Joint Report: Options for an Enduring Wage Subsidy Scheme or Replacement

Purpose of Report

1. In response to a new outbreak of COVID-19 in Auckland, on 17 August 2020 Cabinet agreed to a third iteration of the Wage Subsidy scheme, the Resurgence Wage Subsidy Scheme (WSR) [CAB-20-MIN-0402 refers]. As part of this decision, Cabinet:

    Directed officials to advise the Minister of Finance, Minister for Workplace Relations and Safety, Minister for Social Development, Minister of Revenue and Minister for Small Business on a more sustainable arrangement for support in the event of future restrictions

2. This report fulfils this direction. As there are many possible options, we ask you for an initial steer to support more detailed design work.

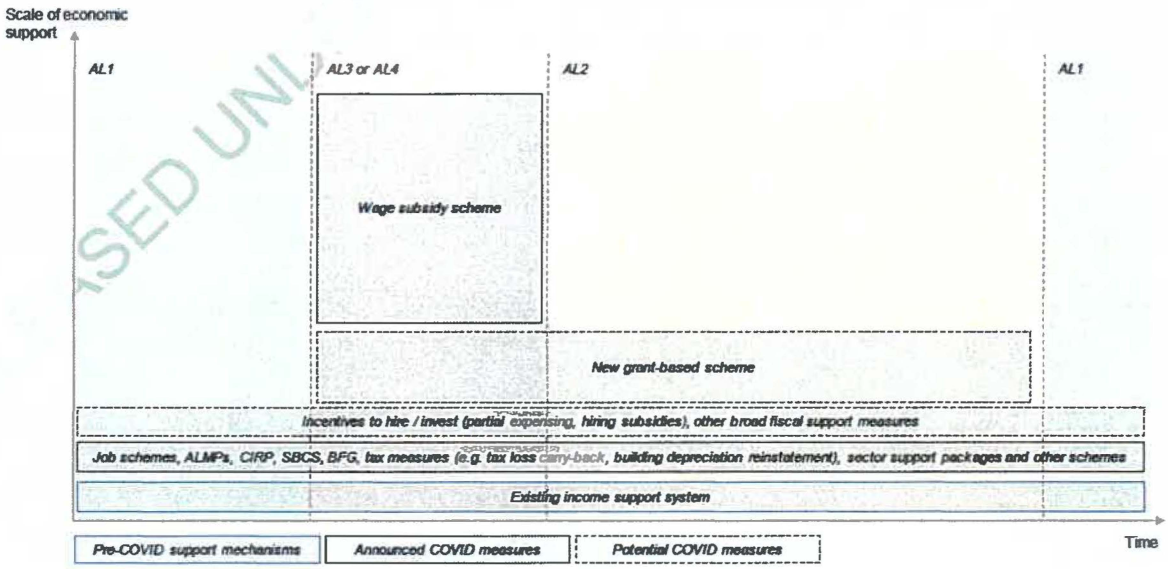
Contextual Factors

The future of the wage subsidy needs to be considered alongside the wider economic support landscape

1. You recently received a related report that Cabinet also commissioned on 17 August 2020 [T2020/2783 refers]. That report identified changes to the Leave Support Scheme (LSS) to enhance its coverage and support its efficacy, for which you will be seeking Cabinet approval for on 21 September 2020. Further advice is being prepared on longer-term changes that could be made to the LSS and statutory leave entitlements.

2. The future of the wage subsidy needs to be considered in light of decisions on the LSS, as well as any future decisions on, for example, the Transition Grant Scheme (T2020/2985 and T2020/3046 refer).

Fig.1: Landscape of fiscal support through the Alert Levels



3. While these possible changes to the broader landscape are still under consideration, is it difficult to be concrete about the appropriate role and scope of the wage subsidy alongside these wider supports. As such, this paper offers indicative advice, to be firmed up following decisions on the broader support landscape.

The settings used for the WSR are the 'default' in case of a resurgence in the near term.

4. This paper focuses on options for an enduring scheme to be in place from the end of the year or early next year, depending on its complexity. If a flare-up of the Auckland outbreak or a new outbreak were to occur in the immediate future and a return to Alert Level 3 or 4 were needed, our understanding from the Minister of Finance's public remarks is that you would likely want to redeploy the WSR.

5. To assist with agency contingency planning, we ask you in this report to confirm, *in-principle,* your intention to reintroduce the WSR scheme, with its current settings and delivered by MSD, under a return to Alert Levels 3 or 4 in the near term.

6. Changes to the WSR, if introduced over this period, may be possible, but will entail greater lead-in time to opening the scheme than retaining current settings. There are likely to be reduced opportunities for Ministers to receive and consider advice over the pre-election period, and delays to introducing a scheme could have significant economic costs. This suggests that reintroducing the scheme with no changes is the best default option.

7. The in-principle decision requested in this report reduces uncertainty for MSD from an operational contingency planning perspective over the election period. It does not remove the need for decisions by Cabinet at the time (or Ministers given Power to Act by Cabinet) to re-introduce the WSR scheme in its current or modified form. Neither does it remove the option for Ministers to change the scheme if it is re-introduced, noting that the potential changes will be limited by the time available to provide advice and stand the scheme up alongside other operational considerations.

Objectives of the Wage Subsidy

8. The objectives of the wage subsidy have evolved over time as our understanding of its impacts has developed, and have at times been left implicit. The following discussion reflects our current understanding of your objectives. To aid in design of an enduring scheme, we ask you here to clarify if this fairly represents your objectives for the wage subsidy or replacement in future.

9. In normal economic times, the standard policy toolkit for **supporting jobs and incomes** includes a flexible regulatory system, active labour market policies and income support for those unable to secure work.

10. The original WSS and subsequent WSX recognised that the period of lockdown was an unprecedented external shock. You adopted an elimination strategy early on, which involves very stringent but temporary supply side constraints, in order to allow a swift return to normal economic activity.

11. The role of the COVID-19 wage subsidy in the context of this public health strategy has been to **support viable employers to hibernate** while keeping employees attached, recognising that for many small businesses this objective would require a rapid cashflow injection.

12. Similar wage subsidies have been introduced in response to previous disasters, such as the 2010/11 Canterbury earthquakes, 2011 Rena stranding and 2016 Kaikoura/Hurunui earthquakes.

13. Temporary wage subsidies recognise that hiring and firing is costly to both employees and employers, that widespread firm and job loss would have ongoing negative impacts, including that unemployment can lead to long-term reductions in both individual and aggregate human capital (this effect is known as 'scarring'). In the language of the living standards framework we might say that wage subsidies of this kind aim to both protect current and future wellbeing by sustaining jobs, income and productive activity, as well as protecting future wellbeing by maintaining human capital.

14. Broadly speaking this strategy has been effective to date.

    a. The WSS/WSX schemes broadly achieved the goal of protecting labour force attachment. Treasury modelling suggests that numbers of unemployed people in Q2 would have been around 100,000 higher had the wage subsidy not been in place.[1]

    b. Excluding tourism-related industries, total wage bills recovered to pre-COVID levels at Alert Level 3 for the construction sector, Alert Level 2 and 1 for the accommodation and food services sector and at Alert Level 1 for retail (although essential retail such as supermarkets was largely unaffected).

    c. While the WSS/WSX were not targeted at specific industries, the revenue reduction eligibility requirement had the effect of channelling more support to the most impacted sectors. The percentage of jobs supported by the WSS was highest for the construction (96%) and accommodation and food services industries (91%), and lowest for public administration and safety (5%) and education and training (18%) industries.

    d. As previously advised (T2020/2985 refers), the wage subsidy has also played an important role in providing fiscal support for the economy at higher Alert Levels, at a time when monetary policy is less able to provide macroeconomic support.

1 Treasury's Matai model, modelling anticipated employment effects from a fiscal stimulatory perspective only.

15. Another important lesson from the pandemic to date has been the role of **public trust and social capital** in executing the elimination strategy, as noted in Treasury's recent discussion paper, He Kahui Ora.[2] Public health measures at all Alert Levels require widespread public co-operation to be effective. The wage subsidy has to date played a major role in facilitating this public trust and social capital by partly compensating employees and business owners who incur significant costs as a result of public health restrictions.

Other considerations

16. When you consider options to refine or replace the wage subsidy, we anticipate you will also wish to take into account four other important considerations.

17. **Simplicity.** Although more complex targeting rules and higher integrity may be desirable, they still need to be implementable. Simple schemes are easier to communicate and implement, particularly at pace.

18. s 6(c) OIA [redacted]

19. **Intra-generational equity.** The impact of higher Alert Levels on current wellbeing is distributed unequally across people in New Zealand, and Government support plays a role in sharing the burden of necessary public health restrictions and the pandemic overall, fairly. Administrative data show that young people have had higher rates of job loss since the start of the pandemic. And data in Appendix two shows that reductions in hours of work in the most recent quarter are skewed strongly towards the self-employed, those on casual contracts, and less strongly towards occupations such as tradespeople and drivers. As a result, loss of hours has been skewed towards European and Māori people, as well as the very young and very old.

20. We also know that Māori and Pacific Peoples typically face disproportionately high and prolonged unemployment rate increases during economic downturns of all types. There is a need to take equity considerations more closely into account in the design of an enduring scheme and the broader support landscape, including the fact that the wage subsidy does not benefit people who have already lost their jobs. The relative roles of employee, employer and government also need to be considered, particularly the existing obligations on employees and employers to engage with each other in good faith. And as recently discussed in a report on vulnerable South Auckland whānau, the Treasury's He Ara Waiora framework emphasises the need for both Crown and Māori to work together to uphold the mana of individuals and collectives, especially at a time such as this (T2020/2936 refers).

21. **Fiscal cost.** The Treasury has previously advised that net debt could increase above 60% of GDP while maintaining fiscal sustainability and market access. However, there are real costs from increasing the level of debt such as higher debt servicing costs and reduced fiscal resilience. These costs to New Zealanders in the future generations will need to be weighed up against the benefits of additional expenditure in terms of both current and future wellbeing. Importantly, discretionary spending would only begin to increase the level of net debt above the forecast level at BEFU 2020 after the COVID-19 Response and Recovery Fund had been exhausted.

[2] Cook, et al (2020). He Kāhui Ora: Living Standards Framework and He Ara Waiora. COVID-19 Impacts on Wellbeing.

Options to Make the COVID-19 Wage Subsidy More Enduring

22. There is a public expectation that the Government will continue to provide some form of support to businesses to retain their employees, or at least to provide some form of support to transition into a COVID-19 resilient economy. Given that the wage subsidy has been extended twice, and the existing Wage Subsidy Extension (WSX) and WSR payment application periods have now closed, the general public likely expects to see a scheme similar to WSR reintroduced every time the country is at Alert Level 3 or 4, (or when a large enough part of NZ is at level 3 so as to affect the nationwide economy) to continue supporting employers to retain their employees. The fact that $14b of the COVID-19 Response and Recovery Fund remains unallocated also reinforces this expectation.

23. The default option for an enduring approach to the wage subsidy is aligned with these expectations. Under this approach, the wage subsidy would be available for all the time the country spends at Alert Level 3 or 4 through successive decisions (with advance public signalling that this can be expected)

24. The previous iterations of the COVID-19 wage subsidy were developed and implemented very rapidly, limiting the available design features. But if the wage subsidy is to endure until the end of the pandemic as your main tool to support jobs and incomes during periods at Alert Level 3 and 4, then several design features will merit reconsideration.

Problems with the revenue drop test, and potential improvements

25. s 9(2)(g)(i) OIA [redacted]

26. s 9(2)(k) OIA [redacted]

27. In addition, the pre-COVID reference point for a revenue comparison will become increasingly arbitrary over time. It will be a misleading indicator for firms that have downsized since the start of the crisis (who may be profitable even if their revenue has dropped). It also covers many firms who have experienced a revenue drop for reasons unrelated to COVID. GST return data for 2019 suggest that in a normal year 17% of firms experience a 40% year-on-year revenue drop.

28. The revenue drop test is also difficult to apply to new firms. This is a small but growing problem. The data on firm creation since the start of the pandemic will be available next month, but data from previous years suggest that about 5% of existing firms will have been established since the start of the pandemic, potentially rising to about 15% by this time next year.

29. A 40% threshold also supports firms that may not be viable long-term and neglects viable firms that have taken steps to adapt to the changing environment. There is an argument to prioritise firms that have managed to adapt and have improved their revenue but are still struggling and do not meet the 40% revenue test. This is where alternative support options could come in.

30. We have identified alternative eligibility criteria that could be considered instead. While all would potentially improve targeting, they would also be more difficult to communicate, understand, and administer. The alternatives include:

    a. Introducing an **hours dropped test** at the level of the firm to replace or supplement the revenue drop test. This would target support more tightly to firms unable to operate, so would mean more of the value of the subsidy would be captured by employees rather than business owners.

    b. **A revenue per FTE drop test**. This would compare revenue-per-FTE pre-COVID to revenue-per-FTE during Alert Level 3 or 4. This would reduce the support given to employers that have downsized since the crisis. However, it would be harder to apply to newer employers.

    c. **A revenue per FTE level test**. This would target support to employers that are below a certain absolute level of revenue per employee during higher Alert Levels, regardless of prior revenue. An appropriate level might be minimum wage multiplied by a factor (such as 1.5) to cover a certain proportion of capital costs. This would target support to labour-intensive, low wage firms. This option would be more readily applicable to new firms.

    d. **Changing the reference period for the revenue drop** to the closest comparable period at Alert Level 1. This would exclude firms that did not see a revenue bounce after restrictions eased, and so are probably unviable. However, it would be difficult to apply to firms with a lot of seasonality to their revenue, and may be more difficult for smaller businesses to assess their eligibility.

    e. **Adjusting the payment rate based on the extent of revenue drop**, to include firms with a sub-40% drop, though at a lower rate. This would soften the incentive to game the system to get across the 40% threshold, though it could increase the cost of the scheme.

    f. Replacing the revenue drop test with a **public health restriction test**. This would restrict the subsidy to a smaller group of employers, those having to limit operations as a result of public health restrictions (e.g. restaurants at Alert Levels 3 and 4). Although this option would exclude employers indirectly affected (such as restaurant suppliers), it could make it feasible to apply only to a specific region.

Other design issues and potential improvements

31. Several other potential modifications to the scheme are introduced in table 2. All of these modifications would add complexity and add to the amount of lead-in time necessary for implementation. Further work is needed to explore their operational feasibility.

Table 1: Other potential design changes

Current design feature	Nature of the issue	Potential changes
Undifferentiated payment rates	The payment system is differentiated only by full-time vs part-time work, and does not reflect other variables that may affect levels of need.	Additional types of differential could potentially be introduced based on factors such as firm size, usual hours of work, Alert Level, and time elapsed at higher alerts.
Static payment rates	The payment rates are set at the same level over time, although it may be reasonable to expect firms to shoulder an increasing proportion of the cost over time as part of adjusting to a COVID-resilient economy, or to shift the balance of expenditure to other supports.	Reducing payment rates over time, either within a resurgence, or over multiple resurgences
No clarity over whether subsidy will be available in future, or for how long.	A lack of certainty makes it difficult for firms to plan and may depress investment and hiring decisions.	It may be best to provide certainty over future wage subsidy eligibility in three or six month blocks, with no guarantee of ongoing eligibility beyond that – particularly if you retain payment rates and eligibility criteria at the existing level. Time limits or review points will provide some certainty to business while retaining flexibility to pivot to a different balance of supports depending on changing economic circumstance; as the prospects for a timely, safe and effective vaccine become clearer; and as we continue to learn about the impact of the wage subsidy and other supports.
Fortnightly eligibility windows	The wage subsidy cannot currently be calibrated to short periods at Alert Levels, or slight extensions beyond one or more fortnights	Shift to a per-day calculation (still paid as a lump sum)
Limited conditionality	Compared to the quantum of support, there are relatively few conditions imposed on recipient firms	Consider additional conditions on firms, such as to provide training to furloughed workers, to make changes to improve resilience to future elevations in Alert Levels, to provide full wage replacement up to a cap, and so on.
National application	Because the subsidy is targeted at employers, many of which have a presence in multiple regions, it is currently infeasible to apply the wage subsidy only to regions at higher Alert Levels	Consider using local delivery partners (as with previous regional-based wage subsidy schemes).
MSD delivery	MSD was able to stand up the wage subsidy very quickly, s 9(2)(f)(iv) OIA [redacted]	s 9(2)(f)(iv) OIA [redacted]

32. As noted earlier, it is important to note that further targeting of eligibility could make the scheme less transparent for applicants, which can result in confusion and increased contact with the administering agency, increasing compliance costs. s 6(c) OIA [redacted]

Interface with other supports

33. As Treasury advised recently (T2020/2985 refers), any refinement of the wage subsidy needs to take into account the interface with other supports such as the proposed Transition Grant Scheme. The Treasury advised that decisions on both schemes would ideally be taken simultaneously.

34. There are three important interfaces to consider. The Treasury has previously advised that the wage subsidy is fiscally sustainable within its current design parameters, and that the wage subsidy has provided important fiscal support for the economy at higher Alert Levels.

35. However, both of these judgements may need to be revisited when considering changes to the wage subsidy and other supports, to ensure the overall level of expenditure is neither too small nor too large, given the twin objectives of sustainability and economic stabilisation.

36. The second interface is at the level of detailed design choices. For example, consideration needs to be given as to what combinations of supports firms can access, how the various schemes may affect their employment obligations under employment law, how different revenue threshold tests align with one another, and so on. Simultaneous implementation of multiple supports is also a key consideration, in terms of compliance costs to business, and administrative feasibility and reprioritisation of work for MSD, IR or some combination thereof. In addition, the more complex the support landscape becomes, the greater the integrity risks become, particularly if changes continue to be made regularly.

37. s 9(2)(f)(iv) OIA [redacted] Eligibility criteria that require more verification will lead to longer implementation timeframes and will have additional administrative impacts that spillover into other work. Generally, the more targeted the scheme, the more difficult it is both to administer, and for the customer to understand and comply with.

38. The third interface is distributional. Each new and existing support mechanism skews support to some groups in the population. The overall level of support available to groups such as young people and Māori who are over-represented in those occupations most affected by changes in Alert Levels depends on the design of all supports, not just one. The upshot of this point is that options to change the wage subsidy may improve or worsen outcomes for particular groups depending on whether any cost savings are reinvested in other supports, such as Mana in Mahi, that reach those groups.

An Alternative to the Wage Subsidy: Short-time Work Scheme

39. The discussion above illustrates how changes to the wage subsidy to make it endure could quickly become very complex. Rather than making a series of complex design changes to the wage subsidy, it may be preferable to introduce an entirely new scheme that, while still complex, is arguably more cost-effective than the wage subsidy/ (Although as a new scheme is likely to take longer to develop, this will create trade-offs with certainty, simplicity and speed of implementation)

40. New Zealand is one of only 7 OECD countries that has introduced a wage subsidy as a job retention tool for COVID-19. 23 repurposed an existing (and 3 introduced) an alternative scheme called a short-time work scheme. Short time work schemes target

support directly to employees that have seen a reduction in hours worked, rather than to firms that have seen a drop in revenue.

41. A short-time work scheme would provide a level of wage replacement based on the share of contractual hours reduced, rather than a blanket level of subsidy. This would mean that only hours not worked would be subsidised, whereas the wage subsidy provides a subsidy even if employees are still working.

42. For example, if a full-time employee was still able to work fifty percent of their usual hours under Alert Level 3, a short time work scheme would allow an employer to claim a partial reimbursement for 20 hours of wages. Under the scheme, employers would:

   a. If necessary due to the impact of Alert Level restrictions, come to agreement with their employees to reduce hours, potentially to zero

   b. Multiply total hours reduced by hourly wage (up to some caps for each, likely 40 hours/wk and minimum or median wage)

   c. Multiply that by share of cost for unworked hours that government is willing to pay (e.g. 60 to 80 percent)

   d. s 9(2)(f)(iv) OIA [redacted]

43. On paper, this is an attractive option. A recent OECD paper[3] looking at job retention schemes in response to COVID reported that: *"For a given fiscal cost, government support provided through STW (short-time work) schemes achieves a larger reduction in the number of jobs at risk of termination than that provided through WS (wage subsidy) schemes."*

44. This finding is driven by the fact that reduced hours are a more accurate targeting mechanism than a drop in revenue. This is illustrated simply in Tables 2 and 3. The scheme includes employees whose hours drop even where the employer has not experienced a significant revenue drop. This gives an incentive for these employers to retain their employees.

45. Similarly, by excluding employees whose hours remain unchanged, the mechanism ensures the economic value of the subsidy is fully captured by employees.

Table 2: Simple coverage differences between wage subsidy and short-time schemes

Employer	Employee	Covered by wage subsidy	Covered by short-time scheme
<40% revenue drop	Hours reduced	No	Yes
	Hours not reduced	No	No
>40% revenue drop	Hours reduced	Yes	Yes
	Hours not reduced	Yes	No

Table 3: Estimated number of employed persons by wage subsidy support during Alert Level 3 and change in hours[4]

	Supported by wage subsidy	Not supported by wage subsidy
Working fewer hours than normal (including zero hours)	669,300	411,900
Working the same or more hours	723,800	849,100

[3] http://oecd.org/coronavirus/policy-responses/job-retention-schemes-during-the-COVID-19-lockdown-and-beyond-0853ba1d/

[4] These are estimated based on Treasury analysis of the Household Labour Force Survey and wage subsidy data in the IDI.

46. The improved targeting would also reduce the total cost, (or would allow income replacement up to a higher cap). In-line with OECD findings, our initial costing work suggests that the weekly cost of a short-time scheme in New Zealand would be less than the WSR.

Table 4: Estimated weekly cost and coverage of short-time scheme vs WSR, assuming a nationwide level 3 lockdown

	Fiscal cost per week	Jobs supported	Hours subsidised	Subsidised hours per person	Avg hourly rate
1. WSR (current settings)	$390m-$580m	0.7m -1.1m	24m -36m	34	$16
2. Short-time scheme (Top-up 80% lost hours at min. wage (Low) or up to median wage (High))	$330m-$470m	0.8m-1.0m	17m -21m	21	$19-$22

47. The cost estimate for a further WSR is based on take-up of the recent scheme.

48. The cost estimate for a short-time work scheme is based on topping-up 80% of the estimated hours drop for the 41% of people who reported working fewer hours or zero hours during Alert Level 3 in April. Some further hours-drop is included to remove the effect of the WSS.

49. Self-employed are also included in this short-time scheme costing, to enable comparison with the WSR. In reality a separate scheme might be created to provide self-employed coverage, but this scenario would have broadly the same overall costs assuming the same average payment per self-employed or employed worker.

50. There are several uncertain factors that could increase or decrease the costs of a short-time scheme, but a saving relative to the WSR remains likely:

    a. Retrospective payments or additional scheme complexity could reduce uptake and costs, although the impact of these on cost-effectiveness would be considered in the next round of advice

    b. Savings or additional costs on other government supports are not taken into account.

51. Natural variation in hours worked is assumed to be subsidised and excluding this would reduce costs significantly (this affects about 19% of workers). An additional firm-level test could exclude some of this natural variation although it is not clear it could be fully excluded. The high scenario assumes all natural variation is subsidised; the low scenario assumes that 50% of natural variation is subsidised.

Further detail to work through

52. Although this option looks good on paper, there are challenges that would need to be worked through if you would like to progress this as an option to ensure it is appropriate for New Zealand. Specifically:

    a. **Institutional context and collective bargaining structure**. Short-time agreements are typically a results of employer/employee negotiations and more common in countries with higher unionisation and higher costs for ending employment relationships. Interaction with employment law needs to be considered and legislative changes may be necessary to ensure compliance.

b. **Coverage of self-employed**. Self-employed workers are disproportionately high utilisers of the wage subsidy. However, short-time schemes typically exclude self-employed workers due to integrity risks. Alternative, direct income supports such as CIRP and/or a grant may be preferable for the self-employed.

c. **Data collection**. Implementation of a short-time scheme would require standard reporting of hours worked to IR and/or MSD to ensure accurate payments. This is not current practice and would lead to significant administrative complexity and necessitate at least a three-month lead-in time for implementation for payroll intermediaries and software providers. Although this would facilitate reporting for many (but not all) employers, it would not capture actual hours worked by the employee.

d. **Targeting.** Focussing on hours dropped may poorly target firms facing Alert Level rather than demand-driven limitations, particularly if the scheme were to apply at Alert Level 2 as well. For example, restaurants and bars have to change their business model under Alert Level 2 in a way that requires a higher staff-to-customer ratio. In such scenarios, profits may decline much more sharply than staff hours, thus any scheme subsidising lost hours may be of more limited value or need complementary support.

e. **Cost-sharing**. In a typical economic down-turn cost-sharing is a key feature of short-time work schemes, but in many countries the Government has taken on the full cost of hours not worked during the pandemic. Whether to apply cost-sharing at various Alert Levels would need to be considered further, balancing the protection of existing jobs with the need to support reallocation to jobs that are viable for the course of the pandemic.

53. While these concerns are not insignificant, they can likely be addressed through programme design and complementary programmes, such as CIRP and a potential Transition Support Grant. It would also be prudent to test the views of social partners before committing to this approach, particularly given the traditional relationship between short-time work schemes and social insurance systems.

Next Steps

54. We ask you to indicate which options you would like officials to consider in more depth and provide additional advice to the new Government on. With your agreement, officials will engage with business, unions and other relevant groups on the details of a revised or replacement scheme

55. In future advice we will also lay out options for a more comprehensive monitoring and evaluation strategy to support any future extensions of the wage subsidy or replacement. We have learned much from the implementation of the wage subsidy schemes to date. But given the scale of expenditure on the wage subsidy, additional investment in monitoring and evaluation, to support ongoing improvements in design, is likely to represent excellent value-for-money.

Appendix 1: Options assessment table

Criteria	Refine wage subsidy	Short-time scheme
Protect jobs and income	**Moderate** – Ongoing use of a WSR-type subsidy is likely to be less effective than the original WSS and WSX at preventing firm closure and job loss because many firms have already suffered a hit to their balance sheet. However, it is effective as a short-term income replacement measure, even for those employees who subsequently lose their jobs	**Mixed** – in comparison to the WSR, OECD evidence suggests this kind of scheme is more effective at protecting jobs. However, it may be less applicable to casual employees and the self-employed.
Protect viable employers	**Moderate** – The WSR is most useful to labour-intensive, low-wage employers. It will be less effective at preventing firm closure the more often it as used, as balance sheet losses accumulate and future revenue prospects diminish in the expectation of future restrictions.	**Moderate** – While protecting fewer firms than the WSR, the OECD evidence suggests the mechanism more effectively targets firms most in need of support, though it may reduce reallocation.
Public support and social capital	**Moderate** – while less generous than WSS/WSX, the WSR still helps compensate those individuals and employers who are most affected by the public health restrictions, which should help maintain support.	**Unknown** – although this scheme would theoretically target support to where it is most needed, it is more complex to understand and would represent a big change from the wage subsidy. It would be prudent to test its level of support with business and unions before committing to this direction.
Simplicity	**Moderate** – the scheme is easy to understand and administer, although design changes to make it more sustainable would make it more complex.	**Weak** – this is a more complex scheme to explain, understand, and particularly administer. It would impose greater compliance costs on firms and greater administrative costs on IR or MSD.
Integrity	**Moderate** – analysis to date suggests relatively little fraudulent use of WSS/WSX, s 6(c) OIA [redacted]	**Uncertain** – the information requirements to administer the scheme need to be worked through.
Intra-generational equity	**Moderate** – Like the WSS and WSX, the WSR will blunt the most significant impacts on the most vulnerable, but not benefit those out of work pre-COVID, or those groups such as young people who have disproportionately lost employment.	**Moderate** – the more nuanced targeting of this scheme would direct support to where most needed more effectively than the wage subsidy scheme, but like that scheme would still not benefit those who lose their jobs altogether, and it would be more difficult to apply to casual workers and the self-employed.
Fiscal sustainability	**Moderate** – while WSR does require increasing debt, the Treasury estimates that NZ would have to be at Alert Level 3 or 4 for many months in total to raise NZ's debt burden to above 60% of GDP under current WSR settings.	**Strong** – Initial costing work suggests a short-time work scheme would be less expensive than the wage subsidy resurgence at Alert Level 3.

Appendix 2: Wage subsidy data

Figure 1: Original wage subsidy coverage (% of employees) vs other countries' job retention schemes

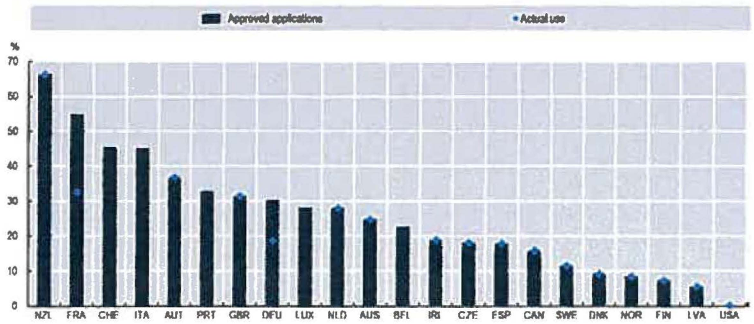


Figure 2: Original wage subsidy generosity compared to other countries

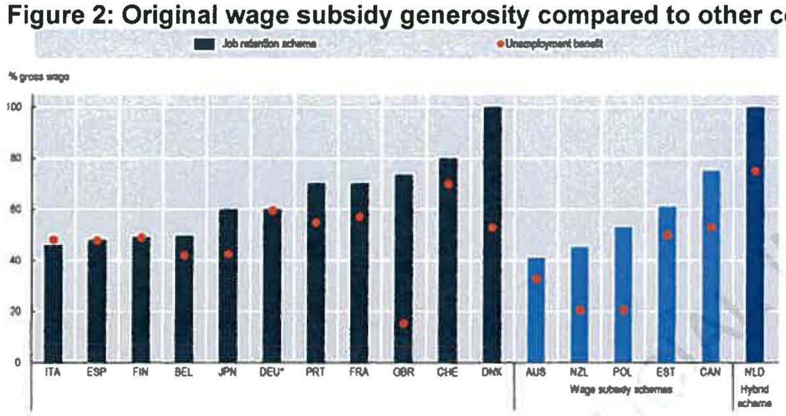


Table 5: Reduced hours by key demographic and labour market variables

		Proportion working fewer or zero hours during June 2020 quarter
Gender	Male	34%
	Female	34%
Ethnicity	European	35%
	Māori	35%
	Pacific peoples	30%
	Asian	30%
Age	15–24	36%
	25–34	33%
	35–44	33%
	45–54	32%
	55–64	34%
	65+	39%
Employment relationship	Casual employee	47%
	Self-employed	46%
	Fixed term	29%
	Permanent employee	31%
Occupation	Technicians and trades workers	40%
	Machinery operators and drivers	38%
	Community and personal service workers	37%
	Labourers	36%
	Managers	34%
	Sales workers	34%
	Clerical and administrative workers	31%
	Professionals	28%

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Report

Date: 25 September 2020 **Security Level:** IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development

File Ref: REP/20/9/1006

Update on MSD Employment Product Changes

Purpose of the report

1 This paper provides you with an update on changes to MSD Employment Products to better support New Zealanders to take up new employment opportunities including with seasonal work. This includes increasing the $3k to Work grant to $5k and enhancing the New Zealand Seasonal Work Scheme and Seasonal Work Assistance Programme.

Recommended actions

It is recommended that you:

1 **note** that the changes made to these employment products will support the response to forecasted seasonal labour market shortages around New Zealand

2 **note** that in response to the increased costs of relocating, expected economic downturn, current demand for seasonal workers and MSD's expansion of its employment services, the $3k to Work incentive payment will be increased from $3,000 to $5,000 from 1 October 2020

3 **note** that the current $3k to Work incentive payment will now be renamed "$5k to Work" in line with these changes.

4 **note** that the changes to the eligibility criteria for $5k to Work include:

- removing the express exclusion from eligibility for seasonal workers
- confirming eligibility for people on or eligible for a main benefit
- changing the requirement that the job is for 30 hours or more, where it is reasonable and appropriate
- removing the focus on target groups of clients

5 **note** that work is being progressed to review and redesign the New Zealand Seasonal Work Scheme and the Seasonal Work Assistance Programme.

Viv Rickard Deputy Chief Executive Service Delivery	Date
Hon Carmel Sepuloni Minister for Social Development	Date

Background

2 The purpose of these changes is to better support New Zealanders to take up new employment opportunities including with seasonal work. COVID-19 has had a significant impact on New Zealand's labour market. The pandemic and the restrictions required to address it, have caused significant disruption for people including with job losses and the potential need to relocate to seek new employment opportunities.

3 With the borders being closed, some industries (such as horticulture and viticulture) which have traditionally relied on migrant labour, are likely to face increased labour shortages. There is a need to better support New Zealanders to fill these roles.

4 MSD provides a range of products to support New Zealanders into seasonal work or to relocate for work. However, there is a need to update the policy and operational settings for some of these products to make them more fit-for-purpose in the current environment, and to better support New Zealanders to take up seasonal work or relocate for work.

$3k to $5k to Work Programme

The $3k to Work payment supports clients to relocate to secure work

5 $3k to Work is an 'incentive payment' administered under the Employment Work Readiness Assistance Programme (EWRAP) to assist clients on a main benefit who have secured sustainable, full-time employment to relocate. Current funding provides for 1000 payments a year with total average expenditure of $2.867m a year. It is a non-taxable lump sum payment of $3,000 with clients not needing to show proof of relocation costs or doing an asset or income test.

6 The purpose of $3k to Work is to reduce barriers for people getting into work and provide a financial incentive for a person to move when they cannot find a suitable job in their area.

7 $4.5 million of funding has already been allocated for $5k to Work as part of the $150 million allocated for MSD's Employment Services Response Budget Bid for F20/21.

8 To support the increased costs of relocating, expected economic downturn, demand for seasonal workers, and MSD's expansion of its employment services, the following changes have been made to the current $3k to Work programme.

The $3k to Work grant will be increased to $5k

9 The increase to $5,000 recognises that this payment is an incentive payment that should do more than cover actual costs. Increasing the amount would also recognise the increased costs of relocating since $3k to Work was first started in 2015.

Changes are being made to make $5k to Work more accessible

10 Seasonal workers will now be allowed to access $5k to Work. In recognition of the current demand for seasonal workers around New Zealand, eligibility will also be expanded to include this group. A seasonal worker would still need to meet criteria for the $5k to Work programme, including having a confirmed acceptable job offer of more than 91 days duration.

11 As there is some inconsistency in existing operational guidance, extra clarification will be provided that a person seeking $5k to Work is required to be:

- In receipt of a main benefit or eligible to receive a main benefit; or
- A partner of a person receiving, or eligible to receive a main benefit.

12 The focus on specified groups of clients will be removed. Previously $3k to Work had a specified focus on clients who meet at least one of the following criteria, aged 18 to 24 years, have been in receipt of a main benefit for more than six months, are currently in a Work Focus Case Management service, LSV graduates or are experiencing social factors where relocation would be beneficial (gang affiliates and victims of family violence). This previous focus was part of the original objective to relocate higher liability clients, however given the expected economic downturn, we no longer consider this focus to be necessary.

13 The requirement that an applicant must have a confirmed full time offer that is at least 30 hours a week will be retained, but MSD will have discretion to make a grant to a person with a confirmed job of less than 30 hours where it is reasonable and appropriate (for example, a person receiving sole parent support who has a job for less than 30 hours a week but can remain off the benefit for at least 91 days).

NZ Seasonal Work Scheme

NZ Seasonal Work Scheme help clients take up seasonal work

14 The New Zealand Seasonal Work Scheme (NZSWS) helps Work and Income Job Seekers in receipt of a benefit take up fixed-term employment opportunities. The scheme is funded through Multiple Category Appropriation and is not administered through a welfare programme.

15 In 2015 a trial began of NZSWS, which utilised accredited Recognised Seasonal Employers to recruit Work and Income clients for horticulture or viticulture seasonal work. Clients must be in receipt of a benefit and willing to temporarily relocate to key regions. Clients will be offered seasonal work for at least 30 hours per week for a minimum of six weeks.

16 The scheme covers the cost of:

- public transportation to and from a landing region
- any advocacy or mentoring that is required to support the individual to remain in employment
- pre-employment training.

17 Jobseekers must be prepared to relocate to one of these landing regions where the commute is greater than one hour's travel: Bay of Plenty, East Coast/Hawkes Bay, Nelson/Marlborough, Southern/Otago. Jobseekers can use the scheme to relocate within their own region as long as they live at least an hour's commute away from the job. Employers must be currently accredited Recognised Seasonal Employers (RSE).

However, there are problems with the Scheme

18 This scheme is still in operation; however, uptake of the service has been low. It is administratively heavy and requires a significant investment in time for small outcomes. It does not help to address a number of key barriers to the uptake of seasonal work. Some of the issues are difficult to address. For example, the work is not permanent with the average job being for 6 weeks. Clients are reluctant to move to temporary roles when they cannot afford to pay for accommodation in their home location as well as accommodation in the temporary location. Other issues are around accommodation (both availability and style), and the cost of transport.

19 Addressing some of these issues will support the industry to address forecasted labour shortages, however we consider that addressing these shortages needs to be an 'industry led, government supported' effort.

MSD is considering some improvements

20 Workshops with regional and national staff are being held this week to consider changes to improve the NZSWS. The purpose of these workshops is to address the barriers we believe are limiting the uptake of the scheme including challenges around accommodation and the lack of incentives for clients to move for short-term employment opportunities.

21 The potential changes being considered include (but are not limited to):

- improving administrative processes
- considering options to assist with accommodation
- updating criteria on what the funding can be used for.

22 We will provide a further update on progress with this review.

Seasonal Work Assistance Programme

Assistance for seasonal workers during bad weather

23 The Seasonal Work Assistance Programme (SWAP) is intended to encourage people to take up seasonal horticultural work by providing assistance to people who have moved from benefit to seasonal employment and, due to adverse weather conditions, cannot work and consequently lose income. It is administered under the Seasonal Work Assistance Programme.

24 The SWAP provides financial assistance of up to $900 in a 26-week period. It has had around 1,797 clients use this assistance since it started in 2002.

25 The programme is still in operation. However, the current process is administratively heavy and needs to be streamlined. For example, operational practices require clients to present at a service centre each day to apply for assistance with a letter from their employer. Employers have noted difficulty in retaining workers during bad weather which may be partly due to these difficult processes.

MSD is considering some improvements

26 Scoping work is currently underway to make changes to the operational processes for the SWAP before the upcoming season. This is intended to address issues such as the burden of requiring clients to come into a service centre each day to apply for the assistance when it is bad weather. This may also require a legislative change to the welfare programme.

27 We will provide a further report on progress with this work.

Next steps

$3k to $5k to Work Programme

28 Next steps include making updates to MSD's internal and external website, updating the Government "Connected" website, and notifying regional staff of these changes to the existing $3k to Work programme.

29 s 9(2)(f)(iv) OIA [redacted]

NZ Seasonal Employee Scheme

30 Next steps include having workshops this week to consider the changes needed to refresh the NZSES.

A further update will be provided once the workshops and review is completed.

Seasonal Work Assistance Programme

31 Next steps include scoping the required changes to operational practices to make providing assistance under this programme more effective and efficient. Legislative changes may be required to the welfare programme.

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File ref: REP/20/9/1006

Responsible manager: Jayne Russell, Group General Manager Employment, Service Delivery

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Report

Date: 25 September 2020 **Security Level:** IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development

File Ref: REP/20/9/1006

Update on MSD Employment Product Changes

Purpose of the report

1 This paper provides you with an update on changes to MSD Employment Products to better support New Zealanders to take up new employment opportunities including with seasonal work. This includes increasing the $3k to Work grant to $5k and enhancing the New Zealand Seasonal Work Scheme and Seasonal Work Assistance Programme.

Recommended actions

It is recommended that you:

1 **note** that the changes made to these employment products will support the response to forecasted seasonal labour market shortages around New Zealand

2 **note** that in response to the increased costs of relocating, expected economic downturn, current demand for seasonal workers and MSD's expansion of its employment services, the $3k to Work incentive payment will be increased from $3,000 to $5,000 from 1 October 2020

3 **note** that the current $3k to Work incentive payment will now be renamed "$5k to Work" in line with these changes.

4 **note** that the changes to the eligibility criteria for $5k to Work include:

- removing the express exclusion from eligibility for seasonal workers
- confirming eligibility for people on or eligible for a main benefit
- changing the requirement that the job is for 30 hours or more, where it is reasonable and appropriate
- removing the focus on target groups of clients

5 **note** that work is being progressed to review and redesign the New Zealand Seasonal Work Scheme and the Seasonal Work Assistance Programme.

Viv Rickard
Deputy Chief Executive Service Delivery

Date

Hon Carmel Sepuloni
Minister for Social Development

Date

Background

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