COVID-19 WAGE SUBSIDY EVALUATION

Synthesis Report

Synthesis of lessons, and overarching assessment of the COVID-19 Wage Subsidy

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CONTENTS

APPENDICES

TABLES

FIGURES

THIS REPORT ANSWERS TWO OVERARCHING QUESTIONS ABOUT THE COVID-19 WAGE SUBSIDY

What are the lessons for the policy design and delivery of future schemes like the Wage Subsidy?

To what extent were the Wage Subsidy eligibility criteria and rules "about right" in the context of the high-pressure policy development process and existing infrastructure?

The COVID-19 Wage Subsidy was the Government's single-largest area of spending in response to COVID-19, and indirectly supported about 1.8 million workers.1 The Wage Subsidy was developed under urgency and delivered from 17 March 2020 to 9 December 2021 by four agencies – the Treasury, the Ministry of Social Development (MSD), Inland Revenue (IR), and the Ministry of Business, Innovation and Employment (MBIE).

Few significant government initiatives have been developed so quickly, and at such a scale. Opportunities to evaluate these types of initiatives are even less frequent. The core government agencies want to, first, understand how well the Wage Subsidy was developed and implemented, and second, to identify the outcomes that the Wage Subsidy achieved.

Two distinct, but connected evaluations were undertaken between December 2021 and March 2023:

- Process Evaluation of the COVID-19 Wage Subsidy, completed by MartinJenkins with support from Te Paetawhiti and Associates, ConnectEd Ltd, and OliverShaw, and
- Outcome Evaluation of COVID-19 Wage Subsidy, completed by Motu Research.

The five iterations of the Wage Subsidy are described in detail in the Process evaluation report, and set out at a high level in the timeline on page 6.

The evaluations considered the COVID-19 Wage Subsidy in two phases, reflecting the changing circumstances for delivery.

- **"Phase 1" was the Original Wage Subsidy and its Extension, in early to mid-2020.** COVID-19 emerged in this period, with the need for an urgent response and with very high levels of uncertainty. Aotearoa New

1 Management of the Wage Subsidy Scheme, Office of the Auditor General, May 2021.

Zealand implemented COVID-19 Alert Level restrictions for the first time in this period, and the Wage Subsidy was designed and implemented at pace.

- **"Phase 2" was the later versions of the Wage Subsidy, from late 2020 to the end of 2021.** This period saw a "new normal" in which there was an ongoing possibility of Alert Levels changing. Agencies needed to be ready to respond to these changes.

Note that the Process evaluation included all iterations of the Wage Subsidy, while the Outcome evaluation did not include the final iteration of the Wage Subsidy that ran from August 2021- December 2021.[2]

This Synthesis report draws evidence from the Process Evaluation and the Outcomes Evaluation to answer two overarching questions:

- What are the lessons for the policy design and delivery of future schemes like the Wage Subsidy?
- To what extent were the Wage Subsidy eligibility criteria and rules "about right" in the context of the high-pressure policy development process and existing infrastructure?

It is beyond scope for the synthesis to examine the choice of a broad-based scheme paid out through employers, compared to alternative approaches that could have been taken; how the Aotearoa New Zealand Wage Subsidy compared with approaches taken in other jurisdictions (beyond referencing the comparisons contained in the outcomes evaluation); or the other economic supports that were implemented in parallel to the Wage Subsidy.

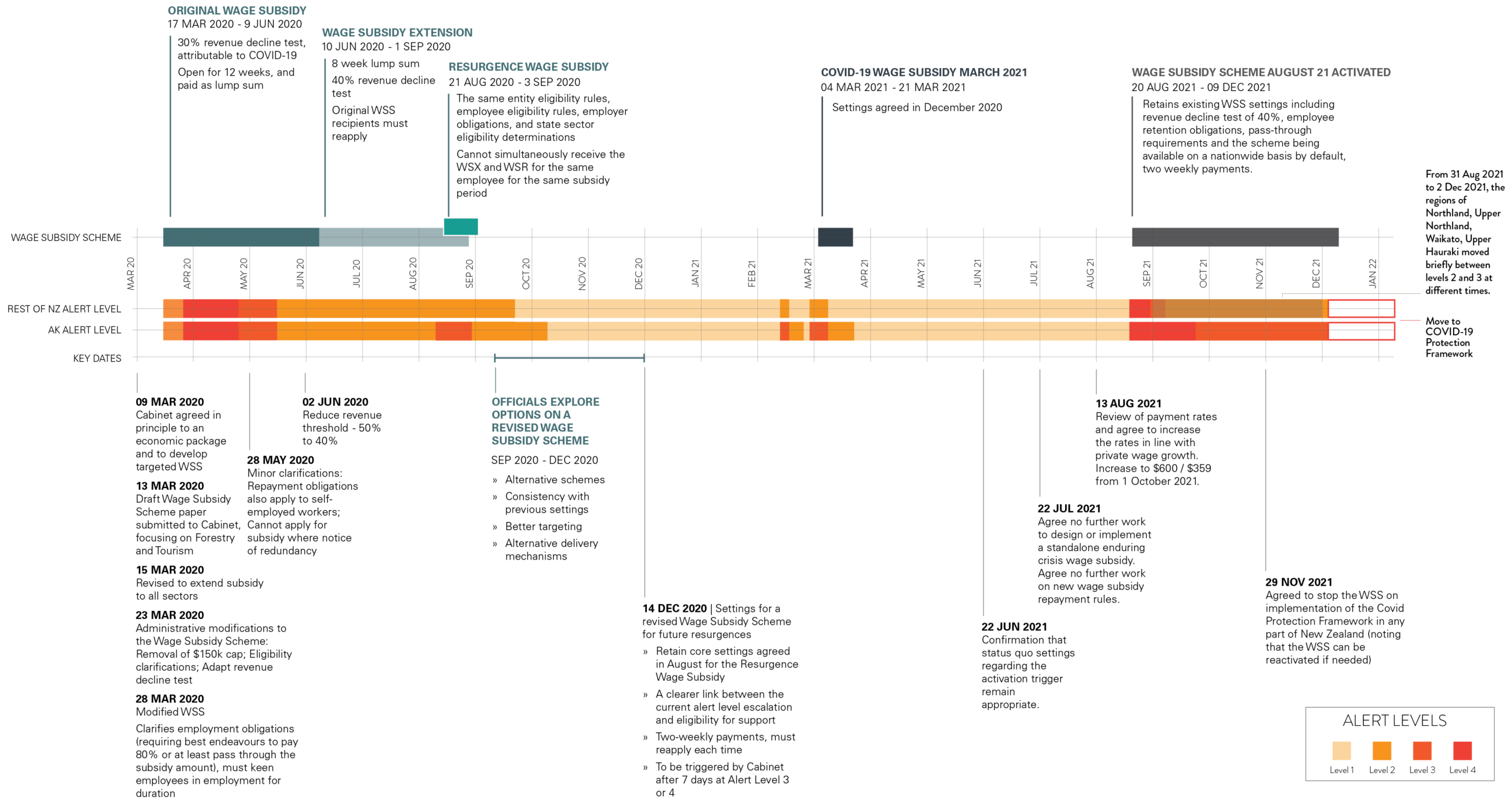
This report has been prepared by MartinJenkins, in collaboration with Te Paetawhiti and Associates, and Motu Research.

Note: Findings from the Outcomes evaluation that are quoted here are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI) and or Longitudinal Business Database (LBD) which are carefully managed by Stats NZ. For more information about the IDI and LBD please visit https://www.stats.govt.nz/integrated-data/. The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.

The output relates to the Outcome Evaluation being undertaken under datalab agreement 'MAA2018-97: Income, wellbeing and the labour market' between Statistics New Zealand and MBIE.

[2] At time of commissioning, it was decided that insufficient time would have passed to overcome constraints of data lag.

Figure 1: Timeline of key Wage Subsidy iterations



THREE LESSONS EMERGE FROM THE SUCCESSES, AND FROM CHALLENGES, OF THE WAGE SUBSIDY

Context is always important when applying lessons

> *"The frequency and significance of crisis events is increasing. New Zealand might need another subsidy or similar scheme at any moment – as recent events have demonstrated … there are important lessons that need to be captured and appropriate action taken to ensure that we are even better prepared next time." May 2021 John Ryan, Controller and Auditor General*

These evaluations provide a unique opportunity to ensure that policy design and delivery lessons can apply to future crises. Application of such lessons needs to be informed by the overall context, the significant uncertainty that existed, the volume of significant policy issues presented to Government, and the probability that the same or a similar intervention may be required in a future crisis.

Three key lessons emerge from the evaluations

Lesson 1: In a crisis context, a broad-based Wage Subsidy is a cost-effective intervention for achieving firm survival and job retention in the short and medium terms. It will inevitably be less effective at reaching workers in precarious employment and vulnerable workers.

As such, there is value in investing in a system-based policy framework to understand the role that Wage Subsidy type interventions could have in future crises.

A broad-based Wage Subsidy scheme that is deployed rapidly and delivered through employers is an effective intervention if the intent is to ensure job retention and firm survival in a crisis context. It is less effective for targeting support to vulnerable workers or those in precarious employment arrangements,[3] or for maintaining income levels. A Wage Subsidy must therefore be part of a wider package of economic and social supports.

Similarly, the benefits of the Wage Subsidy appear to have been felt beyond the firms that took it up. While the Wage Subsidy kept firms going, the post-Alert Level recovery was stronger in unsubsidised firms. While this may not reflect the policy intent, it is arguably a good outcome for Aotearoa New Zealand if it shored-up the economy overall. The wider role of a Wage Subsidy, beyond job retention, should also be examined.

As identified by the Office of the Auditor General, there are likely to be future economic crises, or crises that have concentrated economic impacts on the ability of businesses to retain people in employment. Crisis responses to both the Canterbury and Kaikōura earthquakes helped inform the development of the Wage Subsidy, and the associated Wage Subsidy evaluations offer lessons for future Wage Subsidy type schemes.

A systems-based policy framework[4] could enable a more rigorous understanding of the interactions between a Wage Subsidy and other parts of the wider economic and social system. Such interactions may be regional or sub-regional, may be sector or industry specific, or may impact populations differently.

Specifically, design of this type of intervention could benefit from a more sophisticated understanding of employment arrangements (including casual, part-time and self-employed) and worker characteristics (including Māori, Pacific, women, migrant) that may impact equity of access and take-up.

At an operational level, it is important to stress test interactions with existing supports (including income support, business supports, and crisis response support infrastructure), to ensure that the policy settings of a Wage Subsidy support underlying economic resilience.

3 We use the term "vulnerable workers" to describe workers (including those who are independent or dependent contractors) who face structural barriers to full participation and protections in the labour market. These barriers may include temporary or casual employment, lack of certain legal protections, non-standard work, lack of agency, or some other form of structural disadvantage. Migrant workers are also often considered vulnerable workers where their visa conditions preclude them from working for alternative employers. We use the term "Precarious employment" to refer specifically to those who have non-standard or temporary employment arrangements, which tend to have less job security than standard and permanent employment arrangements.

4 A system-based approach recognises that an intervention often relies on impact or action across boundaries of regulatory, funding or provision systems. In this case, the Wage Subsidy was an intervention across multiple systems including income support, taxation, employment relations and standards. A system-based policy framework would recognise and consider the complex intersections of these systems.

A policy framework based on systems thinking could ensure that a future Wage Subsidy is designed in a way that better meets the specific needs of different subgroups.

The Wage Subsidy was not designed, and did not intend, to address existing system complexities, or inequities. These challenges relate more to the choice of intervention (which is beyond the scope of the evaluation), rather than the design of the Wage Subsidy itself.

Nonetheless, throughout the process evaluation, we repeatedly heard that the Wage Subsidy was complicated for two key subgroups: non-standard workers (including those on casual contracts), and self-employed (including sole traders). A system-based policy framework could provide greater clarity about the role of a Wage Subsidy related to other supports, to meet the needs of these groups.

Better support for casual workers or other vulnerable employees.

Around 15% of March 2020 employees in subsidised firms were not listed on paid applications (that is, applications that had been approved and where businesses received payment). Unlisted employees on average had lower job tenure, more jobs, lower earnings, and lower prior employment rates, suggesting that subsidy support was less effective at reaching more precarious jobs and workers. It may also reflect seasonal working arrangements, whereby these workers had completed their employment by the time firms applied for the Wage Subsidy.

Officials were hearing that some employers of casual employees were not applying for the Wage Subsidy. We understand that an alternative approach was briefly explored, but not pursued due to system constraints, concerns around scheme integrity, and concerns that removing the employer connection would negate the labour market attachment objective. The primary objective of the Wage Subsidy focused on job retention, so it is not surprising that the scheme worked less well for people whose employment relationship was precarious. Nonetheless, since the Wage Subsidy also functioned as a de facto income support for many people, we believe that it would have been reasonable to provide more directive advice regarding the government's expectations for how firms should treat non-permanent workers.

Reconsider the appropriateness of the Wage Subsidy for self-employed / sole traders alongside alternative supports.

Many self-employed / sole traders were not visible in the tax system when the Wage Subsidy was launched. This created system and integrity challenges in verifying applications, and substantive effort for agencies to mitigate these challenges.

An alternative approach separate to the Wage Subsidy may have been preferable for these groups.

Lesson 2: Economic resilience requires both public and private system participants to work seamlessly in crisis.

In the case of the Wage Subsidy, we saw that officials and sector stakeholders rose to that challenge. However, this should not be left to chance. There is merit in considering what more can be done to ensure agencies approach economic resilience in a way that considers all aspects of the system, including things like infrastructure, how things are done, the skills of the people involved, their roles, the resources available, and their connections to important partners within and outside of government.

When the COVID-19 crisis arose, IR was in the middle of a system transformation that meant they were not well placed to lead delivery of the Wage Subsidy application and payment process, even though on paper they may have been the obvious choice. MSD stepped in, offering their system as a 'blunt' tool that could fill the immediate service gap, even without provision for sophisticated data matching, for example.

MSD is in the middle of a system transformation now. It is unclear what consideration is being given to the system-wide vulnerabilities that are created by such transformation projects for core agencies, and how these vulnerabilities can be overcome by other parts of the system if a crisis hits.

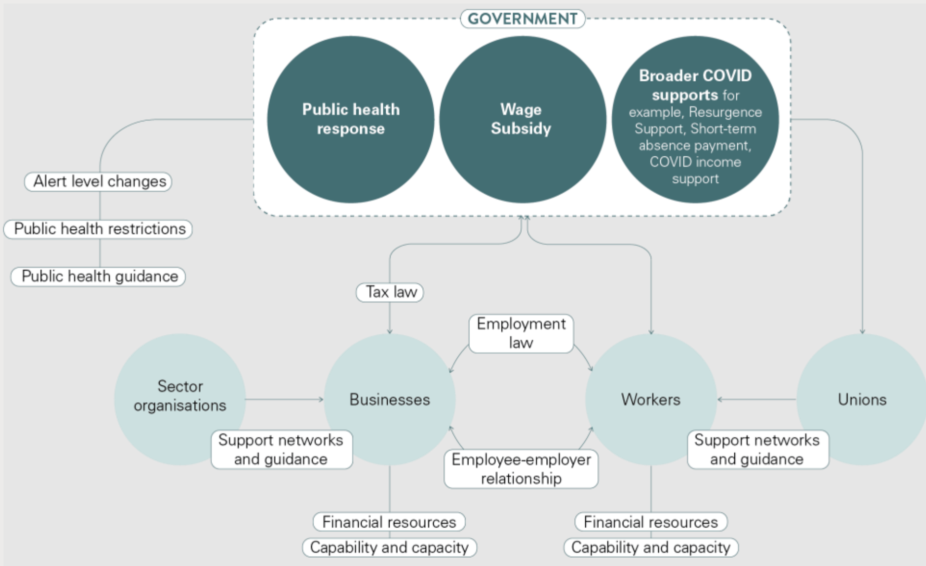
There is merit in taking a systems-based approach to test the resilience of the economic system overall. This should include consideration of infrastructure, operating processes, capability, roles, communication channels, and access to resources. It should look across agencies as well as beyond government to include sector stakeholders who make up the support structure for business.

Targeted communication that focuses on awareness and understanding is essential.

While government agencies led the charge, the Wage Subsidy would not have been as successful without the proactive support provided by a wide range of organisations across the economy. The business and employment sector is made up of complex networks of associations, unions, and other organisations that support businesses and workers to navigate the complexities of business and employment law. These networks mobilised when the COVID-19 crisis hit and took voluntary action to support businesses and workers within their networks, including in relation to the Wage Subsidy. Even with best intentions, some businesses received conflicting advice from agencies and other sector stakeholders.

The Wage Subsidy was a relatively simple initiative. But it needed to fit into a very complex system of tax law, employment relations, and business structures; and of people, organisations, and agencies (figure below). Businesses were also facing significant disruption and uncertainty.

Businesses' ability to access the Wage Subsidy, and their experience with the Wage Subsidy process, depended significantly on how well they understood their existing employment and tax obligations, their engagement with these systems, and on how well they maintained their own information and processes.



Raising awareness of supports is an essential first step. It is also essential to increase understanding of the finer details of a policy's intent, eligibility criteria and rules, and the obligations and expectations for receipt.

Taking a system-based approach to resilience would ensure that during future crises agencies are systematic in using their relationships with established organisations that are trusted by employers and workers, and that have good reach, to build awareness and understanding. This is especially important for reaching subgroups that are traditionally less well reached by government agencies.

Lesson 3: Even in crisis, good cross-agency programme governance remains relevant.

There is value in a formalised emergency management approach that ensures governance balances immediate and longer-term concerns.

The agencies involved in delivering the Wage Subsidy largely relied on their existing management and governance structures to provide oversight of their work on the scheme.

At a strategic cross-agency level, groups that had been established to oversee wide-ranging COVID-19 related interventions (including those related to the health response), had oversight of the Wage Subsidy as it interacted with their wider remit. However even during a crisis, and certainly as a crisis extends, there is value in a specialist and dedicated cross-agency programme level governance and accountability structure with clearer roles and responsibilities at senior levels and across agencies for interventions of the scale and significance of the Wage Subsidy scheme. Such governance architecture need not be cumbersome or slow down the response.

Programme level governance would have enabled greater ability for agencies to consider longer-term needs, be informed by operational constraints and for those constraints to be managed or challenged. This is particularly important as an emergency or crisis evolves and the underlying nature of the presenting problems alters. Programme level governance would minimise risks that may arise due to early design decisions not adequately being revisited.

There may also be a case for taking a more formalised emergency management approach to the management of these economic interventions during emergency or crisis. This form of disciplined structure can offer value in enabling a separation of those focussed on the immediate response, from those who have the space and effort to focus on the recovery aspects – for example enabling people to work on the crisis, as well as in the crisis response.

This form of structured reflective practice may also have better enabled space and time to consider alternative approaches or more targeted approaches (for example, to address low levels of take-up by particular groups). It may have also offered wider wellbeing benefits to the staff involved.

The general approach to managing COVID-19 response was informed by the individual agencies' internal contingency and emergency or crisis management approaches. However, as economic agencies with responsibilities for economic resilience, there is opportunity to develop a more structured emergency and crisis management response approach at a multi-agency/multi-stakeholder level using some of the lessons from the emergency management discipline. An emergency and crisis management approach may see government agencies better leverage the extensive regional, sector, industry, and business networks in a more efficient and intentional manner.[5]

5 Crisis management and emergency management are related concepts but they have some differences. Emergency management refers to the process of preparing for, responding to, and recovering from an event that poses an immediate threat to public safety

The Crown's Te Tiriti o Waitangi / Treaty of Waitangi obligations continue during crisis. Good cross-agency programme governance would help ensure obligations are well understood and applied.

Cabinet Office Circular (CO(19) 5 refers) Te Tiriti o Waitangi / Treaty of Waitangi Guidance offers a useful framework to guide officials through active consideration of Treaty related issues.[6] This includes a framework to balance the Crown's interest under Article One, and the relevant considerations and limits of kāwanatanga, and other considerations under Article Two and Article Three of the Treaty. In undertaking the process evaluation, we were mindful that these are also issues that have been examined appropriately as part of submissions to the Haumaru: COVID-19 Priority Inquiry undertaken by the Waitangi Tribunal.

Policy responses to future economic crises, or other crises that warrant significant economic intervention, could be guided by a more applied framework to assist policy makers' understanding of the balance of Article One, Article Two and Article Three rights and interests when formulating advice to government. This includes the general application of the principles of the Treaty as they relate to tino rangatiratanga, partnership, equity, and active protection as a crisis evolves and moves from response to recovery. In this case, even if arguments related to urgency are accepted as a case for not fully meeting Treaty obligations (which Māori would likely contest), there is opportunity to meet broader obligations under the Treaty and to work in partnership as a crisis evolves or as interventions adapt to circumstances or new information.

It appears that the way the Crown engaged with iwi and Māori throughout the design and delivery of the Wage Subsidy had some good features that are not always present, including direct engagement with iwi leaders and with Māori business networks in some parts of the country. However, as there was no overall structured engagement approach, it was not clear that this engagement led to any changes in the policy design or delivery. The quality of engagement regarding the Wage Subsidy should be covered directly with iwi and Māori, to determine lessons for the future.

Better cross-agency programme governance could have also identified the gap in Treaty analysis and ensured there was a good connection between iwi and Māori engagement and policy design and decision making.

or property. Crisis management, on the other hand, is a broader concept that encompasses a wider range of events, not necessarily limited to emergencies, that have the potential to disrupt operations, reputation, or stakeholder relations. This can include events such as financial scandals, or cyber attacks, as well as emergencies like natural disasters.

6 We use the term Te Tiriti o Waitangi and Treaty of Waitangi with an understanding that the two texts are generally accepted as having resulted in two different understandings. Guidance to support officials understanding of these differences is well set out by Te Arawhiti: The Office of Māori Crown relations.

WAGE SUBSIDY ELIGIBILITY CRITERIA AND RULES WERE 'ABOUT RIGHT' FOR ACHIEVING THE SCHEME OBJECTIVES

Key features of the Wage Subsidy eligibility criteria and rules are set out in Appendix 1. Eligibility criteria and rules changed slightly through the five iterations of the Wage Subsidy. However, the following core factors were constant across all iterations:

- the Wage Subsidy was available to all sectors and regions, businesses that operate in Aotearoa New Zealand and pay employees in Aotearoa New Zealand, including self-employed
- businesses must have experienced or be projecting a 30% revenue drop, later 40% revenue drop (comparison periods varied), revenue drop was self-assessed
- businesses could claim for all employees (full time, part time, permanent, temporary), or for a subset
- businesses had to make their best endeavours to mitigate impacts of revenue drop before applying for the Wage Subsidy, and
- businesses had to make their best endeavours to pay employees 80% of their normal income, or at least the full subsidy amount, they had to retain employees for the duration of the subsidy, any surplus had to be used to pay other employees or returned to MSD.

This synthesis considers the appropriateness of the eligibility criteria and rules, within the parameters of a broad-based scheme that is paid out through employers. It is beyond scope for the synthesis to examine the fundamental choice of a Wage Subsidy scheme compared to alternative approaches that could have been taken; how the Aotearoa New Zealand Wage Subsidy compared with approaches taken in other jurisdictions; or the wider economic supports that were implemented in parallel to the Wage Subsidy.

In determining the appropriateness of the eligibility criteria and rules, we considered the:

- extent to which the criteria and rules enabled rapid implementation
- scale and distribution of take-up in relation to policy intent
- scale and distribution of outcomes achieved, and alignment of outcomes to policy intent
- value for money of the Wage Subsidy overall, and
- extent to which the criteria and rules anticipated unintended consequences and enabled management of these.

The eligibility criteria and rules enabled rapid implementation in a context of uncertainty, urgency, and at a scale that had not been seen before

Phase 1 design and implementation occurred within the context of a crisis, the scale and seriousness of which hadn't been seen in Aotearoa New Zealand for generations.

Economic considerations, and potential widespread unemployment were important concerns for responding to COVID-19, but they were not the only concerns of the time. Officials were also concerned with public health, public safety, and ensuring families had access to essentials such as food and medicines.

While officials had access to a pre-existing wage subsidy tool (CHCH EQ), the existing tool was not currently in operation, it had not been designed for the crisis that was unfolding, and it had not been tested at a national scale.

Officials were also operating in difficult circumstances themselves, in many cases working remotely and with inconsistent access to the usual tools to do their jobs.

The achievement of designing and delivering the Wage Subsidy under urgency and in a crisis should not be understated. The Wage Subsidy was set up quickly and effectively. Within just a matter of days the key design parameters were decided and systems were established so that government could begin supporting businesses, and awareness was raised about the Wage Subsidy.

There was large-scale take-up of the Wage Subsidy, which was in line with the policy intent

	ORIGINAL WAGE SUBSIDY	WAGE SUBSIDY EXTENSION	RESURGENCE WAGE SUBSIDY	WAGE SUBSIDY MARCH 2021	WAGE SUBSIDY AUGUST 2021
Number of applications approved	**441,403**	**208,815**	**85,069**	**52,601**	**1,258,166**
Number of applications declined	48,713	65,504	18,076	8,260	199,673
Number of applications closed	68,360	5,917	1,216	111	4,973
Number of firms with paid out applications	396,201	188,406	81,924	51,582	327,174
Value of approvals ($m)	**$10,949m**	**$2,573m**	**$318m**	**$183m**	**$4,790m**
Number of jobs approved for	1,660,122	588,532	296,464	170,170	1,314,410
Number of repayments received | % voluntary	22,918 | 71%	3,488 | 77%	914 | 85%	1,253 | 95%	3,734 | 98%
Value of repayments received $m | % voluntary	$690.9m | 97%	$35.0m | 95%	$6.7m | 95%	$3.1m | 97%	$30.9m | 99%
% of firms that received the subsidy	**55%**	**19%**	**11%**	**6%**	**39%**
% of jobs that received the subsidy	**46%**	**16%**	**8%**	**5%**	**37%**

Source: MSD Data return tables, and Motu analysis of IDI/LBD data

Note: The bottom two rows are proportions of all jobs or firms observed over 2019-2022, and thus understate the proportions among those eligible for each subsidy wave. For example, while approximately 46% of jobs were covered by Wage Subsidy payments during the Original Wage Subsidy this accounted for approximately 59% of workers in employment.

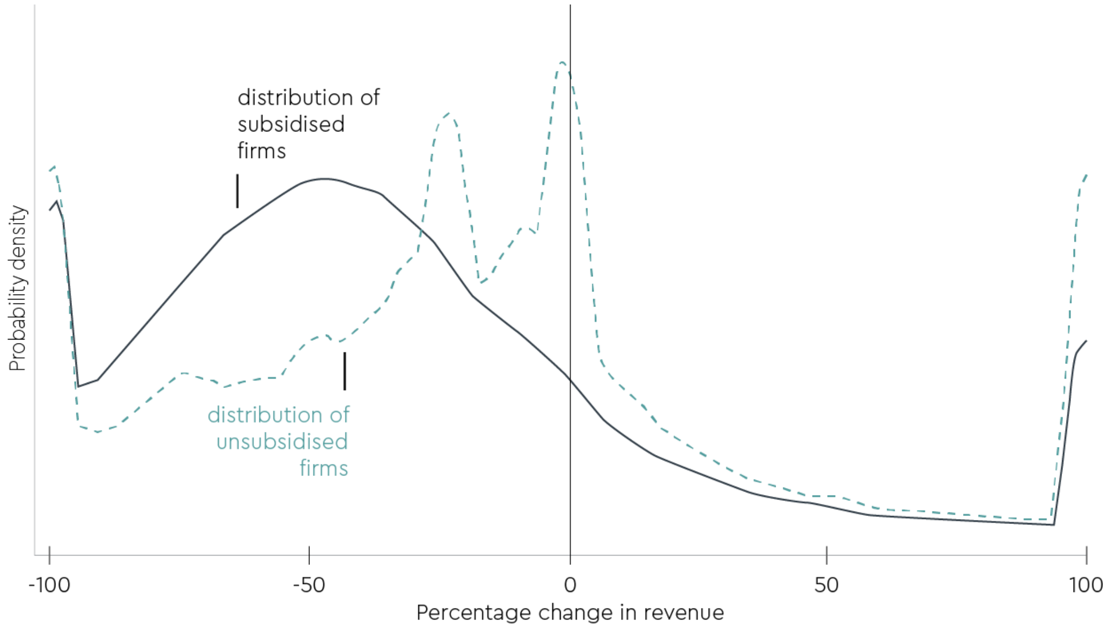
When the Original Wage Subsidy was announced, unprecedented numbers of applications were received, and most successful applicants received their payments quickly. Through three subsequent phases there was a decline in the numbers of applications. This reflected the changing context as Alert Level restrictions became more targeted. Application numbers peaked again for the August 2021 Wage Subsidy. This again reflected changing context (a nationwide lockdown leading to prolonged restrictions in Auckland, parts of Waikato, and Northland) and also changes to the way the Wage Subsidy was delivered – with businesses receiving a smaller lump sum payment and needing to reapply every two weeks.

At the peak, 55% of firms received payments, covering 46% of all jobs observed over 2019-2022. This equates to approximately 59% of actual employment for the period.

The large-scale take-up was in line with the policy intent, which had the primary objective of enabling employers to maintain employment relationships with their workers. Take-up for Aotearoa New Zealand's Wage Subsidy was comparatively high among OECD countries.

Figure 2 shows the distribution of firms that took up the Original Wage Subsidy based on the change in revenue that they experienced, and compares this distribution to firms that were did not receive the subsidy. It confirms that overall, subsidised firms were more likely to experience a greater drop in revenue, which is in line with the policy intent.

Figure 2: Revenue change distribution – Original Wage Subsidy (March 2020)



Source: Motu Outcomes Evaluation (Outcomes Report – Working Paper 2303)
Note: Revenue change is measured as the percentage change of GST sales for a 2-month period (the two months following the reference month, compared with sales in the reference month and the preceding month). the vertical axis shows the probability density, with the area under each line equal to 1.

While take-up was high overall, there were differences in the extent to which the Wage Subsidy was taken up by businesses with different characteristics and on behalf of workers with different characteristics.

- Differences in take-up rates varied somewhat across waves. Adjusting for a range of firm characteristics:
  - take-up was relatively lower for Māori firms in the Original Wage Subsidy, Resurgence, and March 2021 waves, and lower for European/Pākehā/other firms in each of the Extension, Resurgence, and March 2021 waves, and
  - take-up was higher for Asian and MELAA firms in each wave.
- Take-up was relatively low for some groups of employees – female, Māori, Pacific, young (under 25 years old), and high-earners (quartile 4), and
- Around 15% of March 2020 employees in subsidised firms were not listed on paid applications. Unlisted employees on average had lower job tenure, more jobs, lower earnings, and lower prior employment rates, suggesting that subsidy support was less effective at reaching more precarious jobs and workers. It may also reflect seasonal working arrangements, whereby these workers had completed their employment by the time firms applied for the Wage Subsidy.

Many firms assessed that they did not need to take up the Wage Subsidy, either because revenue changes did not warrant receipt, or they could mitigate the impacts of revenue drop in other ways (for example, through reserves). Uncertainty about how to interpret the eligibility criteria and rules prevented some employers from taking up the Wage Subsidy. Other employers overcame interpretation challenges and applied, or took a 'good faith' approach when deciding to access the Wage Subsidy despite uncertainty about their eligibility.

Most employers that took up the Wage Subsidy passed payments to their workers

Subsidised workers had a higher probability of being paid at the higher of the subsidy rate or 80% of their prior earnings during subsidy waves. This means that while some subsidised workers earned less during the subsidy wave than they had previously and/or than comparable unsubsidised workers, employers generally complied with their obligations to pass on payments to their workers.

Compared to other OECD countries, the Wage Subsidy payment rate was relatively low. The payment of a fixed subsidy amount per worker provided greater relative support to lower-wage workers.

The scheme delivered many positive outcomes for firms and for workers. It did not, nor was it intended to, completely offset all economic impacts of Alert Level restrictions

The outcomes evaluation identified positive outcomes from the Wage Subsidy, for subsidised firms and subsidised workers, along three dimensions that were in line with the policy intent: firm survival, job retention, and worker employment (Table 1).

Table 1: Outcome dimensions with more positive results

Dimension	Findings from the outcome evaluation
Firm survival (i.e. firms that continue to operate after 6 or 12 months)	• Subsidised firms had increased survival rates in the short term (6 months) and medium term (12 months) following the March 2020 and March 2021 Wage Subsidy waves. Effects were small following the Extension and Resurgence waves. • Increases in survival were generally strongest for groups of firms with high take-up rates; and for small firms.
Job retention (i.e. a worker continues to be employed at a firm)	• Job retention was higher for subsidised workers than for unsubsidised workers. This difference persisted for at least 12 months but became smaller. • There were stronger increases in job retention for young workers, Asian workers, Pacific workers, and in industries where take-up was high.
Worker employment (i.e. a worker is in employment, but is not necessarily in the same job)	• Subsidised workers were more likely to continue to be employed after the subsidy wave, than comparable workers who did not receive a subsidy. The difference became smaller over time but persisted for at least 12 months for March 2020 and Extension waves, 3 months for the Resurgence wave, and 6 months for the March 2021 wave. • The strongest employment effects were for young workers and Māori workers

Less positive outcomes were also identified (Table 2). These related primarily to growth in employment within subsidised firms, and growth in subsidised worker's earnings.

Table 2: Outcome dimensions with less positive results

Dimension	Findings from the outcome evaluation
Firm employment (i.e. number of workers employed by a firm)	• Subsidised firms had lower employment growth than comparable unsubsidised firms, with the employment gap growing over time. Hiring (job entry) rates into subsidised firms remained below those for unsubsidised firms. • Slowest relative growth was for subsidised small firms, young firms, Pacific firms, and Māori firms.
Earnings of subsidised workers (i.e. salary / wages / income)	• Following the subsidy period, earnings growth was slower for subsidised workers than for unsubsidised workers. • The slower earnings growth was more pronounced for young workers, and after the March 2020 wave, for construction and accommodation, and food industry workers.

Comparing the impacts of Aotearoa New Zealand's Wage Subsidy with similar schemes offered in other jurisdictions is challenging. For 'causal' studies, there are three points to note:

- like our findings, international studies of wage subsidy type schemes also generally find positive effects on **firm-survival** probabilities
- like our findings, international studies generally find positive effects of subsidy schemes on **employment**, based either on firm employment or total employment, and
- unlike our findings, estimates produced through the outcome evaluation imply the Original Wage Subsidy (March 2020) had a **larger positive effect on total employment** than is found in most international studies.

Overall, the Wage Subsidy represented favourable value for money

The Wage Subsidy was a significant economic intervention over a short period of time that reached a large proportion of Aotearoa New Zealand firms and workers. When assessing the extent to which it delivered value for money, the outcome evaluation considered a subset of costs and benefits, that could be identified and quantified (Figure 3).

Figure 3: Benefits and costs

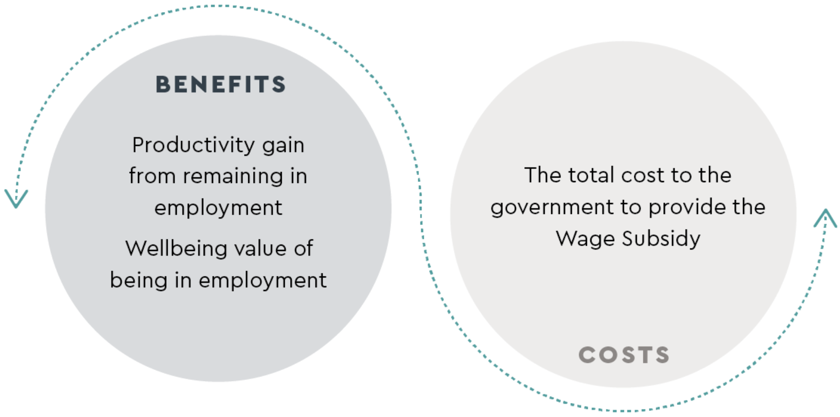


Table 3, shows that the Wage Subsidy had a favourable benefit-to-cost ratio (BCR) for most of the waves, indicated by a BRC greater than 1.0. The exception is the Resurgence wave (August 2020), which was also one of the smallest waves ($318m compared to $10,949m for the Original Wage Subsidy). The lower BCR in the Resurgence wave was because employment retention and sole trader survival were stronger for firms that did not receive Wage Subsidy support.

A favourable BCR means that the Wage Subsidy allowed more workers to remain in employment and more sole traders to remain in business, than was predicted would occur without this intervention.

Table 3: Benefit-to-cost ratio of Wage Subsidy, for four (out of five) waves

	Scale of wave – total payments	Benefit-to-cost Ratio (and Value)	
		Short term = 6 months	Medium term = 12 months
Original Wage Subsidy (March 2020)	$10,949m	1.20 ($2,344m)	1.45 ($5,252m)
Wage Subsidy Extension (May 2020)	$2,573m	1.05 ($133m)	1.14 ($396m)
Resurgence Wage Subsidy (August 2020)	$318m	0.95 (-$17m)	0.83 (-$63m)
Wage Subsidy March 2021	$183m	1.41 ($82m)	1.63 ($163m)
Wage Subsidy August 2021	*$4,790m*	*Out of scope*	*Out of scope*

Source: Total payments: MSD; BCR: Motu Outcomes Evaluation (Value for Money Report – Working Paper 2304)

The eligibility criteria and rules do not appear to have had widespread negative unintended consequences

There are many ways that the Wage Subsidy could have had unintended consequences that had both negative and/or positive impacts for the economy. The outcomes evaluation explored a range of possibilities, and found that:

- there isn't compelling evidence that the Wage Subsidy supported non-viable firms (a possible negative consequence)
- there is no evidence of widespread underpayment of subsidy amounts to workers, or of subsidised workers being more likely to be paid more than they had previously earned (a possible negative consequence)
- the evaluation cannot rule out the possibility that the Wage Subsidy was received by ineligible firms[7] (a possible negative consequence)
- employees that were not listed on apllications for subsidised firms could have been inappropriately denied subsidy support (a possible negative consequence), or ineligible because they were no longer employed by the subsidised firm (in line with policy intent). The evaluation cannot determine the extent to which these reasons apply across this group, and
- macroeconomic spill overs from Wage Subsidy expenditure are likely to have improved outcomes for unsubsidised firms (a possible positive consequence).

On balance, it would appear that the eligibility criteria and rules did not enable widespread unintended consequences that were negative. More likely, but yet to be tested, Wage Subsidy support may have had positive macroeconomic effects in the form of a large fiscal stimulus, delivered as payments to subsidised firms. This is not necessarily an unintended consequence of the Wage Subsidy policy – but it is a feature of the policy that does not require it to be structured as a Wage Subsidy to be effective.

Over time, the context for implementation and the focus of the policy objectives changed, but there wasn't significant change to the policy design or delivery

Over time, Alert Level changes became more targeted to regions and more common place, which changed the context for later iterations of Wage Subsidy. There was less uncertainty than there had been during the first days of the COVID-19 pandemic, and officials also had an existing product to reactivate rather than needing to start design and delivery from scratch (the Original Wage Subsidy).

While the policy objectives shifted somewhat, towards transition to a Covid-19 resilient economy, three key factors drove retention of the status quo in terms of design and delivery.

[7] The potential for some ineligible firms to receive the Wage Subsidy was noted in the Auditor-General's report, and we note that MSD referred a number of cases of potential fraud to the Serious Fraud Office for investigation.

1. Preference for certainty – the Wage Subsidy was working in the manner broadly intended. There was a perception that too much change could create confusion for employers, workers, wider system stakeholders (such as accountants, industry associations), and for delivery staff.
2. Limitations of the chosen infrastructure – the infrastructure was chosen for speed of delivery, and it had held up well under the pressure of high levels of demand without experiencing widespread failure. It was not chosen for its sophistication or flexibility, and would have required significant investment to automate design changes, such as regional targeting. There was limited appetite to invest in improving a scheme that may not be needed again.
3. Competing priorities – after each wave of the Wage Subsidy, agencies shifted focus to deliver other priorities that were part of the wider response.

In conclusion, it is our assessment that the eligibility criteria and rules were 'about right' for achieving the scheme objectives, given the context and infrastructure available.

APPENDIX 1: ELIGIBILITY CRITERIA AND RULES

Table 4: Wage Subsidy core policy settings across Phase 1 and Phase 2

Phase 1 Original Wage Subsidy, Wage Subsidy Extension	**Phase 2** Wage Subsidy Resurgence, Wage Subsidy March 2021, Wage Subsidy August 2021
Eligibility	
All sectors and regions. Businesses that operate in Aotearoa New Zealand and pay employees in Aotearoa New Zealand, including self-employed.	All sectors and regions if at Alert Level 3 or higher. Clearer link to Alert Level escalation, and triggers.
Revenue decline test	
30% revenue decline, attributable to COVID-19 against a year ago (40% for Wage Subsidy Extension).	40% revenue decline, must be attributable to the Alert Level escalation, with default comparator period the typical fortnightly revenue in the six weeks prior to the alert level escalation. May include a prospective revenue drop estimate.
Subsidy rate	
$585.80 / $350 per full-time worker (greater than 20 hours) / part-time worker (less than 20 hours).	$585.80 / $350 per full-time (greater than 20 hours) / part-time (less than 20 hours) worker. Increased to $600 / $359 in August 2021.
Structure of payments	
Lump-sum payments (12 weeks for original, 8 weeks for extension).	Two-weekly payments. Must reapply each time.
Obligations on employers	
Best endeavours to pay employees 80% of their normal income, or at least the full subsidy amount. Must retain employees for the duration of the subsidy. Any surplus to be used to pay other employees or returned to MSD.	Best endeavours to pay employees 80% of their normal income, or at least the full subsidy amount. Must retain employees for the duration of the subsidy. Must repay the subsidy if a predicted revenue loss is not realised of if don't meet eligibility criteria and keep records to show that have met eligibility declarations.
Balancing risk and access	
Administered at pace under high-trust model. Changes of time to publish recipients, clarify repayment requirements, strengthen declarations.	Retains high-trust model. Increased visibility of audit, enforcement, and repayment activity.

<table>
<tr><th>Phase 1
Original Wage Subsidy, Wage Subsidy Extension</th><th>Phase 2
Wage Subsidy Resurgence, Wage Subsidy March 2021, Wage Subsidy August 2021</th></tr>
<tr><td colspan="2">Changes</td></tr>
<tr><td>Several changes occurred throughout Phase 1 including:
removal of initial $150k cap (early in Phase 1)
clarify that registered charities, incorporated societies, non-government organisations, post settlement governance entities are eligible.
adapt 30% revenue decline test and acceptable comparator periods to better provide for high growth firms, new firms, or self-employed people
exceptions process for state sector organisations
clarify discrete business units of a single entity cannot apply, and
provide for repayments.</td><td>Largely maintains settings agreed for Wage Subsidy Resurgence for consistency, with some evolution throughout the period.
A range of potential changes to settings weren’t pursued, including:
designing a new scheme
creating a legislative framework
introducing a higher-integrity model
more payment tiers and greater targeting
shifting delivery to IR and
requiring repayment for profitable firms.</td></tr>
<tr><td colspan="2">Key differences in Phase 2</td></tr>
<tr><td colspan="2">1 More clearly aligning with Alert Level escalations (both in triggering the use of the Wage Subsidy, and in the application of the “revenue decline” test).
2 Shifting payments to two-weekly to create flexibility in duration.
3 Increased awareness of integrity efforts (but not a major shift from a high-trust model).</td></tr>
</table>