

# The Treasury

## Budget 2020 Information Release

### July 2020

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## Treasury Report: COVID-19 Response and Recovery Fund

<b>Date:</b>	14 April 2020	<b>Report No:</b>	T2020/917
		<b>File Number:</b>	BM-1-2-3-2020 (Budget Forecasts 2020)

### Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	<b>Note</b> the contents of this report and provide any feedback to the Treasury	16 April 2020

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Kamlesh Patel	Team Leader, Fiscal Reporting	[39]	[23] ✓
Jayne Winfield	Manager, Fiscal Reporting		

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

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

# Treasury Report: COVID-19 Response and Recovery Fund

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## Purpose of Report

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1. On 6 April 2020 Cabinet agreed to establish a notional fund of \$50 billion to manage the fiscal implications from the Government's response and recovery from COVID-19. This report covers:
  - the decisions that have already been managed against the fund;
  - some of the key judgements the Treasury propose to apply when managing costs against the fund; and
  - the assumptions to be used for phasing the unallocated portion of the fund, for inclusion in the Treasury's Budget 2020 fiscal forecasts.

## COVID-19 Response and Recovery Fund

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2. The COVID-19 Response and Recovery Fund (CRRF) was established on 6 April 2020 to manage the fiscal implications from the Government's response and recovery from COVID-19.
3. The CRRF has been set at \$50 billion. This is on top of the investment made through the Economic Response Package of \$12.1 billion and some other small decisions (e.g. Income Support Stand-Downs) that have been managed against the Between Budget Contingency.
4. There were also some parts of the Economic Response Package that were not included in the \$12.1 billion such as the tax impact from benefit changes and the one-off timing impact from increasing provisional tax thresholds. The Treasury have reflected these decisions in the preliminary fiscal forecast, therefore we plan to exclude these items from the CRRF.
5. It is expected that any decisions related to COVID-19 with fiscal implications that are taken after 16 March 2020 will be managed against the CRRF.
6. The table below outlines the decisions taken since 16 March 2020 that we propose are charged against the CRRF. It is worth noting the below table excludes recent guarantees provided by the Crown, such as the Business Finance Guarantee Scheme, which could provide support to businesses of up to \$5 billion. At this point, it is difficult to quantify the costs to the government from these guarantees, however this should become clearer in the coming months.

Table 1 – Fiscal impact of decisions charged against the CRRF as at 14 April 2020 (including pending decisions)

Policy Decisions	Increase / (Decrease)					5-year Total
	Fiscal Impact (\$millions)					
	2019/20	2020/21	2021/22	2022/23	2023/24	
SuperGold card health and eye check			12.925	61.660	61.660	197.905
Administration costs of wage subsidy - MSD	6.557	12.309				18.866
Removal of cap from wage subsidy scheme	4200.000					4200.000
Bring forward R&D tax credit refundability	70.000					70.000
Providing students with remote access to online digital resources (Operating)	5.700	22.240				27.940
Providing students with remote access to online digital resources (Capital)	8.500					8.500
Aviation relief package - MOT admin costs	1.000	0.500				1.500
Crown Loan Facility to Air New Zealand	600.000	300.000	-900.000			0.000
MSD operating model changes to manage service demand and staff health	21.473	93.970				115.443
Support for essential social sector services	17.565	9.435				27.000
Provision of financial support to local authorities	8.000	13.000				21.000
Increase to wage subsidy	2700.000					2700.000
Admin costs to IRD and MSD for wage subsidy	16.400					16.400
Tariff concessions on medical and hygiene exports						0.000
Establishing an essential workers leave support scheme	100.200					100.200
Temp Accommodation (TAS) - displaced persons under CDEM	8.037					8.037
Temp Accommodation (TAS) - displaced persons under CDEM - third party revenue	-0.395					-0.395
Funding of Childcare for Essential Workers	27.000					27.000
Border and transport agency funding to address shortfall in fee revenue (Operating)	35.200	201.400				236.600
Border and transport agency funding to address shortfall in fee revenue (Capital)	190.000					190.000
Support to schools for online learning	51.340					51.340
Supporting SMEs during the COVID-19 Crisis <sup>^</sup>	1225.000	1960.000	-940.000	-240.000	-140.000	1865.000
Ensuring continuity and adequacy of student support <sup>^</sup>	86.207	17.999	-1.264	-1.830	-2.895	98.217
Extraordinary COVID-19 costs <sup>^</sup>	8.206					8.206
Health COVID funding paper <sup>^</sup>	700.000					700.000
Managed arrivals into New Zealand <sup>^</sup>	195.000					195.000
Hardship assistance for temporary migrant workers <sup>^</sup>	82.410					82.410
	<b>10363.400</b>	<b>2643.778</b>	<b>-1779.604</b>	<b>-180.170</b>	<b>-81.235</b>	<b>10966.169</b>

<sup>^</sup> - Decisions still pending as at 14 April (Total \$2,949 million)

## Key Judgements in Charging Against the CRRF

- The CRRF is expected to cover decisions with fiscal implications that are a direct result of COVID-19. The fund would cover the impact on revenue, operating expenses and capital expenditure for both the response and recovery costs that require additional funding from the Crown.
- Decisions with fiscal implications would be charged against the fund when they are agreed by Cabinet and the fiscal impact of a decision can be reliably measured. The amount charged against the CRRF will reflect the estimated total costs over the forecast period (current year plus the next four years).
- In most cases, it will be relatively straightforward to determine how decisions are charged against the CRRF. To ensure a consistent approach is applied it is worth clearly outlining the judgements that will be used in some situations (refer table 2). In coming up with our proposed judgements we have looked at the existing rules in place under the Fiscal Management Approach (FMA) and the purposes for establishing the CRRF.

Table 2 – Key judgements in charging against the CRRF

Situation	Judgement
Treatment of reprioritisation	If COVID-19 costs are met from reprioritisation this will <b>not be charged</b> against the fund. This is because the CRRF reflects new funding the Government will be committing to the COVID-19 response and recovery.
Treatment of revisions in costs	Any revisions in the costs from the original decisions will be <b>charged</b> against the fund. This is on the basis the CRRF has been established to manage the overall Crown funding of COVID-19. The exception to this judgement is when the changes relate to a forecasting item <sup>1</sup> (e.g. taxation revenue and benefit expenses). Given the difficulty in attributing the drivers of changes in forecasting items, it is proposed that subsequent changes in these items are not managed against the CRRF. This is consistent with current treatment of subsequent changes in tax and benefit policy changes.
Charging the net or gross costs	Where applicable the <b>net costs</b> of decisions will be <b>charged</b> against the CRRF (e.g. increases in benefit expense will be offset with any increases in PAYE). This is because the net costs will best reflect the fiscal impact of decisions on key fiscal indicators (OBEGAL and net core Crown debt) the CRRF is managing.
Treatment of underspends	If any amount that has been allocated is not fully utilised the unused portion is <b>returned back to the centre</b> rather than added back to the CRRF. This is consistent with the expectations under the FMA and helps simplify the tracking requirements of the CRRF.
Uncertainty around initial costs	Policy decisions will be <b>charged</b> against the CRRF at the point when they can be <b>reliably measured</b> . If a decision cannot be reliably measured, it will be recorded as a fiscal risk to the fund. For example, the guarantees.
Treatment of costs beyond the forecast period	Any costs beyond the forecast period will <b>not be charged</b> against the fund. These costs will be looked through, which will mean the CRRF could be greater than \$50 billion if there are on-going costs. To limit the impact of costs outside the forecast period there could be greater focus on funding policy decisions with time-limited costs.
Treatment of Loans	If the Government issue loans (both at a market interest rate or less than a market interest rate), the <b>impact on net core Crown debt</b> over the forecast period is <b>charged</b> against the fund.

<sup>1</sup> The definition provided in CO (18) 2 would apply in this situation.  
T2020/917 COVID-19 Response and Recovery Fund

# Phasing the unallocated portion of the CRRF

- 10. The Treasury’s fiscal forecasts represent our best estimate of the Government’s books over the next five years based on the information we have available and our best professional judgement.
- 11. The fiscal forecasts will incorporate all decisions with fiscal implications charged against the CRRF up to Monday 20 April 2020. A significant portion of the CRRF is likely to be unallocated at the time of completing the Treasury’s fiscal forecasts (on Thursday 23 April 2020) for inclusion in the 2020 Budget Economic and Fiscal Update (BEFU).
- 12. At this stage, there is limited information available, which makes it challenging to make judgements about how to forecast the unallocated portion of the CRRF over the forecast period. There are three key judgements we have made to reflect the CRRF in the fiscal forecasts. These are:
  - the amount to be allocated;
  - the nature of the costs (operating or capital); and
  - the timing.
- 13. The below table summarises our proposed key judgements:

Table 3 – Key judgements for assumptions in the fiscal forecasts

Consideration	Judgement
Amount	The Government’s intention is to commit \$50 billion to the response and recovery from COVID-19, therefore for the fiscal forecast our proposed judgement is that the full amount of the CRRF will be utilised over the forecast period.
Nature of costs	There is minimal details around the initiatives that may be introduced by the Government. Given the limited information available, we propose a judgement that all of the unallocated portion of the CRRF will fund operating costs. This is broadly consistent with the trend in decisions to date. Of the \$23 billion of overall COVID-19 related costs up to 14 April (including pending decisions around 99% has been operating in nature.
Timing of costs	<p>There are three main phases proposed for the economic response to COVID-19:</p> <ul style="list-style-type: none"> <li>• Phase 1: Fighting the virus and cushioning the blow (current phase);</li> <li>• Phase 2: Positioning the economy for recovery (to be implemented from September 2020 onward); and</li> <li>• Phase 3: Resetting and revitalising the economy (to be implemented from 2021 onward).</li> </ul> <p>We propose using the three phases to determine the assumption around the timing of COVID-19 related costs.</p>

	<p><b>Phase 1:</b> Costs cover the period of 2019/20 and 2020/21. A quarter of the unallocated portion of CRRF is assumed to be available for this phase.</p> <p><b>Phase 2:</b> Costs cover the period of 2020/21 and 2021/22. Half of the unallocated portion of CRRF is assumed to be available for this phase.</p> <p><b>Phase 3:</b> Costs cover the period of 2021/22 and 2022/23. A quarter of the unallocated portion of CRRF is assumed to be available for this phase.</p> <p>The above apportionment of the CRRF is based on a high-level estimate of an appropriate level of investment in the three phases and the underlying assumption used in our central economic forecasts on alert levels (4 weeks at level 4 and 11 months at level 2).</p>
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14. The above assumptions are based on very limited information and will be highly sensitive to a number of factors. The Treasury seeks your feedback on the reasonability of our judgements, in order to reflect these in the final fiscal forecasts. Table 4 outlines the phasing of the CRRF using the above-mentioned assumptions, which is the Treasury's preference. We have also included an alternative option in Table 5, which has a phasing of 25%, for phase 1&2 and 50% for phase 3.

Table 4 – Phasing of CRRF (Treasury's preference)

\$million	2019/20	2020/21	2021/22	2022/23	2023/24	5-year Total
Allocated portion of the CRRF	10,363	2644	-1780	-180	-81	<b>10,966</b>
<i>Unallocated portion of the CRRF</i>						
- Phase 1	4,879	4,879	0	0	0	<b>9,758</b>
- Phase 2	0	9,759	9,759	0	0	<b>19,518</b>
- Phase 3	0	0	4,879	4,879	0	<b>9,758</b>
	<b>15,242</b>	<b>17,282</b>	<b>12,858</b>	<b>4,699</b>	<b>-81</b>	<b>50,000</b>

Table 5 – Phasing of CRRF (Option of 25% for phase 1&2 and 50% for phase 3)

\$million	2019/20	2020/21	2021/22	2022/23	2023/24	5-year Total
Allocated portion of the CRRF	10,363	2644	-1780	-180	-81	<b>10,966</b>
<i>Unallocated portion of the CRRF</i>						
- Phase 1	4,879	4,879	0	0	0	<b>9,758</b>
- Phase 2	0	4,879	4,879	0	0	<b>9,758</b>
- Phase 3	0	0	9,759	9,759	0	<b>19,518</b>
	<b>15,242</b>	<b>12,402</b>	<b>12,858</b>	<b>9,579</b>	<b>-81</b>	<b>50,000</b>

15. There is a high degree of uncertainty surrounding the fiscal impact of future decisions in the response and recovery from COVID-19. The assumptions used in the fiscal forecast will most definitely vary to the impact from actual decisions by the Government. As more information becomes available on the Government's response and recovery plan, this will be built into refining our assumptions in future forecast rounds.



16. The unallocated portion of the CRRF will be included as an unallocated contingency in our fiscal forecasts. In addition, the sensitivity around the assumptions used to forecast the unallocated portion of the CRRF will need to be discussed in the BEFU chapters. Table 6 provides a mock-up of the proposed disclosure in the notes to the forecast financial statements, using the numbers for the other forecast new operating spending from the preliminary fiscal forecasts.

Table 6 – Mock-up of the disclosure of the CRRF (based on Treasury's preferred phasing) in the forecast financial statements

	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m	2023 Forecast \$m	2024 Forecast \$m
<b>NOTE 6: Forecast New Spending and Top-down Expense Adjustment</b>					
<b>Forecast New Operating Spending</b>					
Unallocated contingencies	605	1,170	1,053	1,305	1,268
Unallocated COVID-19 Response and Recovery Funding	4,879	14,638	14,638	4,879	-
Forecast new spending for Budget 2020	-	2,474	2,626	2,606	2,583
Forecast new spending for Budget 2021	-	-	2,151	2,146	2,141
Forecast new spending for Budget 2022	-	-	-	2,400	2,400
Forecast new spending for Budget 2023	-	-	-	-	2,600
<b>Total forecast new operating spending</b>	<b>5,484</b>	<b>18,282</b>	<b>20,468</b>	<b>13,336</b>	<b>10,992</b>

## Next Steps

17. Your feedback requested by this report will be incorporated into the Treasury's final fiscal forecasts for Budget 2020, due to be completed on Thursday 23 April. In addition, your feedback will also be reflected in the tracking of COVID-19 decisions that is reported via the weekly fiscal matters update.
18. You will receive further material later this week around the coordinated decision-making approach for COVID-19 related costs that need to occur in the 2019/20 fiscal year. We would like to organise a meeting with you to discuss this material and it may also be a good opportunity to discuss this report.

## Recommended Action

We recommend that you:

- a **note** that Cabinet established the COVID-19 Response and Recovery Fund (CRRF) of \$50 billion to manage the fiscal implications from the Government's response and recovery from COVID-19
- b **note** that as at 8 April 2020 the Treasury have identified \$8,017 million of costs that should be charged against the CRRF and there are \$2,949 million of pending decisions as at 14 April
- c **indicate** if there are any decisions listed in Table 1 you do not want managed against the CRRF

*Please identify:*

- d **note** that table 2 outlines the key judgements the Treasury will apply in managing costs against the CRRF

e **indicate** if there are any judgements that you consider need to be refined

*Please identify:*

f **note** that the Treasury's fiscal forecasts in the 2020 Budget Economic and Fiscal Update will include the unallocated portion of the CRRF

g **note** that the Treasury will be making the following key judgements in reflecting the unallocated portion of the CRRF in the fiscal forecasts:

- i. the full amount of the CRRF will be utilised over the forecast period;
- ii. the unallocated portion of the CRRF will be used to fund operating costs; and
- iii. the proposed phases of the economic response will be used to determine the timing of funding allocated from the CRRF.

h **indicate** if you have any feedback on the Treasury's key judgements outlined in recommendation g

*Please identify:*

Jayne Winfield  
**Manager, Fiscal Reporting**

Hon Grant Robertson  
**Minister of Finance**