

The Treasury

COVID-19 Information Release

April 2020

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In Confidence

Office of the Minister of Finance

Office of the Minister for Social Development

Chair, CVD committee

Cabinet paper - Transitioning to an enhanced wage subsidy scheme

Proposal

1. This paper proposes the detailed design for an enhanced wage subsidy scheme to respond to the increase to Alert Level 4.

Executive Summary

2. The public health response and rapidly evolving economic situation requires consideration of how we would support incomes and the economy through the extended period of suppressed activity or shutdown
3. The Government has announced a four-level COVID-19 alert system. These alert levels specify the public health and social measures to be taken to manage the spread of the virus, depending how progressed or widespread infection has become. New Zealand is now at COVID-19 Alert Level 4.
4. The Government has already established the COVID-19 wage subsidy scheme (then removed the \$150,000 cap per firm), and the COVID-19 leave payment scheme, which manage some of the economic impacts of an Alert Level 2 and 3.

Introduction of an enhanced wage subsidy scheme

5. As of Thursday 26 March New Zealand is at COVID-19 Alert Level 4. There are still some firms that will need to operate (i.e. essential services including supermarkets, pharmacies, clinics etc. and employees able to work from home) all other employees would be asked to stay home (i.e. on prolonged leave) until the virus has been eliminated in New Zealand. It is therefore important that firms continue to have the ability to receive support to continue paying their workers.
6. There is a need to modify the existing wage subsidy scheme to enable firms that do need to shut down under Alert Level 4 meet wage costs for an extended period of time. This scheme would support employers and employees to maintain an employment connection and ensure a basic income for affected employees, even if the employee is unable to actually work any hours.

Background

7. The Government has announced a four-level COVID-19 alert system. These alert levels specify the public health and social measures to be taken. New Zealand is currently at COVID-19 Alert Level 4.

8. While the Alert System was designed to apply at a regional level to contain localised outbreaks, as of Wednesday 25 March at midnight, the Alert Level 4 and the relevant suppression measures apply to the whole country.
9. The level of economic disruption associated with Alert Levels 3 and 4 is far greater than the level of disruption envisaged when the original wage subsidy settings were designed.
10. A number of countries, including the United Kingdom (UK) and Denmark have also recently announced business support packages through this period of disruption caused by COVID-19. The UK and Denmark schemes (so-called Furlough worker schemes) are targeted at those on prolonged leave due to their widespread shutdown of non-essential businesses.

Rationale for an enhanced wage subsidy scheme at Alert Level 4

11. International experience suggests that shutting down parts of the economy is a key tool for slowing the transmission of COVID-19. When New Zealand moves to an Alert Level 4 at midnight on Wednesday 25 March 2020 many businesses will stop all or a majority of their trading activities, with economic activity confined to firms involved in:
 - 11.1 Essential services including supermarkets, pharmacies, clinics etc. and;
 - 11.2 Work that could be undertaken from home.
12. This economic shutdown would need to be maintained for long enough to cease community transmission and eliminate the virus within New Zealand.
13. If the economic shutdown was too modest or if activity was restarted too soon, New Zealand would be likely to experience a second wave of COVID-19 cases, necessitating a second shutdown period. This would mean economic cost of the original shutdown period would have been inflicted, to achieve little benefit. Repeated shutdowns for long periods of time, will greatly increase the overall harm to the economy.
14. We need to shift to an enhanced model, which supports people to reduce their economic activity enough to reduce transmission of the virus.

and supports otherwise viable firms survive the shutdown period and remain connected to their employees so that the economy is better able to restart when COVID-19 has been eliminated.
15. The current wage subsidy scheme is not optimal for an Alert Level 4 situation, because it is only open to businesses that have experienced at a minimum a 30% decline in revenue and because the obligations are unclear on the employer to pass on the subsidy to employees who are at home and not working for public health reasons. The requirement to demonstrate a 30% decline in revenue is no longer reasonable given the significance of the shutdown decision.
16. The current wage subsidy scheme requires employers to make best endeavours to pay their staff at least 80% of their regular income. There is some evidence that this

rule is a barrier to accessing the subsidy, and that confusion about its interpretation is creating uncertainty for firms trying to make hugely consequential business decisions.

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We believe any firms able to make use of the current wage subsidy scheme will already have applied, and now need a new scheme for firms for which the current scheme does not work.

18. We are proposing to enhance the wage subsidy scheme to address these issues now that we are moving into Alert Level 4 shutdown. The enhanced scheme would support employers and employees to maintain an employment connection even though actual hours of work have reduced to zero. At the same time, it will continue to provide support to firms that can or will need to operate (i.e. essential services and employees able to work from home).

Key design features of the enhanced wage subsidy scheme

19. The objective of the proposed scheme is to ensure that employers and workers affected to varying degrees by COVID-19 and our decision to move to Alert Level 4 are supported to maintain an employment relationship, meet wage and living costs and maintain a level of production consistent with public health imperatives, during this period of disruption.
20. While the COVID-19 Alert System may be applied at a regional level, the enhanced scheme applies nationally to avoid administrative complexity.

Key changes from the current scheme

21. We propose to make the following key changes and clarifications to settings under the enhanced scheme:
- 21.1 Employers will no longer have to have experienced a 30% decline in revenue to qualify;
 - 21.2 Employers will be required to pass on at least the full rate of the subsidy to the named employees in their application, regardless of the hours worked by those employees;
 - 21.3 The requirement on employers to make best endeavours to pay employees at 80% of income will be softened to paying 80% of income 'if this is possible'; and
 - 21.4 The requirement to have taken measures to manage the implications of COVID-19 on their business, will now specifically mention including drawing on internal cash reserves as appropriate.
22. The enhanced scheme will also have the detailed design features set out below.

Scope

23. Organisations that are eligible for the enhanced scheme will be consistent with the existing wage subsidy scheme, which at a high-level:
- 23.1 includes all businesses, self-employed and sole traders, and registered charities and incorporated societies that are adversely affected by COVID-19, non-government organisations, and post settlement governance entities;
 - 23.2 excludes public sector organisations
24. Employers and self-employed people must declare that they have been adversely affected by COVID-19 and that they require support to pay or retain named employees in order to be eligible to receive the wage subsidy.
- 24.1 The enhanced scheme will require that employers declare that they have taken measures in advance of receiving the subsidy, to manage the implications of COVID-19 on their business, including drawing on internal cash reserves as appropriate engagement with their banks
25. The proposed Level 4 scheme would make the existing COVID-19 leave payment scheme obsolete for the duration of the Level 4 scheme.
26. Employers with workers who are required to self-isolate as part of the public health response to exposure to the virus, and unable to work from home – or employers with workers caring for such people, and unable to work from home – would be considered to be adversely affected by COVID-19, and therefore within scope of the enhanced scheme.

Rate of subsidy

27. Employers will be entitled to a flat rate of \$585.80 (gross, before tax) for each named full-time employee (greater than or equal to 20 hours before scheme started), and \$350.00 (gross, before tax) for each named part time employee (fewer than 20 hours before the scheme started). These are the same as the rates for the previous wage subsidy scheme.

Requirements for employers receiving the subsidy

28. Under the revised scheme, employers receiving the subsidy are required:
- 28.1 to continue to pay the staff named in their application at least 80% of their normal income, *if this is possible*;
 - 28.2 if this is not possible for employers then employers are required to pass on the full subsidy to each named employee.
29. Employers may also choose to continue to pay their employees at a higher rate, inclusive of the subsidy.
30. Employers will also still be required to retain named employees for the duration of the subsidy grant (that is, making people redundant will not be an option), declare that the named employees are working zero hours and that they would have made those workers redundant without the subsidy.

31. MBIE advises that people who work reduced hours or no hours during lockdown do not need to be paid minimum wage for the hours that they do not work, but would have otherwise worked and/or are contracted for. Other contract requirements might apply, but there is no legal expectation to suggest that someone not working or working fewer hours and getting paid below minimum wage is being paid below the statutory entitlement.
32. We understand that the Minister for Workplace Relations and Safety is receiving advice on changes to employment law imminently. Any changes would be implemented through an immediate modification order under section 15 of the Epidemic Preparedness Act 2006.

Maintaining employment

33. If the employee voluntarily ends the employment relationship, the employer will be required to notify MSD and will not be entitled to further subsidies in relation to the named employee. This would allow and incentivise employees to re-deploy into essential services jobs as demanded. However it will also mean employees of firms that fail will likely end up applying for support from the welfare system.

Interaction with existing grants

34. Applications to the existing wage subsidy scheme will no longer be possible once the enhanced scheme becomes available, but all current applications will be processed. Recipients of the current wage subsidy will not be able to access the enhanced wage subsidy for the same named employees covered by the current scheme.
35. Applicants under the current scheme will be able to apply for the enhanced scheme for named employees not covered by the current scheme. It will be a requirement that the applicant (who has already applied for the current scheme) declare they need the additional support available under the enhanced scheme in order to pay or retain these additional staff (not covered under the current scheme). Any employers refused funding under the existing scheme would be eligible where they declare they need the support available under the enhanced scheme (subject to other scheme criteria being met)
36. Obligations on employers in respect of named employees that apply under the existing scheme will continue to apply in respect of those named employees for the duration of that grant.

Retrospective for employees already made redundant

37. We recommend that employers can apply in relation to employees who they have already stood down from work on or after the 17 March as a result of COVID-19. Firms would need to re-hire these people in order to qualify under the scheme.

Length of the enhanced scheme

38. The scheme will be available for applications while we are at Alert Level 4 (currently planned from midnight on 25 March), and will be paid in a lump-sum to eligible employers on a 12-weekly basis.

39. Providing a 12 week lump sum payment will help provide more certainty for businesses that receive grants and their employees.
40. We expect that the employer will then pass through the subsidy to their employees as per previous arrangements for their pay, or with other timing following a discussion with employees on their needs for this period (e.g. weekly, fortnightly, lump-sum for 12 weeks of income).

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Interactions with the welfare system

The benefit system

43. Cabinet has already agreed to remove stand-down periods to expedite people getting on to a benefit.
44. The net income support available to people under the scheme is marginally higher than for someone on a main benefit (assuming full access to the MSD Accommodation Supplement and Temporary Additional Support and to tax credits)¹. Delivering support through the benefit system would mean workers would be available for jobs elsewhere in the economy, although this could also result in workers losing attachment to their employers and likely wage scarring. This could slow the recovery. It would also place significant, immediate additional administrative burden on MSD– the wage subsidy scheme is delivered through employers resulting in a much smaller number of interactions.
45. The wage subsidy is paid to businesses to assist with paying employee wages. This is therefore considered as regular taxable income for employees for the purpose of eligibility for other assistance provided through MSD.
46. If the wage subsidy were paid as a lump sum to employers and then passed through to employees as a lump-sum intended to cover the next 12-weeks, MSD would treat this the same as if it were paid weekly (e.g. weekly income = lump sum divided by number of weeks it was intended to cover). This means recipients may be entitled to other forms of supplementary assistance (such as Accommodation Supplement) subject to other eligibility criteria. MSD would not consider the lump-sum payment as a cash asset due to the fact the income is intended to cover a certain period (i.e. 12 weeks).

¹ The net additional assistance per week available for someone on the wage subsidy vs on the main benefit, including supplementary benefits and tax credits, is estimated at \$144, \$108 and \$10 for a single 25+ year old, sole parent with one child and a couple with one worker and one child respectively (assuming 50th percentile rent in Area 1). The relativity will vary depending on region and household circumstances.

The tax system

47. As the payment is going through employers, and may be combined with ordinary wages for those who are working some hours, it is treated the same way as wages. It will be treated as income in the hands of the employees for tax, tax credits, ACC levies and other payments administered by Inland Revenue (e.g. student loans if income exceeds repayment threshold).
48. This is consistent with policies based on levels of main income earnings and minimises the changes that may need to be made to administrative systems and employer's payroll systems (such as deducting PAYE). If there are concerns with the interaction with other policies, such as student loans, we can provide further advice and options.

Specifically, it will be:

- 48.1 subject to PAYE and ACC levies;
 - 48.2 have student loan repayments and child support liabilities deducted (where relevant);
 - 48.3 included in family scheme income for WFF tax credits;
 - 48.4 considered income for independent earner tax credit;
 - 48.5 considered income for child support formula calculations in a later period.
49. For the employer, the subsidy will be non-assessable income, GST exempt and non-deductible.
 50. If people have a reduction in income they may be eligible for higher levels of WFF if they are currently receive an abated amount. This will depend on the change in their family income (not just individual income). Currently, the reduction in hours worked may mean families lose entitlement to the in-work tax credit and the minimum family tax credit. Officials will provide advice on this aspect shortly. Cabinet has agreed to remove the minimum hour's requirement from the in-work tax credit from 1 July.

Interactions with the wider economic response

51. The enhanced scheme will not resolve all of the issues facing employers and employees through an Alert Level 4 scenario.
52. Additional measures to support households and employers with their fixed costs will be provided through the mortgage payment holiday and Business Finance Guarantee Schemes.
53. Ministers have requested further advice on longer term responses to issues of income adequacy after the 12 weeks period of support. We will report to Cabinet on this in the coming weeks.

Administrative implications

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55. MSD:

- 55.1 Is working with IR to strengthen pre-payment checks to ensure the correct details are provided by employers (MSD will make it clear that payments will be based on information held by IR, so employers need to ensure any details they provide to IR are up to date and correct through their regular employment filing obligations with IR);
- 55.2 Is developing an audit process to target the possible risk of any fraud in relation to people receiving grants under the earlier scheme and enhanced scheme when they would not be eligible (MSD and IR teams are working together to share any relevant insights and intelligence to assist in targeting cases of fraud);

56. Assuming the parameters of the scheme do not change, officials are proposing the following approach to move from the old schemes to the new:

- Applications for the existing schemes will close on Friday evening 5pm 27 March;
- Officials will attempt to clear the backlog of current applications over the weekend;
- Applications for the enhanced wage subsidy scheme will go live on Sunday evening 30 March.

57. This will allow time for people to make and complete applications for the existing schemes, for officials to process those applications under the existing scheme, and to build the new application system, including improvements to administrative efficiency under the enhanced scheme. MSD officials are experiencing significant demand for the current schemes and will use best efforts to process all applications in a timely way, but cannot guarantee a timeframe for these.

Implications for Māori

58. The package is likely to be positively received by the Māori businesses and employees that it will support. However, a key issue will be ensuring that Māori are aware of what support is available under the package, who is covered by it and how it relates to the 'Supporting Māori communities and businesses' package announced by Māori Ministers on 22 March 2020. A bespoke approach to communicating with Māori businesses about the support available to them is recommended.

Financial Implications

59. Indicative estimates of the costs of the enhanced wage subsidy scheme are between \$8 – 12 billion for grants that cover 12 weeks, based on uptake between 50% and 80% of eligible firms and employees (less the \$9.3 billion set aside for the current scheme – refer paragraph 63). The highest theoretical impact is \$15b for 100%

uptake of the scheme, although this is considered implausible, since critical services will continue and some residual activity in other areas will almost certainly continue under Alert Level 4. A scheme that provides grants to cover more or less than 12 weeks will scale the costs accordingly, for example, a scheme that provides 6 week grants will cost approximately \$4 – 6 billion.

60. This assumes the following scheme settings:
 - 60.1 Provides \$585.80 per week for full time employees
 - 60.2 Provides \$350 per week for part time employees
 - 60.3 No cap per-firm
 - 60.4 Open to all businesses, self-employed and sole traders, and registered charities and incorporated societies
 - 60.5 Excludes government employees in public administration, health and education sectors
61. Note that we expect employers who have already received funding under the wage subsidy to transition onto the enhanced scheme. There will be no 'double-dipping' for a given employee in a given time period, so the \$8 – \$12b estimated cost of the enhanced scheme will be reduced by the amount already set aside for the wage subsidy (\$9.3b for the current, uncapped wage subsidy scheme for 12 weeks). The additional cost of the scheme beyond this will be driven higher uptake due to the relaxing of eligibility criteria relative to the wage subsidy.
62. The \$8b cost scenario for the enhanced wage subsidy scheme is based on an approximately 50% uptake for employees in all sectors, excluding government employees in public administration, health and education sectors.
63. A key assumption is that many businesses in export sectors (including primary industries, food and beverage manufacturing) are classified as essential, and therefore keep their business premises open. We assume that output in these sectors does not fall as much as in other sectors. The economy-wide impact could therefore be larger if these businesses are classified as non-essential instead.
64. A more substantial reduction in employment across the board, including exporters, corresponds to roughly a roughly 80% uptake rate.
65. In a total economic shutdown scenario with 100% uptake of the scheme (excluding the public sector), we estimate the scheme to cost around \$15 billion for grants of 12 weeks in length.
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Legislative Implications

67. Officials do not anticipate additional legislative changes arising from this paper.

Impact Analysis

68. A regulatory impact statement has not been provided due to the haste with which this paper has been prepared. The substantive impacts, particularly those on the effectiveness of the Government response to COVID-19, have been reflected in the paper.

Consultation

69. The Ministry of Business, Innovation and Employment, Ministry of Social Development, the Inland Revenue Department and the Treasury have been involved in the development of this Cabinet paper. Crown Law were informed.

Communications

70. If agreed this package would be announced as soon as possible to avoid large-scale job losses that may take place in the coming days and weeks.

Proactive Release

71. Proactive release will be delayed until such time that the Government can properly consider the impacts of proactive release.

Recommendations

The Minister of Finance and the Minister for Social Development recommend that Cabinet:

1. **note** that on Monday 16 March, Cabinet agreed to implement a temporary COVID-19 wage subsidy scheme to help affected employees and businesses to adjust to the impact of COVID-19. [CAB-20-MIN-0108];
2. **note** the government has announced a Four-Level COVID-19 Alert System. These alert levels specify the public health and social measures to be taken. New Zealand is currently at COVID-19 Alert Level 2;

Transitioning to an enhanced wage subsidy scheme

3. **note** that there is a need to transition to an enhanced wage subsidy scheme under Alert Level 4;
4. **Note** The intent of this enhanced wage subsidy scheme is to ensure that employers and workers affected to varying degrees by COVID-19 and our decision to move to Alert Level 4 are supported to maintain an employment relationship, meet wage and living costs and maintain a level of production consistent with public health imperatives during this period of disruption;

5. **Note** that business and employee arrangements in New Zealand can be complex and there will be some need for flexibility to meet the intent of this enhanced wage subsidy scheme;
6. **Agree** that officials are asked to interpret the following recommendations with this intent;
7. **Direct** officials to seek guidance from the Ministers of Finance, Social Development and Economic Development when making eligibility and implementation decisions that are likely to have material flow-on fiscal cost or equity implications for this or other government support schemes;
8. **agree** to replace the existing COVID-19 wage subsidy and leave payment schemes with an enhanced wage subsidy scheme;
9. **agree** that the enhanced scheme will be open to all registered businesses, self-employed and sole traders, and registered charities and incorporated societies and excludes public sector organisations
10. **agree** that employers, including the self-employed, must declare that they have been adversely affected by COVID-19 and require support to pay and retain named staff to be eligible for the enhanced scheme
11. **agree** that in advance of receiving the subsidy, employers are required to have taken measures to manage the implications of COVID-19 on their business;
12. **note** that such measure include employers engaging pro-actively with their banks and drawing on internal cash reserves;
13. **agree** employers will be entitled to a flat rate of:
 - 13.1 \$585.80 (gross before tax) for each full-time employee (greater than or equal to 20 hours before scheme started),
 - 13.2 and \$350.00 (gross, before tax) for each part time employee (fewer than 20 hours before the scheme started).
14. **note** that this entitlement updates the definition of a full-time employee to clarify that people working exactly 20 hours qualify as full-time, to align with the way that officials have implemented the rule for the existing wage subsidy scheme;
15. **agree** the following obligations on employers:
 - 15.1 to continue to pay the staff named in their application at least 80% of their normal income, , if this is possible;
 - 15.2 if this is not possible for employers then employers are required to pass on at least the full subsidy to each named employee;
 - 15.3 to retain the named employees for the duration of the subsidy grant.

16. **agree** if the employee voluntarily ends the employment relationship, the employer is required to notify MSD and will not be entitled to further subsidies in relation to the specified employee;
17. **agree** the scheme will be available for applications while we are at Alert Level 4, and will be paid in a lump sum to eligible employers on a 12-weekly basis;
18. **invite** the Minister of Finance and Minister of Social Development to report back to CVD on any proposal to keep the scheme available for applications for a period after the Alert Level drops below Level 4;
19. **agree** the following transitional approach:
 - 19.1 Applications for the existing COVID-19 wage subsidy scheme and COVID-19 Leave Payment scheme will close on Friday evening 5pm 27 March;
 - 19.2 Officials will attempt to clear the backlog of current applications over the weekend;
 - 19.3 Applications for the enhanced scheme will go live on Sunday evening 30 March
 - 19.4 A person granted support under the existing schemes will only access the enhanced scheme where they declare a need for further support to pay and retain staff not covered by the current scheme;
20. **agree** that employers can apply in relation to employees who were stood down from work on or after 17 March 2020 as a result of COVID-19, but who have been rehired before the application to this scheme;
21. **invite** the Minister of Finance and Minister of Social Development to report back to CVD with further advice on transitional issues;
22. **approve** 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:

| Vote Social Development Minister for Social Development | \$m – increase/(decrease) | | | | |
|---|---------------------------|---------|---------|---------|--------------------------|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 & Outyears |
| Non Departmental Other Expenses: | | | | | |
| Business Support Subsidy Covid-19 | 2,700.000 | - | - | - | - |

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23. **note** this takes the total amount appropriated to the wage subsidy scheme to \$12 billion;
24. **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;
25. **agree** 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;
26. **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;
27. **delegate** authority to Minister of Finance, the Minister for Economic Development, and the Minister for Social Development to increase/decrease funding for the enhanced wage subsidy scheme if required;
28. **delegate** authority to the Minister of Finance and the Minister for Social Development to make technical design changes and minor policy decisions about the enhanced wage subsidy scheme;
29. **authorise** the Minister of Finance, the Minister for Economic Development 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;
30. **note** that the appropriation changes above only reflect the estimated 12 week cost, and that additional funding may be required if Alert Level 4 continues for a longer period;



Meeting of the COVID-19 Ministerial Group

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.

Transitioning to an Enhanced Wage Subsidy Scheme

The group of Ministers with Power to Act on COVID-19 matters [CAB-20-MIN-0130] convened on 26 March 2020 at 10.30am, and in accordance with their Power to Act:

- 1 **deferred** consideration of a paper on the proposed detailed design for an enhanced wage subsidy scheme to respond to the increase to Alert Level 4;
- 2 **authorised** the Prime Minister, Deputy Prime Minister, Minister of Finance, Minister for Social Development and Hon James Shaw to convene as soon as possible to make decisions on the proposal;
- 3 **invited** the Ministers referred to in paragraph 2 above to report back to the next meeting of the COVID-19 Ministerial Group on the outcome of those discussions, and seeking further decisions on the proposal if necessary.

Michael Webster
Secretary of the Cabinet

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