

# The Treasury

## Advice on COVID-19 Response Information Release

December 2021

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**Treasury Report:** Future of the COVID-19 Response and Recovery Fund – purpose, criteria and process

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<b>Date:</b>	25 August 2021	<b>Report No:</b>	T2021/2177
		<b>File Number:</b>	BM-2-1-2022

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
<b>Minister of Finance</b> (Hon Grant Robertson)	<p><b>Agree</b> to the revised purpose, criteria, and process for the COVID-19 Response and Recovery Fund.</p> <p><b>Discuss</b> the proposals with Budget Ministers.</p>	Before 4pm on 26 August 2021

**Contact for telephone discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Gerald Lee	Senior Analyst, Budget Management	[39]	[35] ✓
Simon Duncan	Team Leader, Budget Management		

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

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<p><b>Return</b> the signed report to Treasury.</p> <p><b>Refer</b> a copy of this report to Budget Ministers and the Minister for COVID-19 Response.</p>
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Note any feedback on the quality of the report

**Enclosure:** No

## Treasury Report: Future of the COVID-19 Response and Recovery Fund – purpose, criteria and process

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### Purpose of Report

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1. You are meeting with Budget Ministers at 4pm on 26 August 2021 to discuss Budget 2022 strategy and design, including potential changes to the COVID-19 Response and Recovery Fund (CRRF).
2. Following the recent resurgence, this report provides you with advice on the future of the CRRF, including possible changes to its purpose and the criteria and process for accessing it to help better manage upcoming pressures.

### Background

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3. The CRRF was originally established as a temporary fiscal management and communications tool to support the Government's response and recovery from COVID-19. Total funding was set at \$50 billion. This was in addition to investments already made through the \$12.1 billion economic response package announced on 12 March 2020.
4. Under the criteria originally agreed by Cabinet, initiatives seeking CRRF funding are currently required to demonstrate that:
  - funding is needed as a direct result of COVID-19,
  - funding is needed outside of the normal budget cycle to support the response and/or recovery from COVID-19, and
  - the additional costs cannot be managed from existing baselines.

### Upcoming pressures

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5. Over the past year, the fiscal flexibility provided by the CRRF has supported the Government's efforts to cushion the initial blow from COVID-19 and make significant investments as part of New Zealand's economic recovery.
6. However, as of 25 August 2021, the remaining balance of the CRRF is \$3.5 billion. There is still significant uncertainty around the immediate fiscal costs of the current resurgence and the longer-term pressures around health and border settings. Regardless, it is highly likely that the CRRF will be exhausted before the end of the year.
7. If Alert Level 3 or 4 restrictions were in place for a significant period in response to the current resurgence, we expect additional CRRF funding to be sought for key economic support measures such as the Resurgence Support Payment (RSP) and Wage Subsidy Scheme (WSS). Alongside the additional funding that has already been agreed, you and the Minister of Social Development have been authorised to jointly approve up to \$2.2 billion of further CRRF funding to cover WSS payments if Alert Level 3 or 4 restrictions are in place for an extended period [CAB-21-MIN-0328 refers].

8. [33]

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[33]

10. [33]

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## Revisiting the purpose of the CRRF

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12. [33]

The new criteria focussed on responding to resurgences as well as longer-term health and border settings for dealing with COVID-19 (such as vaccines and managed isolation and quarantine). However, we consider that a more fundamental rethink of the purpose of the CRRF is valuable given where we are at in the pandemic and the limited funding remaining in the CRRF due to the recent resurgence.

13. The CRRF was designed as a temporary tool to support fiscal management of the COVID-19 response. When it was originally established, the pandemic was still in its early stages and there was significant uncertainty around the overall policy response, including the cost. We also expected that the economy would undergo a deep initial contraction and a slow recovery, which would necessitate considerable fiscal support. This was reflected in the large amount that the CRRF was set at and in the broad criteria for accessing it.

14. However, we now have greater clarity about the short-term costs of responding to COVID-19 resurgences due to the development of an established policy toolkit. On the economic side, this has focussed on providing generous, broad, and timely support to businesses through the Wage Subsidy Scheme and Resurgence Support Payment to mitigate the impact of Alert Level restrictions. As a result, while the trajectory of individual outbreaks is still hard to predict, the direct fiscal cost of responding to them has become easier to estimate.
15. New Zealand is also in the early stages of transitioning to the next phase of our pandemic response. Through the Reconnecting New Zealanders work programme, the Government has laid out a roadmap for adjusting longer-term border and health settings from next year as a larger proportion of the population get vaccinated. In the future, this may allow for the reduced use of lockdown measures and associated economic support.
16. [33]

## Refocussed purpose and criteria for the CRRF

17. To support effective fiscal management of the pressures that the Government will face through the transition, we recommend that the purpose of the CRRF be refocused to “meeting the short-term costs of responding to any COVID-19 resurgences over the next year”. If you agree, this would also involve revising the criteria for accessing CRRF funding and limiting it to the following areas:
  - Core economic response measures to deal with a resurgence, including the Wage Subsidy Scheme, Resurgence Support Payment, Short-term Absence Payment, and Leave Support Scheme.
  - Targeted policy responses to the immediate impacts of resurgence-related restrictions on particular demographic groups (for instance, ensuring that distance learning can continue in lockdown).
  - Urgent cost pressures that government agencies are facing as part of responding to a COVID-19 resurgence (with a focus on key response agencies).
18. Any new CRRF funding should be provided on a strictly time-limited basis, and agencies should have to demonstrate that costs cannot be met through reprioritisation of existing baseline funding. In the context of the current resurgence, there is likely to be greater scope for agencies to manage costs within baselines given that we are still early in the financial year.
19. The CRRF has been our main tool for tracking COVID-19 expenditure, and ongoing tracking and transparency of COVID-related spending remains important. When funding is agreed, it is important that reporting expectations are clearly specified. Where the funding is not going into an appropriation that has been identified as a COVID-19 specific appropriation, Cabinet should direct the relevant agencies to separately track and report on this initiative.

## Supporting the public health response

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## Out of scope

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24. All other types of funding requests would be out of scope for the refocused CRRF, with the expectation that they instead be considered as charges against other sources such as Budget allowances or the Between-Budget Contingency.
25. In particular, we recommend explicitly excluding further recovery funding from the scope of the refocused CRRF. Despite the recent resurgence, the economy has proved to be resilient to the impacts of COVID-19 and has been operating at close to capacity. At this point, we do not expect that further stimulus spending to support recovery is required.

## Process for accessing the CRRF

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26. On the process for accessing the CRRF, we recommend that requests for funding continue to be considered by Cabinet on a case-by-case basis compared to running a coordinated CRRF funding round. This will be supplemented by more regular reporting to you on potential upcoming charges, and Ministers should continue to consult you on funding requests.
27. While coordinated rounds can support effective prioritisation of proposals within a specific funding envelope, funding decisions around resurgences generally need to be made quickly. Coordinated funding rounds could undermine the timely nature of support. [34]
28. However, if resurgences were prolonged and we start to see large numbers of potential charges, this could strengthen the case for a coordinated funding round.

[33]

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[33]

31. [33]

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32. [33]

## Next Steps

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33. We recommend that you discuss our proposals for refining the purpose, criteria, and process for the CRRF with Budget Ministers at 4pm on 26 August 2021. You may also wish to consult the Minister for COVID-19 Response.
34. If Budget Ministers agree to these proposals, we recommend that you seek Cabinet's agreement to the changes through the Budget 2022 strategy and design paper that is due to be lodged on 27 August 2021 and considered on 30 August 2021.

## Recommended Action

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We recommend that you:

- a **note** that a rethink of the purpose, criteria, and process for accessing the CRRF is valuable given where we are at in the pandemic and the limited funding remaining as a result of the recent resurgence.
- b **agree** that the revised purpose of the CRRF be "meeting the short-term costs of responding to any COVID-19 resurgences over the next year".

*Agree/disagree.*

- c **agree** to revise the criteria for CRRF funding and limit it to the following areas:
  - a. Core economic response measures to deal with a resurgence, including the Wage Subsidy Scheme, Resurgence Support Payment, Short-term Absence Payment, and Leave Support Scheme.

- b. Targeted policy responses to the immediate impacts of resurgence-related restrictions on particular demographic groups.
- c. Urgent cost pressures that government agencies are facing as part of responding to a COVID-19 resurgence (with a focus on key response agencies).

*Agree/disagree.*

d [33]

- e **agree** that CRRF funding should be provided on a strictly time-limited basis, agencies should have to demonstrate that costs cannot be met through reprioritisation of existing baseline funding, and there should be reporting mechanisms in place.

*Agree/disagree.*

- f **agree** that requests for CRRF funding should continue to be considered by Cabinet on a case-by-case basis rather than running a coordinated CRRF funding round.

*Agree/disagree.*

g [33]

- h **discuss** the proposals in recommendations b – f above at your meeting with Budget Ministers at 4pm on 26 August 2021.

- i **refer** a copy of this report to Budget Ministers (Prime Minister and Associate Minister of Finance, Hon Dr Megan Woods).

*Refer/not referred.*

- j **refer** a copy of this report to the Minister for COVID-19 Response.

*Refer/not referred.*

Simon Duncan  
**Team Leader, Budget Management**

Hon Grant Robertson  
**Minister of Finance**