

The Treasury

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- [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
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- [36] 9(2)(h) - to maintain legal professional privilege
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- [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
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Treasury Report: COVID-19 Response and Recovery Fund – Future Options

Date:	21 March 2022	Report No:	T2022/627
		File Number:	BM-2-14-2022

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree future options for the CRRF at Budget Ministers 5. Discuss with Budget Ministers.	22 March 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Eliza Thurlow	Analyst, Budget Management	[39]	N/A
Gerald Lee	Acting Team Leader, Budget Management	[35]	✓

Minister of Finance's Office Actions (if required)

<p>Return the signed report to the Treasury.</p> <p>Refer a copy of this report to Budget Ministers.</p>
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Note any feedback on the quality of the report

Enclosure: No

Treasury Report: COVID-19 Response and Recovery Fund – Future Options

Purpose of Report

1. This report provides you with advice on the future of the COVID-19 Response and Recovery Fund (CRRF), specifically fiscal management options for short- to medium-term COVID-19 related pressures and their associated fiscal impacts.
2. We recommend you discuss this advice and your decisions at Budget Ministers 5 at 11.30am on Tuesday 22 March 2022.

Background

3. The CRRF was established through Budget 2020 as a temporary fiscal management tool of \$50 billion to provide time-limited funding to cover decisions with fiscal implications arising directly from COVID-19. This was in addition to investments already made through the \$12.1 billion economic response package of 16 March 2020.
4. In response to the August 2021 outbreak of the Delta variant, the criteria for accessing the CRRF were explicitly limited to: core economic response measures to deal with a COVID-19 resurgence; targeted policy responses to the immediate impacts of resurgence-related restrictions on particular demographic groups; and urgent cost pressures faced by government agencies.
5. The size of the CRRF was also increased by \$7.0 billion of new funding in September 2021 in response to the Delta outbreak, and by a further \$5.0 billion in February 2022 in response to the arrival of the Omicron variant.

Closing the CRRF

6. While the CRRF has been an important tool for managing the fiscal impacts of the COVID-19 response and recovery during the acute phase of the pandemic, New Zealand is now moving towards minimising the impact of COVID-19 as the virus becomes endemic. The policy response is also shifting towards a framework of fewer government restrictions, with greater onus on self-management of COVID-19 by individuals.
7. In our view, there is now less of a need for the CRRF as a fiscal management tool. Costs associated with remaining COVID-19 response activities are likely to be ongoing rather than one-off as they become part of standard public service delivery. As such, these costs should ideally be considered through the standard Budget allowance framework to ensure that the Government is able to appropriately prioritise funding for the COVID-19 response against other key areas of spending.
8. As a result, we recommend closing the CRRF with immediate effect through the Budget 2022 paper that will be considered by Cabinet on 11 April 2022.

Managing Immediate COVID-19 Related Pressures

9. As at 21 March 2022, the balance of the CRRF available for allocation is \$6.0 billion. In the short term, we have identified some significant upcoming pressures on the CRRF, totalling an estimated maximum of \$3.4 billion. Estimated funding required is based on current policy settings and may change if the approach to managing COVID-19 in the community is adjusted.

Table 1: Short-term COVID-19 related pressures

Policy	Lower Bound (\$m)	Upper Bound (\$m)	Recommended Option (\$m)
Public Health Response and Vaccination Programme for the 2022/23 FY	TBC – Treasury to provide further advice	\$2700m	Treasury’s view is that there is room to reduce some of the ~\$2b sought for the public health response and will provide further advice on this. We are also working with the Ministry of Health to understand the urgency and underspend reprioritisation options for the ~\$700m sought for the vaccine programme.
COVID-19 Support Payment (CSP) Scheme	\$600m	TBC – dependent on number of further CSP payments	The CSP is currently averaging \$400-500m per payment, which is considerably higher than forecast. A \$600m funding request is expected at Cabinet on 28 March, however further funding may be required before the Budget moratorium. The upper bound you should consider is dependent on how many further CSP payments you expect Cabinet will authorise.
[33]			
Care in the Community	\$60m	\$60m	A funding request for \$58m in Vote Social Development is expected to go to Cabinet in early April. After this, the Care in the Community initiative will be funded through to June 2023. Agencies are considering what services may be required to support transition after the Omicron peak and the Treasury has advised that agencies should consider any transition within existing baselines.

10. We recommend you invite the relevant Ministers to submit these immediate requests for CRRF funding before Budget 2022 is agreed on 11 April 2022. In doing so, there are two approaches you could take about how much funding to make available for these immediate pressures before the CRRF closes:
- **Approach 1:** funding the **minimum viable** amount, limiting short-term CRRF funding to the aforementioned health and CSP pressures only. This maximises the amount of funding available for reprioritisation, but entails greater risk of funding pressures arising in the short- to medium-term once reprioritisation options have been factored into fiscal forecasts (**Treasury recommended option**).
 - **Approach 2:** provide a **more liberal amount** of immediate funding to cover a greater range of pressures, thereby limiting the risk of significant pressures arising at a later date but decreasing the amount of CRRF funding available for reprioritisation.

11. Your choice of approach should take into account the expected direction of COVID-19 policy settings and the government's ongoing role in the public health and economic responses.
12. We consider it unlikely that there are further underspends in specific CRRF-funded policies as multiple rounds of CRRF reprioritisation have been undertaken and substantive forecast underspends have already been returned to the CRRF.

Options for Managing Medium-Term COVID-19 Related Pressures

13. Alongside immediate known pressures, there are likely to be further other COVID-19 cost pressures faced by agencies over the next year.
14. The Fiscal Management Approach is flexible and existing mechanisms are well-equipped to manage both urgent and significant funding needs in response to changes in COVID-19-related settings. This is consistent with how spending relating to the Christchurch earthquakes transitioned back to regular Budget management processes once the need for significant and reactive investment lessened.
15. To provide for potential future COVID-19 related pressures, we consider that you have the following options:

Table 2: Options for managing medium-term COVID-19 related pressures

Option	Description
Option 1 Establish a dedicated COVID-19-related tagged contingency with specific drawdown criteria. (Treasury recommended option)	This would provide a ring-fenced amount of funding to meet specific COVID-19 related costs, while still signalling a transition away from the broader criteria of the CRRF.
Option 2 Increase the size of the Between-Budget Contingency (BBC) to accommodate urgent out-of-cycle COVID-19 related requests.	Cabinet agreement is required to approve additional spending from the BBC, necessitating greater oversight of spending but higher administrative barriers. If funding is not specifically ring-fenced for COVID-19-related requests, there is a risk that this increase to the BBC could be used for other purposes, crowding out urgent COVID-19-related requests.
Option 3 Direct all COVID-19 related requests through the Budget 2023 process, including the use of precommitments where needed.	Expected COVID-19-related costs can be factored into the levels future allowances are set at, and COVID-19-related spending considered alongside other priorities. Precommitments also offer headroom to manage significant pressures which occur out of cycle. However, if precommitments were not used, this option would leave limited scope for any additional urgent funding to be agreed before Budget 2023.

Options for Unallocated CRRF Funding

16. In the Budget 2022 preliminary fiscal forecasts, the remaining CRRF funding totals \$5.8 billion. This is phased across the first two years of the fiscal forecasts at \$1.5 billion and \$4.3 billion respectively, as shown in Table 3.

Table 3: Phasing of CRRF in Budget preliminary fiscal forecasts

\$ Billions	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Budget fiscal prelims	1.5	4.3	-	-	-	5.8

17. This figure differs from the remaining CRRF balance as at 18 March 2022. This is due to changes in the amounts charged against the CRRF subsequently found (adding \$0.2 billion back to the unallocated CRRF), which will be incorporated into the final fiscal forecasts, alongside any other changes.
18. We understand you are interested in reprioritising CRRF funding that is expected to remain unallocated in order to alleviate pressure on the Budget 2022 operating allowance. We have previously advised you that we do not recommend using time-limited funding from CRRF to manage the impact of ongoing spend.
19. Regardless, we have identified three options for reprioritising CRRF funding. You could choose to progress a combination of one or more of these options:
 - **Option a:** Return some or all of the unallocated CRRF funding to the centre,
 - **Option b:** Use some of the unallocated CRRF funding to establish a ring-fenced COVID-19 related contingency to manage medium-term pressures, or
 - **Option c:** Use some of the unallocated CRRF funding to offset higher Budget 2022 spending.
20. For example, if \$3.0 billion remains unspent in the CRRF once short-term pressures have been funded, a combination of these options could include setting \$1.0 billion aside in a dedicated COVID-19 contingency, and using \$2.0 billion (\$500 million per annum) to offset higher Budget 2022 spending.
21. There are different fiscal impacts depending on the decisions taken regarding the use of remaining CRRF funding (such as whether it is used to fund ongoing or one-off expenditure), the level of any contingency that may be set up, and whether funding is returned to the centre or used to fund some Budget 2022 decisions. The table below outlines the fiscal impacts of the different options:

Table 4: Fiscal impacts of future CRRF options

Options	Fiscal Impacts
Return to the centre	Directly improves the fiscal forecasts and key fiscal indicators.
Use to increase Budget allowances	<p>Depending on the amount the Budget allowance is increased by, this will have different fiscal impacts.</p> <p>If the increase in the allowance across the forecast period matches the savings from CRRF then this would be fiscally neutral across the forecast period. It is important to note that this would be a structural change and will have ongoing impacts for the projection period, making it more difficult to achieve OBEGAL surpluses in the medium term relative to the counterfactual.</p> <p>If the increase is greater than the savings, then this would adversely impact the key fiscal indicators within the forecast period.</p>

22. Of the \$6.18 billion¹ average per annum operating funding currently included in the near-final Budget 2022 package, \$1.98 billion average per annum operating funding proposed for precommitment against the Budget 2023 allowance, and the \$0.42 billion average operating per annum funding proposed for precommitment against the Budget 2024 operating allowance, approximately 90 percent was classified by agencies as ongoing (baselined) funding at the time of submission in December 2021. While some initiatives may have been scaled to time-limited funding only through the Budget 2022 process, this provides an approximate indication of the proportion of the draft package expected to constitute ongoing funding.

¹ Note that this figure does not include the outyear impacts of existing Budget 2022 precommitments.
T2022/627 COVID-19 Response and Recovery Fund - Future Options

Next Steps

23. We recommend you discuss these proposals at Budget Ministers 5 at 11.30am on Tuesday 22 March 2022.
24. We can provide further advice on more detailed options, should you wish to progress the proposals outlined in this report.

Recommended Action

We recommend that you:

- a **agree** to close the COVID-19 Response and Recovery Fund alongside Cabinet's consideration of the Budget 2022 package, to take effect from 11 April 2022,
- b **agree** to one of the following options for managing medium-term COVID-19 related pressures:
 - i. establish a dedicated COVID-19 related tagged contingency to respond to future COVID-19 related out of cycle spending requests (**Treasury recommended option**),
Agree/disagree

OR
 - ii. increase the size of the Between-Budget Contingency to accommodate urgent out-of-cycle COVID-19 related requests
Agree/disagree

OR
 - iii. direct all COVID-19 related requests through the Budget 2023 process
Agree/disagree
- c **agree** to one or more of the following options for unallocated CRRF funding:
 - i. return all or some of the unspent CRRF funding to the centre at the time agreed in recommendation a,
Agree/disagree

AND/OR
 - ii. use some unspent CRRF funding to establish a ring-fenced COVID-19-related contingency or increase the size of the Between-Budget Contingency as agreed in recommendation b, to manage medium-term pressures,
Agree / disagree

AND/OR
 - iii. offset the Budget 2022 operating allowance using unspent CRRF funding.
Agree/disagree

d **refer** a copy of this report to Budget Ministers for discussion at Budget Ministers 5 on Tuesday 22 March 2022.

Refer / not referred.

Gerald Lee
Acting Team Leader, Budget Management

Hon Grant Robertson
Minister of Finance