreak;

Expanded provision of sick leave

- 5 **noted** that there is an accompanying Cabinet paper to agree the design and implementation for a new scheme to provide financial assistance to incentivise and support those in self isolation or on sick leave due to COVID-19 [CAB-20-MIN-0105];

Business and Worker Support Package

- 6 **noted** that supporting businesses and workers through the shock will limit the extent of the fall in output, and cushion the impact on households and firms most affected by COVID-19;
- 7 **noted** that the following initiatives are proposed that will support businesses and workers:
- 7.1 training and redeployment options for affected employees;
 - 7.2 a temporary wage subsidy scheme for workers and firms impacted by COVID-19;
 - 7.3 support for large enterprises;
 - 7.4 working capital support for small and medium sized businesses;
- 8 **noted** that four tax initiatives are also proposed to support business cash flow and confidence:
- 8.1 remission of use of money interest payments;
 - 8.2 expansion of immediate expensing for low value assets;
 - 8.3 reinstatement of depreciation deductions for buildings;
 - 8.4 increasing the threshold for provisional tax;
- 9 **noted** that the estimated costs of the business and worker support package could be around \$8.0 billion over the next five years;
- 10 **noted** that the costs of the business and worker support package will have a direct impact on the operating balance and net core Crown debt;
- 11 **noted** that further work is required to confirm the exact costings of the policies within the business and worker support package;
- 12 **invited** the Minister of Finance to report back to Cabinet on the outcome of the further work to confirm the costings of the business and worker support package;

Training and redeployment for affected employees

- 13 **noted** that the above package includes \$100 million across the forecast period for Worker Redeployment;
- 14 **agreed** that the Economic Response Package include support for Worker Redeployment;
- 15 **agreed** to establish the following new appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Business, Science and Innovation	Minister for Regional Economic Development	Worker Redeployment Package	Non-Departmental other expenses	This appropriation is limited to the support package for worker redeployment and training.

- 16 **approved** the following changes to appropriation to support Worker Redeployment, with a corresponding impact on the operating balance and net core Crown debt:

	\$m –increase/(decrease)				
Vote Business, Science, and Innovation Minister for Regional Economic Development	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Worker Redeployment Package	100	-	-	-	-

- 17 **agreed** that the changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 18 **noted** that specific decisions on the draw-down of the worker redeployment package will be submitted to the relevant Cabinet committee for consideration;

Wage subsidy scheme

- 19 **noted** that on 9 March 2020, Cabinet directed officials to develop further targeted firm support options for Cabinet decisions, with priority on:
- 19.1 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);
- 19.2 training and redeployment options for affected employees;
- 19.3 targeted working capital support for firms that face temporary credit constraints;
- [CAB-20-MIN-0090];
- 20 **noted** that the scheme will apply to all sectors, reflecting recent developments and the likelihood that impacts will spread across all sectors of the economy;
- 21 **noted** that the paper under CAB-20-SUB-0108 addresses a temporary wage subsidy scheme, and that a separate paper is being prepared for possible financial support for isolation payment leave requested by employees as a result of public health directions;
- 22 **agreed** to implement a temporary COVID-19 wage subsidy scheme;
- 23 **agreed** that the purpose of the scheme is to help affected employees and businesses to adjust to the impact of COVID-19, not to support businesses for the duration of that impact;
- 24 **noted** that the COVID-19 wage subsidy will apply to all sectors nationwide;
- 25 **agreed** that the COVID-19 wage subsidy will be payable to the employer at a rate per employee of \$585.80 per week for full time employees (similar to the maximum rate of paid parental leave) and \$350 for part-time employees;
- 26 **agreed** that the COVID-19 wage subsidy will be for 12 weeks per employee;
- 27 **agreed** to a maximum payment of \$150,000 per employer;
- 28 **agreed** that any qualifying subsidy will be paid as a lump sum;

- 29 **noted** that depending on uptake, this package could inject approximately \$5.1 billion into the economy over the next two months;
- 30 **noted** that the costs are inherently uncertain given the potentially changing economic conditions, and could be significantly higher;
- 31 **agreed** that the COVID-19 wage subsidy scheme will be open for 12 weeks from the date of announcement (17 March 2020);
- 32 **agreed** that the COVID-19 wage subsidy will be administered by the Ministry of Social Development (MSD) with support as required from Inland Revenue;
- 33 **noted** that MSD will accept applications from Tuesday, 17 March 2020, and will endeavour to make first payments within five working days after;
- 34 **noted** that employers will only be able to apply once within the period;
- 35 **noted** that the definition of employer will include 'closely related businesses' (ie where a single business owner or employer operates a number of businesses that are closely related they can be treated as one business);

Qualifying criteria

- 36 **agreed** that the COVID-19 wage subsidy will apply to employers that have suffered revenue loss of at least 30 percent, and that revenue loss is attributable to the COVID-19 outbreak;
- 37 **noted** that revenue loss assessment will be based on a period of at least one month and the loss of revenue is at least 30 percent lower than the equivalent period one year ago (ie February 2020 income is 30 percent lower than February 2019);
- 38 **noted** that the loss can be for any month from January 2020 through to the end of the scheme;
- 39 **noted** that the business must be registered and operating in New Zealand;
- 40 **noted** that the COVID-19 wage subsidy scheme will be open to self-employed and sole-traders;
- 41 **noted** that officials are still clarifying the eligibility of State sector entities in the scheme;
- 42 **noted** that the definition of full-time and part-time employees will align with the hours test specified in the COVID-19 Leave Payment Scheme paper [CAB-20-MIN-0105];
- 43 **agreed** that the COVID-19 wage subsidy will only be payable to employers who have taken active steps to mitigate the impact of COVID-19 on their business activities (such as engaged with their bank, Chamber of Commerce, industry association or the Regional Business Partner programme);
- 44 **noted** that MSD with support from Inland Revenue may develop more detailed criteria to determine the potential revenue loss;
- 45 **agreed** that employers will need to make a declaration setting out their commitment, on best endeavours, to retain employees identified in the declaration as subject to the targeted wage subsidy in employment on at least 80 percent of their regular income for the period of the subsidy;

- 46 **agreed** to administer the scheme at pace using a high trust model;
- 47 **noted** that MSD intends to administer the scheme in the following way:
- 47.1 employers will make applications in relation to affected employees;
- 47.2 employers will have to declare that:
- 47.2.1 they meet all of the eligibility criteria;
- 47.2.2 they have discussed the application with named employees, who consent to sharing information in the application and for the purposes of verification;
- 47.2.3 the employer consents that the details in the application may be verified with other agencies;
- 47.2.4 the employer is aware that they may be audited and prosecuted for fraud if they have provided false information;
- 47.2.5 the employer will notify MSD if circumstances change that affect their eligibility
- 47.2.6 the employer will repay any amount which they are not entitled to;
- 47.3 MSD³⁹ [REDACTED] will have the ability to later audit the application, verify information with other agencies and refer possible instances of fraud for investigation;
- 48 **noted** that standard justice processes are available to respond to any cases of fraudulent declarations that may be identified;
- 49 **agreed** that case-by-case discussions can take place with large employers, and any support be negotiated in partnership with banks;
- 50 **noted** that there may be some legislative implications, and the Minister of Finance, the Minister for Economic Development, the Minister for Social Development and the Minister of Revenue will identify these and bring them back to Cabinet for consideration;
- 51 **noted** the Ministry of Social Development will need additional operating funding to administer the scheme;
- 52 **delegated** authority to the Minister of Finance, the Minister for Economic Development, and the Minister for Social Development to appropriate funding for the administration of the scheme (establishing any new appropriations as necessary);
- 53 **delegated** authority to the Minister of Finance, the Minister for Economic Development and the Minister for Social Development to increase funding for the COVID-19 wage subsidy scheme if required;
- 54 **delegated** authority to the Minister of Finance, the Minister for Economic Development and the Minister for Social Development to make technical design changes and minor policy decisions about the wage subsidy scheme;

- 55 **agreed** to establish the following new appropriation:

Vote	Social Development
Minister	Minister for Social Development
Title	Business Support Subsidy Covid-19
Type	Non-Departmental Other Expense
Scope	This appropriation is limited to support employers to manage the impact of COVID-19 in line with criteria established by Cabinet.

- 56 **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;
- 57 **approved** the following change to appropriations to fund the COVID-19 wage subsidy scheme with a corresponding impact on the operating balance and net core Crown debt:

	\$m - increase/(decrease)				
Vote Social Development Minister for Social Development	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Non-Departmental Other Expense: Business Support Subsidy Covid-19	5,100	-	-	-	-
Total Operating	5,100	-	-	-	-

- 58 **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;
- 59 **agreed** that expenses incurred under the above paragraph will be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt;
- 60 **agreed** that any underspends with the implementation and the costs of the COVID-19 wage subsidy scheme as at 30 June 2020 be transferred to the 2020/21 financial year to ensure that funding is available for this purpose;
- 61 **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;
- 62 **authorised** the Minister for Social Development to make minor operational decisions about the COVID-19 wage subsidy scheme;

Working capital support for small and medium sized businesses

- 63 **noted** that the Treasury will progress discussions with the banks on the design of a working capital support scheme for firms facing temporary credit constraints due to the economic impacts of COVID-19, to ensure the government is prepared should a solution be required;

- 64 **noted** that announcements should avoid committing the government to a specific solution until the support of the banks has been secured;
- 65 **noted** that larger firms ²⁵ have more complex business models, and alternative courses of action, suggesting it will take time to assess the options that these firms have available;

Support for large or complex businesses

- 66 **noted** that Treasury is developing advice as to how the government could provide support for larger firms;

Remission of use of money interest payments

- 67 **noted** that Cabinet is also considering a separate proposal from the Minister of Finance and Minister of Revenue to give the Commissioner of Inland Revenue a time-limited discretion to remit use of money interest payments (UOMI) if a taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak;

Expansion of immediate expensing for low value assets

- 68 **agreed** to a one-year temporary increase in the low value asset write-off threshold to \$5,000 for the 2020-21 income year, reverting to \$1,000 for the 2021/22 and later income years;
- 69 **noted** the following changes as a result of the decision in paragraph 68 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Tax Revenue:	-	(50.000)	(823.000)	347.000	(141.000)

Reinstatement of depreciation deductions for commercial and industrial buildings

- 70 **agreed** to apply a 2 percent diminishing value rate to industrial and commercial buildings for the 2020-21 and later income years;
- 71 **noted** the following changes as a result of the decision in paragraph 70 above, with a corresponding impact on the operating balance and net core Crown debt:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Tax Revenue:					
Income tax	-	(35.000)	(1,030.000)	(530.000)	(545.000)
Total Operating	-	35.000	1,030.000	530.000	545.000

Increasing the threshold for provisional tax

- 72 **agreed** to increase the provisional tax threshold from \$2,500 to \$5,000 for the 2020-21 and later income years;

- 73 **noted** the following change as a result of the decision in paragraph 72 above, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Tax Revenue Other Persons	-	(3.000)	(3.000)	(3.000)	(3.000)
Total Operating	-	3.000	3.000	3.000	3.000

- 74 **noted** that agreeing to paragraph 72 above will have a one-off cash cost, increasing net core Crown debt by \$350 million in 2020/21;

- 75 **agreed** to the following change as a result of the decision in paragraph 72 above, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Non-department borrowing expenses:					
Impairment of Debt and Debt Write-Offs	-	(2.000)	(2.000)	(2.000)	(2.000)
Total Operating	-	(2.000)	(2.000)	(2.000)	(2.000)

Recovery Package: Phase 1

- 76 **noted** that phase 1 of a recovery package will support beneficiaries and confidence during the early phase of economic recovery;

Benefit increase

- 77 **agreed** that on 1 April 2020, the after-tax weekly rate of the following benefits should increase by \$25:

77.1 Jobseeker Support;

77.2 Sole Parent Support;

77.3 Supported Living Payment;

77.4 Young Parent Payment;

77.5 Youth Payment;

77.6 Emergency Benefit;

- 78 **noted** that the Minimum Family Tax Credit for working household on the lowest incomes will automatically increase on 1 April 2021 to maintain the margin between benefit and work income;

- 79 **noted** that due to complex interactions in the tax and transfer systems, a small number of families will be unintentionally financially disadvantaged as a result of the benefit increase;

- 80 **agreed** to establish a Ministerial Welfare Programme (under the Social Security Act 2018) to compensate those who are unintentionally financially disadvantaged as a result of the Package through the establishment of a transitional fund;
- 81 **invited** the Minister for Social Development to establish a Ministerial Welfare Programme to give effect to the decisions referred to in paragraph 80 above;
- 82 **noted** that comparable changes for Orphans Benefit and Unsupported Child benefits will be considered in Budget 2020;

Increases to the Winter Energy Payment

- 83 **agreed** that the annual rates of payments under the Winter Energy Payment (WEP) (to be paid in equal instalments) for 2020 will be:
- 83.1 \$900 for single people with no dependent children, paid from 1 May 2020 for a period of 22 weeks (up from the current \$450 for 22 weeks from 1 May 2020); and
- 83.2 \$1,400 for couples or single people with dependent children, paid from 1 May for 22 weeks (up from the current \$700 for 22 weeks from 1 May 2020);
- 84 **noted** that the WEP changes referred to in paragraph 83 above will apply in 2020 only, and that the current setting will resume in 2021 and subsequent years;
- 85 **noted** that:
- 85.1 changes to the WEP payment rates can be made via an Order in Council;
- 85.2 to progress increases as a temporary measure will require a return to the original rate of payment in May 2021 which can only be done via a change to the Social Security Act 2018;

Financial Implications

- 86 **agreed** to increase spending to provide for costs associated with the policy decisions in paragraphs 77 and 83 above, with the following impacts on the operating balance and net core Crown debt:

Vote Social Development	\$m - increase/(decrease)					
	2019/20	2020/21	2021/22	2022/23	2023/24	Outyears
Operating Balance	286.967	722.364	489.254	487.167	470.932	470.932
Impact						
Debt Impact	-	-	-	-	-	-
No Impact	18.614	81.790	95.223	97.992	95.400	95.400
Total	305,581	804.154	584.477	585.160	566.331	566.331

- 87 **approved** the following changes to appropriations to give effect to the policy decision in paragraphs 77 and 83 above:

	\$m - increase/(decrease)					
Vote Social Development	2019/20	2020/21	2021/22	2022/23	2023/24	Outyears
Minister for Social Development Benefits or Related Expenses:						
Childcare Assistance	(0.067)	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	(1.078)	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)
Jobseeker Support and Emergency Benefit	60.500	283.616	342.669	332.441	302.570	302.570
Sole Parent Support	25.435	104.778	107.747	110.175	113.198	113.198
Supported Living Payment	37.025	150.507	156.049	160.951	166.077	166.077
Winter Energy Payment	188.849	290.851	-	-	-	-
Youth Payment and Young Parent payment	1.057	4.522	4.653	4.835	5.113	5.113
Minister of Housing Benefits or Related Expenses:						
Accommodation Assistance	(6.139)	(25.478)	(22.488)	(19.887)	(18.985)	(18.985)
Total Operating	305.581	804.154	584.477	585.160	566.331	566.331

- 88 **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;
- 89 **agreed** that expenses incurred above be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt;
- 90 **noted** that additional funding is needed for the Ministry of Social Development to administer these changes, and that the exact amount is being calculated and a final decision will be delegated to Ministers;
- 91 **delegated** authority to the Minister of Finance and the Minister for Social Development to appropriate funding for the administration of these changes;

In Work Tax Credit

- 92 **agreed** to remove the hours tests from the In Work Tax Credit (IWTC) to allow families who are not receiving a main benefit and have some level of employment income each week, commencing 1 July 2020;
- 93 **delegated** authority to the Minister of Finance and Minister of Revenue to make decisions to increase funding for the IWTC, and any changes to appropriations, as required;

Further economic considerations

- 94 **noted** that further advice on upskilling and apprenticeships will be considered as part of the economic recovery package;

Impact on the aviation industry

- 95 **noted** that officials from the Ministry of Transport and the Treasury are currently undertaking work on an aviation sector package, including support for Air New Zealand;
- 96 **agreed** that the Minister of Transport, in consultation with the Minister of Finance, has lead responsibility for work on the aviation sector package, except for issues relating to the Crown's ownership interest in commercial entities, which will remain the responsibility of shareholding Ministers;
- 97 **invited** the Minister of Finance and the Minister of Transport to submit a paper to the Cabinet Economic Development Committee on 18 March 2020 on the impacts of COVID-19 on the aviation sector;
- 98 **authorised** the Minister of Finance, Minister of Transport, and Associate Minister of Finance (Hon David Parker) to have Power to Act to finalise the government's position on the provision of support to Air New Zealand;

Impacts on financial markets

- 99 **noted** that banks currently hold significant buffers of excess capital and liquidity over regulatory minimums;
- 100 **noted** that on Tuesday, 17 March 2020, the Reserve Bank is expected to announce a one year deferral to planned increases in capital requirements;

101 25

- 102 **noted** that the Reserve Bank is in regular contact with banks, is setting up enhanced frameworks to get information from banks, and will keep the Minister of Finance updated on emerging pressures that may affect the stability of the wider financial system;

Fiscal strategy implications

- 103 **noted** that the fiscal position will deteriorate significantly as a result of the shock and the proposals in the paper under CAB-20-SUB-0108, and that net core Crown debt will likely rise above 25 percent of GDP;
- 104 **noted** that a deterioration in the fiscal position is appropriate given the economic circumstances, but that tight fiscal control will be required to demonstrate that the government will be able to return to surplus and prudent levels of debt in a reasonable period of time;

Borrowing implications

- 105 **noted** that, subject to the approval of the Minister of Finance, communication on the borrowing implications of the package will be announced by the Treasury around the time the initiatives in the paper under CAB-20-SUB-0108 are released publicly;

Coordination with Budget 2020

- 106 **noted** that, after announcing the package described in the paper under CAB-20-SUB-0108, the Minister of Finance intends to re-orient Budget 2020 to be the second phase of the broader recovery package;

- 107 **noted** that the Minister of Finance is preparing advice on a funding framework for considering COVID-19 related responses alongside Budget 2020;

Legislative implications

Legislative amendments for tax measures

- 108 **agreed** that the legislative amendments required to give effect to the tax proposals in paragraphs 68, 70 and 72 above be included in a Bill to be introduced as soon as practicable;
- 109 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft the necessary amendments to give effect to the above proposals;
- 110 **agreed** to delegate authority to the Minister of Finance and Minister of Revenue to make decisions on the detailed design of the tax proposals proposed above, and to introduce a Bill containing these proposals as soon as practicable;

Legislative amendments for initial recovery package

- 111 **agreed** that increases to main benefits be made through an Order in Council under section 452 of the Social Security Act 2018;
- 112 **agreed** to include an Income Support Package Legislation Bill in the 2020 Legislation Programme, with a Category 1 priority (to be passed in 2020);
- 113 **authorised** the Minister of Finance and Minister for Social Development to make technical, policy and administrative changes required to finalise draft legislation and regulations, in keeping with the policy aims, to implement this package;
- 114 **invited** the Minister of Finance and Minister for Social Development to issue drafting instructions to the Parliamentary Counsel Office to draft amendments to give effect to the policy decisions agreed above;

Other legislative matters

- 115 **noted** that the government may need to pass a further Imprest Supply Bill to cover any financial implications of the economic response package in the current financial year;
- 116 **authorised** the Minister of Finance and the relevant portfolio Ministers to resolve any minor policy, fiscal or administrative issues consistent with the aims of the Package.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:

Prime Minister
Deputy Prime Minister
Minister of Finance
Minister for Social Development