

The Treasury

Budget 2020 Information Release

August 2020

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- [27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [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
- [36] 9(2)(h) - to maintain legal professional privilege
- [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
- [40] not in scope
- [41] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Budget Ministers' meeting

COVID-19 Response and Recovery Fund (CRRF) Round 2

17 June 2020

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Economic context

- Our understanding of how the economy will respond to COVID-19 is still evolving.
- However, the scale of the expected contraction in activity and resultant policy responses, are unprecedented.
- Globally, strict lockdown measures to contain the COVID-19 outbreak have dramatically affected economic activity over much of the first half of the year. The impact of the pandemic on global economic activity has been more severe than earlier anticipated and the recovery is expected to be slower and more gradual.
- Domestically, successful containment of the virus has enabled lockdown measures to ease earlier than assumed in the BEFU and fiscal support has increased, especially in the short-term. In addition, there are some initial signs that economic activity in the June quarter may have held up better than expected. The possible Trans-Tasman bubble is a potential future positive development.

Treasury Economic Scenarios

- The Treasury's updated economic scenarios show an improvement in the near-term compared to BEFU. But the downturn is still expected to be severe. In the Level 1 update scenario, real GDP falls by 4% in the year to June 2020, compared to 4½% at BEFU. Unemployment is also lower in this scenario, at 7% compared to 8½% at BEFU.
- In the medium term, the recovery in unemployment is more gradual than at BEFU due to weaker world demand (figures 1 & 2, table 1).
- These scenarios have limited upside risk but significant downside risks, including from a second virus outbreak, weaker international growth, and further delays or underspends in currently committed spending.
- Output and employment are expected to be very weak in Q3&4 2020, when initial fiscal support is due to be largely withdrawn (figure 3).

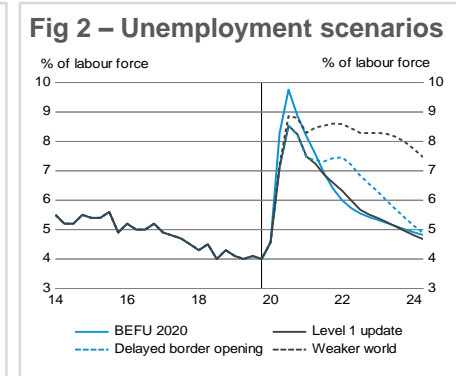
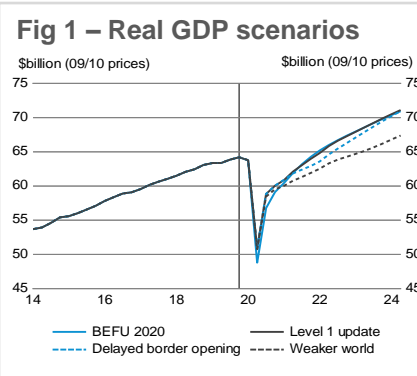
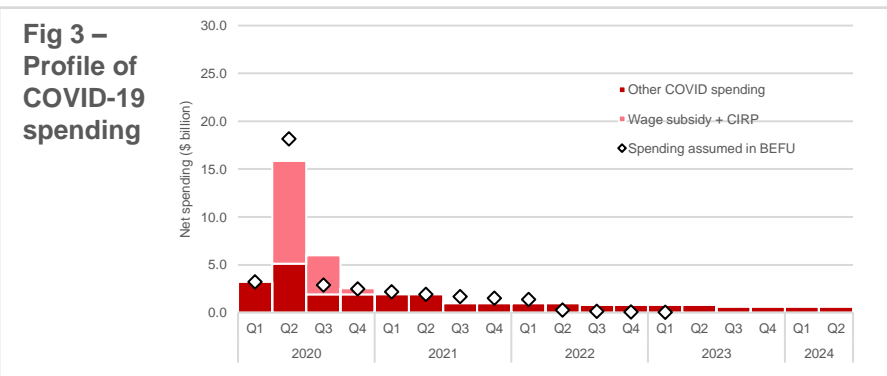


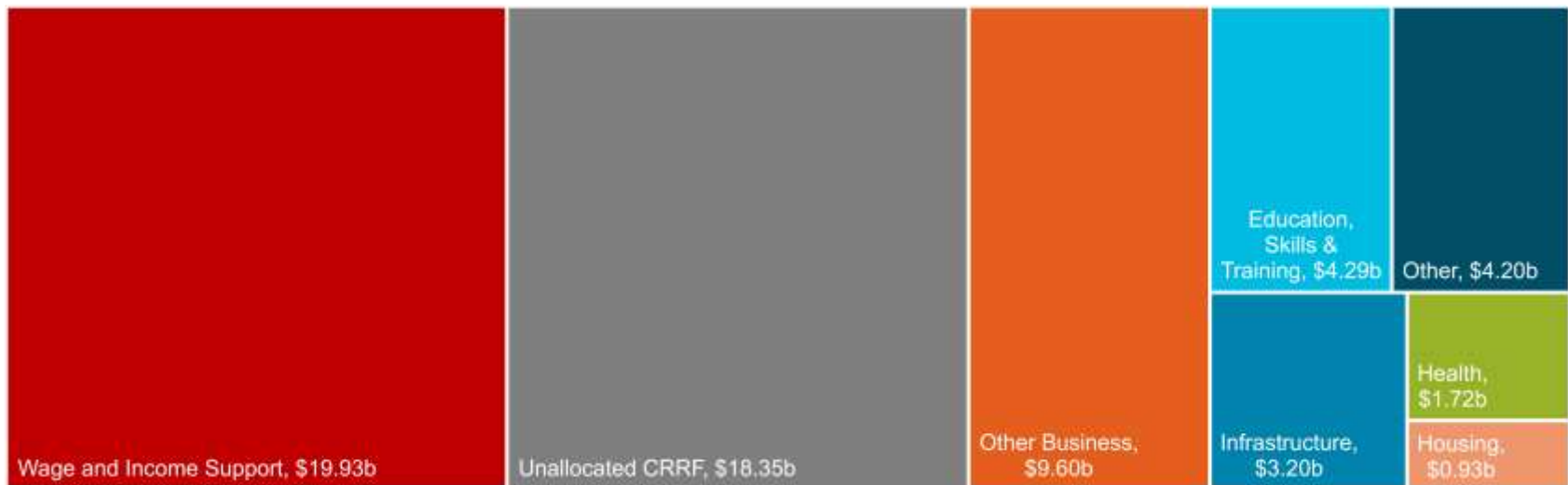
Table 1 – Real GDP and unemployment scenarios

Year to June		2019	2020	2021	2022	2023	2024
Real GDP (AAPC)	BEFU 2020	3	-4½	-1	8½	4½	3½
	Level 1 update	3	-4	-½	6½	5	4
	Delayed border opening	3	-4	-½	5	5	4½
	Weaker world	3	-4	-1½	4½	3½	3
Unemployment rate (Jun qtr)	BEFU 2020	4	8½	7½	5½	5	5
	Level 1 update	4	7	7	6	5	4½
	Delayed border opening	4	7	7½	7	6	5
	Weaker world	4	7	8½	8½	8½	7½



COVID-19 response and the CRRF so far

- Prior to Budget 2020, \$12.1 billion was spent on the COVID-19 response (separate to the CRRF).
- Budget 2020 established the COVID-19 Response and Recovery Fund (CRRF) as a \$50 billion contingency fund covering both operating and capital expenditure. This about 16% of New Zealand's GDP.
- Since then, \$31.6 billion of the CRRF has been allocated, leaving \$18.4 billion unallocated.
- All Covid response allocations to date:



Allocation of the CRRF

I am intending that this round of the CRRF could cover:

- Unavoidable cost pressures due to COVID-19;
- Early Wave Three initiatives to reset and rebuild the economy;
- A fiscal buffer to ensure we can respond effectively to any future challenges given the uncertainty around the long-term social, economic and health impacts of COVID-19.
 - This buffer could be used for addressing emerging issues,^[33]
or possibly used for future COVID-19-related initiatives.

CRRF Round Two Funding Requests

- Table two below summarises the bids received by the Treasury as of Monday 15 June.*

Funding track	Number of bids	Total operating (\$b)	Total capital (\$b)
Cost Pressures	76	4.0	2.3
Wave Three	54	10.9	1.9

- Table three below provides the funding profile of departments submitted operating funding. Both cost pressures and wave three bids primarily seek funding for 2020/21, with a decreasing profile into outyears. However the outyear implications for wave three initiatives are significantly higher.

Funding track (\$b)	2019/20	2020/21	2021/22	2022/23	2023/24
Cost Pressures	-	2.4	0.6	0.5	0.4
Wave Three	-	3.8	2.8	2.7	1.7

*The information presented is as departments have submitted it and is yet to be assessed by the Treasury. Final outyear funding implications will become clearer once the Treasury has finalised assessments. The Treasury also understands that there are further wave three initiatives that are yet to be included.

COVID-19 related cost pressures

There are a number of areas where the direct result of COVID-19 has been pressure on services or a need for additional resources. Some have already been considered by Cabinet –

Portfolio	Measure	Total cost (\$m)
Housing / Health	A Sustainable Quarantine and Managed Isolation System	298.000
Internal Affairs	Support for foreign nationals	47.000
Economic Development	Further funding for Regional Business Partner Network	40.000
Health	COVID-19 Surveillance Plan and Testing Strategy	55.960
Justice	Funding for Electoral Commission	28.705
Veterans' Affairs	RSA cost pressures	2.530
[25]		
Total upcoming proposed charges		562.195

Cost pressure bids submitted for Round Two

- Ministers are seeking \$4.0 billion total operating expenditure and \$2.3 billion total capital expenditure across 76 initiatives and 20 Votes.
 - This includes \$443 million in outyear operating commitments.

[33]

There are also a number of cost pressure initiatives which, instead of being submitted as Round Two bids, are being progressed as Cabinet papers. These seek approximately \$0.6 billion in total.

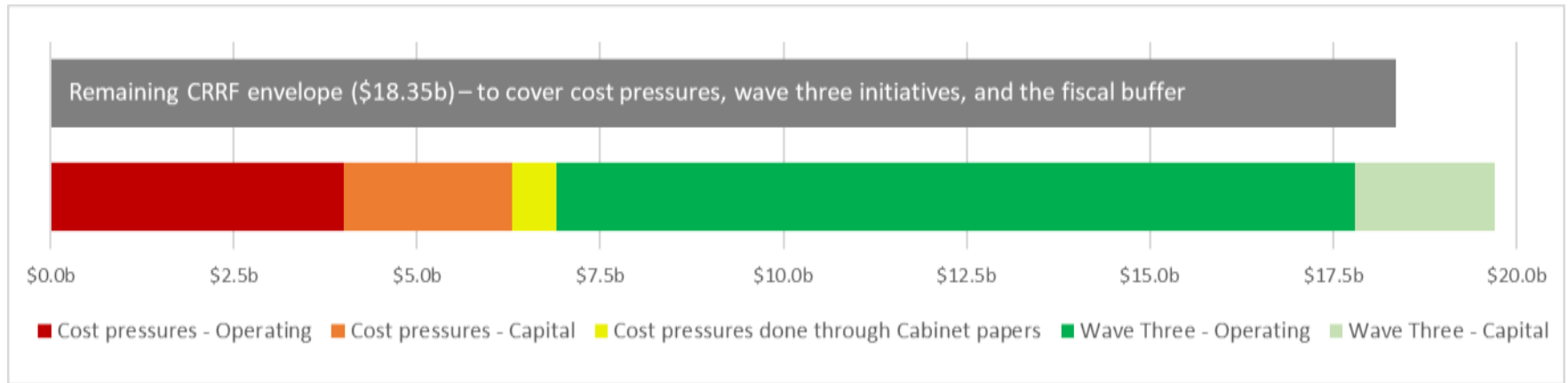
Wave Three proposals submitted for Round Two

- As part of Budget preparation we received a number of ‘Wave Three’ bids focussed on longer term challenges and opportunities that have been identified in the wake of COVID-19.
- Ministers are seeking \$10.9 billion total operating expenditure and \$1.9 billion total capital expenditure across 54 initiatives and nine Votes.
 - This includes \$1.7 billion operating outyear commitments.

[33]

Discussion Points

- Overall, the following funding is sought from the CRRF:



Timeline:

- 16 June: Budget Ministers meeting 1
- 22 June: Recommended package provided to Minister of Finance
- 25 June: Budget Ministers meeting 2
- 6 July: Cabinet meeting to make decisions
- Early July: Announcements of expenditure and programmes if agreed

Focus:

- What is the size of the funding envelopes for cost pressures and for Wave Three proposals?
[33]
- What other proposals are we aware of?