

# The Treasury

## Budget 2020 Information Release

### July 2020

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- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Reference: T2020/1411 BM-2-1-2020

Date: 7 May 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: 7 May 2020

## **Aide Memoire: Advice on the COVID-19 Response and Recovery Fund Near-final Package**

This afternoon we provided your office with a near-final package of initiatives for consideration for the 11 May COVID-19 Response and Recovery Fund (CRRF) package. The near-final package currently totals \$10.1 billion operating across the forecast period, and \$3.9 billion capital.

We understand that you are meeting with some of your colleagues tomorrow morning to take final decisions on the package ahead of submission to Cabinet on 11 May. We have set out below some additional considerations you may wish to make before finalising the package.

### **Many of the initiatives in the package are not timely or temporary, which will have a structural impact on key fiscal indicators**

Running operating deficits and allowing net core Crown debt to increase in the short term is necessary as we fight the virus, cushion the impact on businesses and workers and position ourselves for the recovery. It is particularly important that fiscal policy plays a large role responding to this crisis, given the limited space available for monetary policy. This emphasises the case for using the funding that has been set aside aggressively to support economic activity in the short-run.

We recommend you reconsider initiatives in the package with ongoing funding requirements. The phasing of expenditure of the package is spread across the forecast period and includes an estimated \$1.3 billion per annum of funding in outyears, based on the 2023/24 profile. Committing to ongoing expenditure now will increase the long-run fiscal challenges you face, and increase the future consolidation required to achieve a sustainable fiscal position. Implementing the \$1.3 billion of ongoing spending in the current package would – on the same assumptions as the fiscal projections due to be published at Budget – result in a structural OBEGAL deficit through to 2033/34 and beyond. Correcting this would require either further reductions to future spending, or increased revenue to ensure the long-run fiscal position remained sustainable.

The Treasury recently recommended progressing a significant near-term demand stimulus package that would front load temporary expenditure within the forecast period to minimise unemployment and economic disruption. This stimulus would be in addition to the package outlined in the draft Cabinet paper. The Treasury will be providing you with a report on more targeted options for fiscal stimulus for Budget Ministers to consider shortly (refer T2020/1389).

**We consider that monitoring the progress of all funded initiatives will help reduce the risk of low value or limited stimulatory expenditure**

This current funding round was necessarily fast-paced in order to respond to the rapidly evolving COVID-19 situation. Agencies and Ministers were required to develop funding requests in extremely short timeframes and, at times, with limited information available. In addition, the Treasury was only able to conduct light-touch assessments of bids when preparing their advice to decision-makers. These timeframes, while appropriate in the context, have impacted our ability to scrutinise proposed expenditure to our normal standard.

We recommend that you request that all Ministers who have initiatives in their Votes approved in this package or charged against the COVID-19 Response and Recovery Fund to report back to you by 28 August 2020 on the progress, uptake and expenditure of their initiatives. This will help us to monitor and manage any risks of delayed implementation or variations in actual costs of delivery, and advise you of any appropriate actions to take. We have included a recommendation in the draft Cabinet paper to give effect to this suggestion.

**This package is foundational and we recommend some decisions are deferred, where suitable, to future funding rounds**

This package of initiatives will build on the work to date on the Government's response and recovery programme. While these measures provide the critical foundations, there is going to be an ongoing need for fiscal support and you have indicated that there will be future rounds in the coming months, to position the economy for recovery and the longer-term rebuild.

With the expectation of future funding rounds, we recommend that the package focus on interventions where action is required now and, where possible, defer any decisions on initiatives that would embed long-term change or those that would benefit from further development. This will allow more time for evidence collation, design work and assessment to ensure initiatives can better address sectoral need, represent good value for money, align to the Government's wellbeing objectives and more closely align with the Government's overall strategy for responding to COVID-19.

You will receive a paper shortly that provides our advice on the timing and focus of any future funding rounds, for you to consider ahead of Cabinet's consideration of the package on Monday (refer T2020/1392).

## **Next steps**

Following finalisation of the package tomorrow morning, we will provide you with an updated Cabinet paper for approval of the CRRF package for your review ahead of lodging tomorrow afternoon.

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