

The Treasury

Advice on COVID-19 Response Information Release

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Office of the Minister of Finance

Chair, Cabinet

Replenishing the COVID-19 Response and Recovery Fund

Proposal

- 1 This paper seeks agreement to replenish the COVID-19 Response and Recovery Fund (CRRF).

Relation to Government priorities

- 2 The Government's goals for this term are:
 - 2.1 Keeping New Zealanders safe from COVID-19
 - 2.2 Accelerating the recovery and rebuild from the impacts of COVID-19, and
 - 2.3 Laying the foundations for the future, including addressing key issues such as climate change, housing affordability and child poverty.
- 3 This paper's proposal to replenish the CRRF will ensure we have sufficient funding set aside to keep New Zealanders safe from COVID-19 resurgences over the next year.

Background

- 4 The CRRF is a notional fund that was originally established through Budget 2020 as a fiscal management tool to support New Zealand's response to, and recovery from, COVID-19. It was originally set at \$50 billion and built on the investments that the Government had already made through the \$12.1 billion COVID-19 economic response package announced on 12 March 2020.
- 5 On 30 August 2021, Cabinet considered the strategy and design of Budget 2022. As part of that paper, I signalled that it would be necessary to retain the CRRF for the foreseeable future, and that it would likely need to be replenished given the current outbreak.
- 6 I also indicated that we needed to significantly tighten the focus of the CRRF towards meeting the needs of our direct response to COVID-19. Recovery funding from the CRRF has played a key role in supporting the economy through the pandemic, but it also means that there is not a clear need for further fiscal stimulus at this point over and above the existing economic support measures.
- 7 In response, Cabinet agreed to refine the criteria for accessing the CRRF to the following areas only [CAB-21-MIN-0349 refers]:

- 7.1 Core economic response measures to deal with a resurgence, including the Wage Subsidy Scheme (WSS), Resurgence Support Payment (RSP), Short-term Absence Payment, and Leave Support Scheme
- 7.2 Targeted policy responses to the immediate impacts of resurgence-related restrictions on particular demographic groups
- 7.3 Urgent cost pressures that government agencies are facing as part of responding to a COVID-19 resurgence (with a focus on key response agencies), and
- 7.4 Essential public health measures which reduce the risk of resurgences.

Future funding needs

- 8 The Government's approach to resurgences continues to be that the best economic response is a strong public health response. Generous fiscal support for the economic support schemes is a key part of this.
- 9 Since the beginning of the current resurgence, the Government has allocated around \$2.9 billion of new funding from the CRRF. The majority of this funding relates to the essential economic support schemes that keep workers and businesses going through the impacts of Alert Level restrictions. The remaining unallocated balance of the CRRF, as at 9 September 2021, is \$1.8 billion. There are also a number of previous allocations that have not been fully utilised.
- 10 Although the situation is improving, the trajectory of the current resurgence remains uncertain. Further funding is likely to be sought from the CRRF over the next few weeks for the WSS, the RSP and other proposals.
- 11 At the time of lodgement on 9 September 2021, indicative costings show that up to \$900 million of additional funding could be required for a third WSS payment if Auckland remained at Alert Level 4 for a further two weeks while the rest of the country stayed at Alert Level 2. Additional funding may also be needed for further RSP payments – the second RSP payment is estimated to cost \$430 million (including \$230 million of new CRRF funding).
- 12 [33]

Replenishing the CRRF

- 13 I propose to increase the amount of funding available in the CRRF by an additional \$10 billion. Alongside the recent changes to the purpose and criteria for the CRRF, an immediate top-up will provide certainty to Ministers, agencies and the public about how the fiscal impacts of COVID resurgences will be managed in the near term.

- 14 An additional \$10 billion will provide sufficient funding to cover both the economic support needed for a further resurgence of similar severity to the current Auckland outbreak (or multiple smaller outbreaks) and key public health measures that may require additional funding over the next few months.
- 15 I propose that the additional \$10 billion available to the CRRF comprise:
- 15.1 \$3 billion of previously allocated funding from the CRRF which is now unlikely to be used and should be returned to the CRRF, and
- 15.2 \$7 billion of new funding which will be added to the overall level of the CRRF;
- 16 The \$3 billion of unspent funding has been identified by the Treasury and largely relates to business support measures such as the Small Business Cashflow Scheme and Business Finance Guarantee Scheme. Returning this funding to the CRRF will have an equivalent fiscal impact to new funding due to the fact the unspent amounts had largely already come back to the Crown.
- 17 I intend to re-consider the CRRF balance (including any need for a further top-up) as part of the process of producing the Half Year Economic and Fiscal Update (HYEFU) 2021 and Budget Policy Statement (BPS) 2022.

Financial Implications

- 18 The Treasury has advised me that there is fiscal headroom available for increased expenditure in response to resurgences, while still remaining below the forecast track for net core Crown debt presented in the 2021 Budget Economic and Fiscal Update (BEFU 2021). Unaudited year-end results show that net core Crown debt as at 30 June 2021 was 31.4% of GDP, lower than 34% forecast at BEFU 2021. This represents a difference of approximately \$11.6 billion (although year-end figures may change after auditing is complete).
- 19 An increase in funding available in the CRRF of \$10 billion would increase net core Crown by approximately 2.5% of GDP by 2024/25. With the tightening of the CRRF criteria it is most likely that funding allocated will be focused more on the near term, therefore will adversely impact on the operating balance before gains and losses (OBEGAL) over the next few years. The increase in funding available in the CRRF is unlikely to impact the timing of OBEGAL returning to surplus, although there could be a structural change in finance costs of approximately \$200 million per annum by 2024/25.

Legislative Implications

- 20 There are no direct legislative implications arising from the proposals in this paper.

Impact Analysis

Regulatory Impact Statement

- 21 There are no regulatory implications associated with the proposals in this paper.

Climate Implications of Policy Assessment

- 22 The proposals in this paper do not require a Climate Implications of Policy Assessment.

Population Implications

- 23 The proposals in this paper do not have any particular impacts on specific population groups.

Human Rights

- 24 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

- 25 This paper was prepared by the Treasury on behalf of the Minister of Finance. The Department of the Prime Minister and Cabinet was informed.

Communications

- 26 I intend to announce changes to the CRRF (including the new purpose, criteria and replenished balance) on a date to be confirmed after consultation with the Prime Minister.

Proactive Release

- 27 I propose delaying the release of this paper beyond the standard 30 business days as it will be released through the Budget 2022 proactive release.

Recommendations

The Minister of Finance recommends that Cabinet:

Background

- 1 **note** that the COVID-19 Response and Recovery Fund (CRRF) was originally established through Budget 2020 as a \$50 billion fiscal management tool to support New Zealand's response and recovery from COVID-19;
- 2 **note** that on 30 August 2021, Cabinet:

- 2.1 noted that the Minister of Finance has requested further advice from the Treasury on whether the COVID-19 Response and Recovery Fund should be replenished;
- 2.2 noted that the Minister of Finance considers that the Government should significantly tighten the focus of the CRRF towards meeting the needs of the direct response to COVID-19
- 2.3 agreed to revise the purpose of the CRRF to “meeting the direct costs of responding to any COVID-19 resurgences over the next year”;
- 2.4 agreed to refine the criteria for accessing the CRRF so it is limited to the following areas only:
 - 2.4.1 Core economic response measures to deal with a resurgence, including the Wage Subsidy Scheme (WSS), Resurgence Support Payment (RSP), Short-term Absence Payment, and Leave Support Scheme;
 - 2.4.2 Targeted policy responses to the immediate impacts of resurgence-related restrictions on particular demographic groups;
 - 2.4.3 Urgent cost pressures that government agencies are facing as part of responding to a COVID-19 resurgence (with a focus on key response agencies); and
 - 2.4.4 Essential public health measures which reduce the risk of resurgences [CAB-21-MIN-0349 refers];

Future funding needs

- 3 **note** that, as at 9 September 2021, the current unallocated balance of the CRRF was just under \$1.8 billion;
- 4 **note** that there is \$3 billion of previously allocated but unspent and available funds;
- 5 **note** that a further funding is likely to be sought from the CRRF for core economic support schemes, and
- 6 [33]

Replenishing the CRRF

- 7 **agree** to increase the amount of funding available in the CRRF by an additional \$10 billion;
- 8 **agree** that the additional \$10 billion comprises:

- 8.1 \$3 billion of previously allocated funding from the CRRF which is now unlikely to be used and is being returned to the CRRF, and
- 8.2 \$7 billion of new funding which will be added to the overall level of the CRRF;
- 9 **note** that the decisions in recommendations 7 and 8 will mean the overall level of the COVID-19 Response and Recovery Fund will increase to \$57 billion;
- 10 **note** that the Minister of Finance will re-consider the CRRF balance (including any need for a further top-up) as part of the Half Year Economic and Fiscal Update 2021 and Budget Policy Statement 2022 process.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance