

# The Treasury

## Budget 2020 Information Release

### July 2020

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## Treasury Report: Assessment of bids for COVID-19 Response and Recovery Fund (CRRF)

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<b>Date:</b>	Friday 1 May 2020	<b>Report No:</b>	T2020/1237
		<b>File Number:</b>	BM-2-6-2020

### Action sought

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	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Direct</b> the Treasury to prepare material for Budget Ministers next week in line with your response to the recommendations in this report.	4 May 2020

### Contact for telephone discussion (if required)

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Name	Position	Telephone	1st Contact
Rachael Wookey	Senior Analyst, Economic Strategy and Productivity	[39]	n/a (mob) ✓
Phoebe Sparrow	Analyst, Budget Management		n/a (mob)
Kamlesh Patel	Team Leader, Fiscal Reporting		n/a (mob)
Erin King	Acting Manager, Economic Strategy and Productivity	[23]	
Struan Little	Deputy Secretary, Budget and Public Services	n/a (wk)	

### Minister's Office actions (if required)

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<b>Return</b> the signed report to Treasury.
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Note any feedback on the quality of the report

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**Enclosure:** Yes (attached)

# Treasury Report: Assessment of bids for COVID-19 Response and Recovery Fund (CRRF)

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## Executive Summary

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This report provides you with Treasury's assessment of initiatives received by Thursday 30 April for the COVID-19 Response and Recovery Fund (CRRF). Overall, 243 initiatives were submitted, seeking operating funding of \$26.1 billion and capital funding of \$3.6 billion. These figures compare with the remaining CRRF balance as at 23 April of \$39.1 billion.

Agencies had limited time to prepare initiatives requesting funding from the CRRF. Consequently, many bids represent what agencies could produce quickly and emerging financial pressures, rather than being strongly aligned with the objectives of the waves. In particular, while there are a number of initiatives aimed at supporting labour market adjustment or employment, or supporting particular populations, there is not a strong focus on supporting particular sectors in initiatives submitted to date.

Vote teams made indicative assessments of the initiatives to provide you with early visibility and support in the development of packages over the next week. Unlike the normal Budget approach to assessing initiatives, we have not been able to moderate the initiatives to ensure a consistent approach to assessment. As such, the assessments should be treated as indicative only. A number of late initiatives have not been assessed due to time constraints. The supported initiatives fall mostly within the following areas:

1. Firm support and labour market adjustment
2. Population targeted support
3. Sector based support
3. Support for loss of revenue
4. Health response

We recommend you consider a package focussed on these areas of up to around \$4.3 billion (comprising \$3.7 billion operating expenditure and \$650 million capital expenditure). This number is based on initiatives that Vote teams assessed as being strongly aligned with the objectives of the CRRF.

Initiatives submitted for this funding round did not reflect a clear assessment of the challenges that sectors are facing or measures that could address them. This is reflected in the limited number of sectoral initiatives in the recommended package.

As noted in separate advice on the overall strategy for allocating the CRRF, the types of initiatives that will be important for sectoral support will overlap with the Government's existing broad-based Wave 1 interventions. Coherent sector strategies will require more time and a much greater degree of cooperation with the relevant sectors to develop. As such:

- We recommend you focus in the near-term on phased withdrawal and/or implement greater targeting of Wave 1 interventions. You will shortly receive advice on targeting the wage subsidy.
- We recommend that you direct agencies to develop further initiatives with an emphasis on addressing the challenges facing sectors as part of a future funding round, potentially with decisions in June. This round should emphasise sector and cross-agency engagement. We will provide you further advice on how this round could operate.

We are meeting to discuss our advice on the CRRF at Budget Matters on Monday 4 May. Following this discussion, we can develop a package of initiatives to support your discussion with Budget Ministers on Wednesday 6 May.

## Recommended Action

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We recommend that you:

- a **note** that, as at 30 April, Ministers submitted 243 initiatives to be considered for the COVID-19 Response and Recovery Fund (CRRF), seeking operating funding of \$26.1 billion and capital funding of \$3.6 billion
- b **note** that many of these initiatives reflect emerging financial pressures and proposals agencies could produce quickly, rather than being strongly aligned with the objectives of Waves 1 and 2 of the Government's response to COVID-19
- c **note** we recommend supporting around \$4.3 billion (combined operating and capital expenditure) of the initiatives submitted, which include:
  - firm support and labour market adjustment policies
  - population targeted support
  - support for loss of revenue
  - health response, and
  - sector based support.
- d **note** that we will provide you further advice on how a subsequent funding round aimed at addressing the challenges sectors are facing could operate
- e **note** there are a number of outstanding issues identified through the bid assessment process where we seek further direction from you, as follows:
  - organisations seeking funding for loss of revenue
  - funding for protective personal equipment, and
  - costs arising from delay in capital projects.
- f **note** the key dates for the coming week to agree funding at the Cabinet meeting on 11 May are outlined in paragraph 64
- g **discuss** this report with officials at Budget Matters on Monday 4 May;
- h **direct** the Treasury to advance your preferred options to be considered by Budget Ministers on Wednesday 6 May

Struan Little  
**Deputy Secretary, Budget and Public Services**

Hon Grant Robertson  
**Minister of Finance**

## Treasury Report: Assessment of bids for COVID-19 Response and Recovery Fund (CRRF)

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### Purpose of this report

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1. This report provides an overview of the Treasury's assessment of initiatives seeking funding from the COVID-19 Response and Recovery Fund (CRRF) received by Wednesday 29 April.
2. It accompanies two other reports: one providing an overview of our strategic advice on allocating the CRRF (T2020/1271); and one providing an assessment of the top ten shovel-ready projects identified through the CIP (T2020/1275).

### Overview of the initiatives and approach to assessment

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1. On 6 April 2020, Cabinet established a \$50 billion COVID-19 Response and Recovery Fund (CRRF) as part of Budget 2020 to manage the fiscal impact from the Government's response to and recovery from COVID-19 [CAB-20-MIN-0155 refers]. Since its establishment, around \$10.9 billion of new fiscal costs have been managed against the CRRF, leaving \$39.1 billion.
2. As at 30 April, 243 initiatives had been submitted (including both technical and new spending initiatives), seeking operating expenditure of \$26.1 billion and capital expenditure of \$3.6 billion.
3. The annex sets out a summary of the initiatives and Vote teams' assessments. These initiatives were assessed under extremely short timeframes with limited value for money or wellbeing analysis. Unlike the normal Budget approach to assessing initiatives, we have not been able to moderate the initiatives to ensure a consistent approach to assessment. In many cases Vote teams found that there was insufficient information available to determine, with confidence, whether the initiatives offered good value for money. We therefore advise that you treat Vote teams' assessments as indicative only. Furthermore, a small number of late initiatives have not yet been assessed.
4. The below table summarises the funding supported by Vote teams broken down by:
  - a. Assessment of alignment to the CRRF criteria
  - b. High-level themes of the initiatives.

<i>\$ million</i>	2019/20	2020/21	2021/22	2022/23	2023/24	Total opex	Total capex
Treasury supported initiatives (excluding technical)	580	1,604	1,317	791	801	5,093	669
<i>of which strongly aligned to assessment criteria</i>	566	1,109	939	568	512	3,693	649
<b>Treasury supported initiatives (strongly aligned to assessment criteria), grouped by indicative theme</b>							
Sector-based support	5	63	57	9	10	142	6
Population-based support	106	459	542	355	415	1,877	0
Firm support and labour market adjustment	151	284	272	157	46	910	21
Health response	189	61	1	0	0	252	1
Support for loss of revenue	114	164	8	7	7	301	615
Other	1	79	58	40	34	213	5
<b>Total</b>	<b>566</b>	<b>1,109</b>	<b>939</b>	<b>568</b>	<b>512</b>	<b>3,693</b>	<b>649</b>

5. The table demonstrates the following:
  - a. Vote teams considered only around \$4.3 billion of the supported initiatives strongly aligned with the CRRF criteria, comprising of \$3.7 billion of operating and \$0.6 billion of capital funding.
  - b. The majority of supported initiatives focus on providing population-based support, general firm support and support for labour market adjustment, rather than sector-based support.
  - c. The phasing of the supported initiatives is spread across the forecast period, with around \$800 million of funding in outyears, which suggests many supported initiatives many not be timely or temporary. As a result, there would be a structural impact on key fiscal indicators if the supported initiatives were agreed.
6. Initiatives submitted for this funding round did not reflect a clear assessment of the challenges that sectors are facing or measures that could address them. This is reflected in the limited number of sectoral initiatives in the recommended package.

### Key themes across the bids submitted

7. We have grouped supported initiatives by indicative themes to be considered as part of package development next week. We recommend you consider a package of around \$4.3 billion in accordance with initiatives that vote teams assessed as being strongly aligned with the objectives of the CRRF.

#### **Health response**

8. There were a number of initiatives aimed at directly supporting the health response from COVID-19 and demonstrated a clear case for near-term funding. These included funding to ensure workforce safety, personal protection equipment and other medical supplies. We support funding for these initiatives as a priority.

## ***Sectoral support***

9. There were a number of targeted sector funding proposals submitted for the CRRF including proposals to reduce the charges paid to the government as a form of providing firm support. However, the initiatives submitted do not yet reflect a clear assessment of sectoral needs, likely reflecting the fact that initiatives were prepared in a short period of time.
10. As outlined in T2020/127, we recommend that in the near term sectoral support should focus on a phased departure from/greater targeting of your Wave 1 measures.
11. We also recommend that you direct agencies to develop further initiatives with an emphasis on addressing the challenges facing sectors as part of a future funding round. Alongside sectoral initiatives, that round could focus on complementary measures such as those focussed on employment, active labour market policies, and international connections and the border.
12. That future funding round should occur with some lead time to allow agencies and sectors to prepare, for example with decisions in June. We will provide you further advice on how a subsequent round could operate.
13. You will also receive further advice on a package of initiatives on the Tourism sector next week.

## ***Active labour market policies***

14. We have identified 18 active labour market policy (ALMP) type initiatives that have been submitted from 6 different agencies. This included bids for brokerage type services, job readiness and other training, and job subsidisation. These initiatives sit across the main themes of population-based support and firm support and labour market adjustment. We have excluded other initiatives seeking investment that would indirectly create new jobs, as well as bids for non-apprenticeship based Tertiary education.
15. Given the range of agencies and the limited time available, we have only been able to conduct an initial evaluation of the bids, with greater focus on initiatives submitted by the core delivery agencies – MSD, MBIE and MoE. There is high risk of duplicative and less effective policies being developed across multiple agencies, particularly as there is currently no clear assessment of existing ALMPs across government. There is also uncertainty about the scale and nature of the economic impact (such as the likely demographic breakdown of the new unemployed cohort) which we are working to address to better understand the appropriate policy response.
16. We therefore need to work across government, including through MSD's ongoing stocktake of current ALMPs, to reach a more robust assessment about both the current policy offering and the need for expanded or new initiatives. ALMPs also need to be delivered alongside stimulus measures that increase demand for labour; without these ALMPs will not reduce headline unemployment in the short-medium term, though they could improve the equity and efficiency of the labour market. You have received separate advice from Treasury (T2020/1236 refers) on ALMPs, and will receive the initial findings from MSD's stocktake on 1 May 2020.
17. However, we recognise that demand for these services is already increasing and some urgent action is required. In developing the illustrative package, we have taken a least regrets approach. We recommend funding "strongly aligned" initiatives totalling \$511 million operating and \$0.5 million capital which includes funding to meet increased demand for existing services, and the expansion or extension of some pilot policies to meet equity objectives by supporting certain groups (including Māori and Pacific peoples).



18. This approach has risks – some spend may be low value and not improve labour market outcomes, other opportunities may be missed, including those that are supported but only partially met the criteria, and decisions are not informed by a coherent strategy or evaluation of effectiveness.
19. If you are minded to develop a broader package of ALMPs and employment support, we recommend deferring decisions on further initiatives until the next allocation process for the CRRF. This would provide more time to develop a coherent cross-agency package, informed by a better understanding of the range and effectiveness of existing initiatives through MSD's stocktake, whilst also ensuring decisions are made ahead of peak demand for employment services. This approach would incentivise better cross-government alignment and allow us to assess the appropriate roles of broad based and sector-specific interventions; we need to strike a balance between avoiding fragmentation across agencies, whilst recognising the role and expertise of those agencies with stronger links to particular sectors.

### ***New infrastructure projects***

20. Significant investment in new infrastructure projects will primarily be part of the longer-term economic recovery. Due to capacity constraints in the sector, skills gaps, immigration restrictions and procurement lag times, infrastructure investment will not materially boost demand in the short term.
21. An important focus in the short term will be to ensure that infrastructure projects, in both the private and public sector, can resume at pace, which will go a long way to utilising the current capacity of the sector.
22. You have received a separate paper with the Treasury's advice on early investments in shovel-ready infrastructure projects, in response to the list of projects that the Infrastructure Reference Group (IRG) has provided to Ministers (refer T2020/1275). If Ministers choose to progress any of the options outlined in that paper, this would be in addition to the illustrative \$4.3 billion package of spending considered in this paper.
23. In addition to the shovel-ready projects, a range of new infrastructure and construction sector initiatives were submitted by agencies for consideration for CRRF funding. While some seek funding for specific projects, e.g. investment in Te Papa Tongarewa's critical infrastructure, the majority of funding is sought for infrastructure funds for unspecified projects, namely:
  - a \$5 billion placeholder fund to support investment in yet to be determined shovel-ready projects
  - a \$1 billion waste infrastructure fund for waste and infrastructure projects
  - a \$100 million Capital Investment Fund for the New Zealand Institute of Skills and Technology to address deferred maintenance and upgrades
24. The largest infrastructure initiative is a Government Housing Build Programme that aims to provide 8,000 additional Housing Places over the next four-five years and is supported by the Vote team. However, this is proposed to be funded from third party borrowings by Kainga Ora rather than being funded by the Crown so would have a relatively small impact of the balance of the CRRF.
25. We do not support setting up contingency funds for infrastructure proposals in this CRRF round. Instead, we recommend that further infrastructure funding be agreed as part of a subsequent CRRF funding round, reflecting the role that infrastructure investment will play in the later stages of Wave 2 and into Wave 3. If Ministers want to set up a tagged contingency for new infrastructure investment through the 11 May CRRF package, as proposed by the Minister for Infrastructure, then officials recommend that this is not tied to the IRG's shovel-ready projects process. We can provide further advice on this option next week.

### ***Māori and Pacific population-based support***

26. In our previous advice to you on next steps in the economic response to COVID-19 [T2020/988] you outlined the need to look at cross-cutting packages for iwi, Māori and Pacific communities and businesses.
27. Key principles of the package should include:
  - a. Targeted: a broad-based approach needs to be supplemented by targeted approaches for Māori and Pacific communities given their specific characteristics and needs.
  - b. Partnership: a broad-based approach needs to be supplemented by a place-based approach to reflect the lived realities of these communities and regions underpinned by the Treaty of Waitangi.
  - c. Strengths-based: there are significant strengths that can be leveraged so that these communities can make a significant contributions to the recovery.
  - d. Intergenerational: focussing on intergenerational wellbeing, including kaitiakitanga for the environment.
28. Key focus areas include:
  - a. Social: Ensuring that the increasing health, education and social needs are met.
  - b. Employment: Increase the number of Māori and Pacific skilled/trained workers in higher occupations in key sectors and regions.
  - c. Business: Enhancing Māori assets and partnering with Māori and Pacific businesses.
29. 46 initiatives were submitted that the Treasury indicatively assessed as targeting Māori and/or Pacific.
30. These initiatives did not provide strong evidence of partnership or strength-based approaches. The Treasury will be working with agencies to more deeply embed these principles in the development of initiatives as part of future funding rounds. The initiatives were also heavily weighted towards social issues (14 of 22 bids). There may be benefit in developing more targeted interventions for Māori and Pacific businesses in order to mitigate the impacts in sectors particularly exposed to COVID-19 such as tourism.
31. We propose that the following be considered as potential clusters of anchor projects given their alignment with your principles and key focus areas and their potential to make a significant contribution to the recovery and Wave Three:
  - a. Social: Mitigating Māori and Pacific Socioeconomic Impacts (e.g. Whānau Ora, Pacific Content). The focus of this cluster of anchor projects would be to support at risk Māori and Pacific whānau to manage the socioeconomic impacts of COVID-19.
  - b. Employment: Enhancing Māori and Pacific Skills (e.g. He Poutama Rangatahi, Cadetships, The Auckland Pacific Skills Shift). The focus of this cluster of anchor projects would be to both support the skill development of those Not in Education, Employment and Training (NEET) to access employment as well to support retraining of those who are unemployed or need to redeploy.
  - c. Business: Increasing Opportunities for Māori and Pacific Business (e.g. Social Procurement). The focus of this cluster of anchor projects would be to facilitate access for Māori and Pacific businesses to Government contracts and other opportunities to drive the recovery.

## Outstanding issues that require a consistent approach

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32. There were a number of similar types of funding requests across the bids submitted where the Treasury sees value in developing a consistent approach.
33. We recommend you discuss your preference for approaching these issues with officials at Budget Matters on Monday 4 May.
34. We can develop further options in line with your preferred approach to these issues.

### ***Support for community organisations experiencing a drop in revenue***

35. Twenty-three initiatives have been submitted across the health, social, cultural and sporting sectors to provide financial support to community organisations experiencing a loss of revenue due to COVID-19.
36. Of these, 15 initiatives seek bespoke support for particular organisations, including among others, the Waitangi National Trust, air and road ambulance services, and community midwives. Funding sought through these initiatives totals approximately \$200 million across the forecast period. We are also anticipating several late initiatives.
37. In the Health sector, officials were directed to develop principles for funding health and disability providers, notably that providers should primarily rely on existing broad-based support, and funding should not compensate providers for a drop in demand for services or pre-existing cost pressures [T2020/1255 refers]. Accordingly, the Vote team has only supported funding where the entity has incurred additional COVID-related costs, the request seeks compensation for a reduction in fundraising revenue, or there is evidence of critical service failure risk.
38. Ministers have not indicated that a similar approach be taken for the cultural and sporting sectors. Vote teams have supported providing short-term funding support for entities in these sectors where there is evidence of insolvency risk due to an expected drop in key revenue sources such as gaming proceeds, lottery distributions and fundraising, or significantly reduced ticket sales (such as in the case of the Royal New Zealand Ballet and the Waitangi National Trust).
39. We consider that a central and consistent approach should be taken to supporting community organisations. This could involve prioritising support where:
  - a. Organisations are unable to access support through existing broad-based measures;
  - b. Cost pressures have arisen as a result of COVID-19 (rather than existing funding issues) due to:
    - i An increase in demand for the organisation's services;
    - ii Additional costs resulting from new ways of working; and/or
    - iii A decrease in revenue;
  - c. Organisations largely rely on non-commercial rather than commercial revenue;
  - d. Funding is time-limited and proportionate to the cost and revenue impacts;
  - e. Organisations provide an important and non-substitutable service, or there are other pressing reasons for bespoke support (such as Treaty of Waitangi obligations).
40. Further to this, eight initiatives have been submitted which seek to establish funds through which departments will distribute funds to particular non-government organisations and charities. Some of these initiatives propose general support for community organisations, while others are targeted toward organisations that serve specific populations.

41. We consider that support for community organisations could be more effectively delivered through a single, centralised contestable fund. This fund could prioritise support to organisations that are struggling with increased need and lower revenue, but do not merit bespoke support.
42. This fund could be administered by the Ministry of Social Development (MSD), continuing on the existing work to administer the \$27 million fund for Essential Social Sector Services established on 26 March. The aims of the individual initiatives could be served by ring-fencing funding for organisations that serve vulnerable populations, including women's NGOs, iwi and hapū providers, and Pacific community organisations.
43. If you are supportive of this proposal, officials can report back to you on an appropriate level of funding for a centralised contestable fund.

***Support for state sector organisations experiencing a drop in revenue***

44. Thirteen initiatives have also been submitted to provide financial support to government agencies (including departments and Crown entities) experiencing a loss of revenue due to COVID-19, due to a decline in commercial revenue or revenue from cost-recovery fees. These initiatives seek funding for just over \$1 billion in total.
45. We consider that a consistent approach should also be taken here, albeit that some government agencies have already received bespoke support packages (notably through the aviation, border agency, and media support packages).
46. As with community organisations, we recommend prioritising support where organisations have been unable to access support through broad-based measures. While state sector organisations are generally ineligible for the wage subsidy scheme, we understand that you are willing to consider exceptions to this where the scheme criteria are met [T2020/1190 refers].
47. Where an organisation is ineligible for broad-based support, or particular circumstances mean this support is insufficient to meet the agency's funding needs, you could consider providing funding to cover revenue loss to the end of 2020/21 only. This would meet agencies' immediate funding needs while providing time to adjust their business plans to the post-COVID landscape.
48. Alongside this, you could require agencies to report back to Cabinet in December if they are likely to require funding beyond 2020/21. This should set out options for ongoing organisational sustainability and would then be considered through Budget 2021.

***'Contract variation' costs for existing infrastructure projects***

49. New Zealand Government Procurement, as Procurement and Property Functional Leader, introduced guidance in early April to help agencies support the construction sector during the COVID-19 lockdown period. This guidance was developed by the Construction Sector Accord steering group with the support of the Minister for Building and Construction.
50. The guidance requires agencies to consider a range of approaches such as payment in advance and interim payments to support the financial viability of contractors and help them to retain their workers, which will in turn ensure they are able to deliver on their contracts once restrictions are lifted.
51. The guidance also makes it clear the various restrictions put in place by the Government, including moving to COVID-19 Alert Level 4, resulted in an effective change in law. The choice to make this interpretation allows extra costs incurred by contractors on Crown construction contracts to be treated as a Variation under 5.11.10 of the standard terms for construction contracts.
52. [38]

53. One initiative has been submitted for these costs through the CRRF process, seeking \$184 million to meet the Ministry of Education's supplier costs. We are aware of two other projects for which further funding will be sought in coming weeks [38]

Beyond this, we can expect a number of existing Crown projects will require funding in the near-term.

54. The management of actual variation claims is complex and project-specific, and actual costs will not be known for a number of months. The New Zealand Infrastructure Commission (Infracom) has provided Treasury with an indicative cost range of [38,25] to cover the cost of contract variations. The actual cost could well exceed this figure but is unlikely to be lower.

55. [38]

56. MBIE is developing further guidance on valuations to variations. Treasury is working with MBIE and Infracom to further understand how this guidance will impact [38]

57. If funding is not provided now, this could lead to delay or uncertainty which increases the risk we lose capacity in the construction sector (already a constraint prior to COVID-19), and this would be counterproductive to what we are trying to achieve through the COVID-19 recovery.

### **Central government charges**

58. There were a number of bids requesting waiving, discounting or deferring of central government charges. COVID-19 has resulted in two separate but related issues regarding these charges.
59. Several agencies have lost revenue as the demand for cost-recovered goods and services have declined. Their expenses remain the same in the short term. In the medium term, expenses can be reduced to adjust to the new normal, but we recommend that this is done in a controlled, coordinated way. This is important as typically the largest expense is staff costs, so a significant reduction in expenses will likely mean a reduction in staff.
60. To allow time for agencies to make these adjustments we recommend that the first year of lost revenue is funded and agencies report back in December on plans to adjust expenses.

### **Next Steps**

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61. We understand you have asked Ministers to provide a briefing that details how COVID-19 has highlighted the long-term economic issues facing New Zealand by Monday 4 May. These briefings could be useful to formulate targeted priorities for future funding processes. We can provide further advice on how this process could be managed.
62. The timeframes for next week are very tight, so it will be important to get a clear steer around the decisions you want Cabinet to consider at Budget Matters on Monday 4 May.
63. To help ease some pressure we seek your approval to inform agencies of initiatives being considered by Budget Ministers prior to the meeting on Wednesday 6 May.

64. The key dates for the coming week are outlined below:
- a. Monday 4 May – Budget Matters meeting to discuss this report alongside the Treasury Reports on the Strategy for allocating the CRRF and Infrastructure projects
  - b. Tuesday 5 May (morning) - Draft Budget Ministers material provided to your Office
  - c. Tuesday 5 May (afternoon) - Feedback provided to the Treasury on the Budget Ministers material
  - d. Tuesday 5 May (close of play) - Material sent out for Budget Ministers meeting
  - e. Thursday 7 May (midday) - Draft Cabinet Paper provided to your Office
  - f. Friday 8 May (morning) - Feedback provided to Treasury on the Cabinet paper
  - g. Friday 8 May (1pm) - Cabinet paper lodged