



## BRIEFING

### Enabling cost recovery for bespoke MIQ arrangements

<b>Date:</b>	7 December 2020	<b>Priority:</b>	High
<b>Security classification:</b>		<b>Tracking number:</b>	2021-1598

Action sought		
	Action sought	Deadline
Hon Chris Hipkins <b>Minister for COVID-19 Response</b>	<b>Agree</b> to the proposed appropriation changes to enable MBIE to recover the costs of providing bespoke MIQ services.	9 December 2020
Hon Grant Robertson <b>Minister of Finance</b>		

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Melleny Black	General Manager, MIQ Policy	Privacy of natural persons	Privacy of natural persons	✓
Privacy of natural persons	Policy Director, MIQ Policy	Privacy of natural persons	Privacy of natural persons	

The following departments/agencies have been consulted
Treasury, Ministry of Health, Sport New Zealand, MBIE Major Events

**Minister's office to complete:**

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

**Comments**



# BRIEFING

## Enabling cost recovery for bespoke MIQ arrangements

<b>Date:</b>	7 December 2020	<b>Priority:</b>	Medium
<b>Security classification:</b>		<b>Tracking number:</b>	2021-1598

### Purpose

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To seek your agreement to the Crown recovering the costs of providing services to groups – such as sports teams - that are over and above standard managed isolation and quarantine arrangements.

### Executive summary

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We are proposing to introduce a mixed charging model for groups requiring MIQ services that are over and above standard MIQ services (see Briefing 2021-1299 for earlier advice). The proposal would enable MBIE to recover the costs of providing the “additional” services.

The groups requiring bespoke MIQ arrangements would be charged:

- The applicable MIQ fee per person (e.g. for critical workers) under the MIQ Fees Regulations
- The actual costs for providing additional services that could include, but not be limited to, access to training facilities and additional transport, security and cleaning.

The staffing costs for engagement and planning around the provision of bespoke MIQ arrangements would continue to be covered by the MIQ baseline.

We are seeking a fiscally neutral adjustment of \$20.7 million over 2020/2021 and 2021/22 to enable the proposed cost recovery approach.

### Recommended action

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The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** that enabling bespoke (primarily sports teams) arrangements is a way to encourage and facilitate economic growth and social wellbeing in New Zealand.

*Noted*

- b **Note** as part of bespoke arrangements, there are aspects such as hiring a training facility, related transport, security and cleaning costs, which will be over and above the standard costs for providing MIQ facilities.

*Noted*

- c **Agree** that these bespoke aspects for any group will be cost recovered from third parties.

Agree  Disagree

- d **Agree** to increase spending to provide for costs associated with the policy decision the recommendation above (recovery of costs for bespoke aspects for groups using MIQ facilities), with the following impacts on the operating balance and net core Crown debt:

Vote Building and Construction	\$m – increase /(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & out years
Operating Balance and net core Crown debt	-	-	-	-	-
Operating Balance impact only	-	-	-	-	-
Net Core Crown Debt Impact Only	-	-	-	-	-
No Impact	6.181	14.532	-	-	-
<b>Total</b>	<b>6.181</b>	<b>14.532</b>	-	-	-

Agree /  Disagree

- e **Approve** the following fiscally neutral adjustment to appropriations to give effect to the policy decisions in the recommendations above, with no impact on the operating balance and/or net core Crown debt:

Vote Building and Construction Minister of COVID-19 Response	\$m – increase /(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & out years
Multi-Category Expenses and Capital Expenditure:					
Isolation and Quarantine Management MCA					
Non-departmental Output Expenses:					
Delivery of Services (funded by revenue)	6.181	14.532	-	-	-
<b>Total</b>	<b>6.181</b>	<b>14.532</b>	-	-	-

Approve /  Not approve

- f **Agree** that the proposed changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Agree /  Disagree

g **Agree** that the operating balance and net core Crown debt impact in the recommendations above of expenses incurred be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020.

Agree /  Disagree

h **Agree** to change the Delivery of Services category within the *Isolation and Quarantine Management* multi-category appropriation as a forecast adjustment in relation to changes from the recovery of costs noted in recommendations above.

Agree /  Disagree

i **Agree** that the start date for this cost recovery approach will be any decisions on bespoke arrangements for groups taken from 9 December 2020.

There needs to be a longer lead time. Groups need to know costs well in advance of their travel. They need to be given a "menu" of costs to indicate what they will be up for in different scenarios. This should apply to future exemptions, not those currently underway.

Agree /  Disagree



Melleny Black  
**Group Manager, MIQ Policy**  
MBIE

..... / ..... / .....



Hon Chris Hipkins  
**Minister for COVID-19 Response**

..... / ..... / .....  
20/1/21

Hon Grant Robertson  
**Minister of Finance**

..... / ..... / .....

## **A new approach for recovering costs of bespoke MIQ arrangements**

1. MBIE is proposing to introduce a mixed charging model for groups requiring services over and above standard MIQ arrangements. The proposed model would align to the Crown's approach for charging critical workers for MIQ services, and:
  - increase transparency around actual costs of providing the additional, bespoke services
  - enable charges to reflect the actual needs and services used by each group, and
  - enable the Crown to more fully recover the costs of providing the additional services.
2. On November 2016, we briefed you as the Ministers for the COVID-19 Response and Sports respectively on the proposed approach (Briefing 2021-1299). We recommended that the proposed approach was included in the MIQ Operating Model and Funding cabinet paper.
3. The office of the Minister for COVID-19 Response asked that we progress the matter outside of that cabinet paper. Treasury has advised that a decision can be authorised by Joint Ministers; this briefing therefore seeks a decision from you as Joint Ministers.

## **Bespoke MIQ arrangements developed to support sports teams...**

4. International travel into New Zealand is tightly managed, and a mainstay of New Zealand's COVID-19 elimination strategy. Nearly all incoming travellers enter a Managed Isolation and Quarantine (MIQ) facility upon arrival.
5. While priority is given to New Zealand citizens and permanent residents, Ministers have been making border exception decisions to allow groups of critical workers and others into the country. Some of those groups are sports teams participating in competitions that will contribute significant economic and social wellbeing to New Zealanders.
6. Concerns about teams being disadvantaged if unable to train while in MIQ led to MBIE and the Ministry of Health providing MIQ arrangements that catered to the needs of each team while managing the COVID-19 risks associated with incoming travellers.
7. The teams have been accommodated in standard MIQ facilities but with: additional rooms allocated to create a buffer from other MIQ guests; access to training venues; provision of transport and additional security while off-site; and access to other services as needed.
8. This case-by-case, bespoke approach has enabled sports teams to participate in events such as the Bledisloe Cup, the Taini Jamison Trophy and the New Zealand Summer of Cricket.
9. While bespoke MIQ arrangements have focused on the needs of sporting codes to date, arts and cultural groups could make similar requests in the future. For example, one promoter has requested the ability for touring bands to rehearse while in managed isolation.

## **Bespoke MIQ arrangements charged on a fixed, flat per person fee**

10. Bespoke MIQ arrangements are currently contracted and paid for in addition to the COVID-19 Public Health Response (Managed Isolation and Quarantine Charges) Regulations 2020 (the Regulations).

11. At the direction of the previous Minister responsible for MIQ, MBIE has been charging sporting bodies a fixed, flat fee of around \$7,000 per person (excluding GST)<sup>1</sup>. The fee is higher than the fee charged for travellers using standard MIQ facilities and contributes to the costs of providing:
  - standard managed isolation and quarantine services, such as rooms and food, AND
  - bespoke elements, such as access to training facilities and the provision of additional security, transport, and cleaning services.
12. The same fixed, flat fee has been charged across sporting codes and does not take into account the different needs or level of support required by group, or ad hoc changes to requirements while the groups are in the facilities.
13. The current arrangement creates a disjunct between the expectations of the groups and the cost implications of providing, and responding to ad hoc changes to, the additional services.

## **Shortfall in costs recovered for bespoke MIQ arrangements**

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14. The current fee falls short of the actual costs of providing services that go over and above standard managed isolation and quarantine arrangements. For example, the Crown absorbed some of the cost of providing the Wallabies with access to training facilities and other services in MIQ (briefing 2021-1299).
15. Demand for bespoke MIQ arrangements and services is likely to continue into 2021. For example, New Zealand has hosting rights for the Women's Rugby World Cup. The tournament involves 12 nations and is scheduled to start in July 2021.
16. Based on known events, we estimate a pipeline of groups requesting bespoke MIQ arrangements for around 2,900 arrivals through until June 2022.

## **Enabling cost recovery for bespoke MIQ arrangements**

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### **Reconstitute the fees charged ...**

17. We propose to continue using contracting-based approach for groups requesting additional MIQ services but use a mixed charging model that will enable MBIE to better recover costs by charging:
  - a. The applicable MIQ fee per person (e.g. \$3,100<sup>2</sup> for critical workers) under the Regulations that reflect the standard costs of staying in MIQ.
  - b. The actual costs for providing additional services that are provided as part of the bespoke MIQ arrangements. These services could include, but not be limited to, access to training facilities and additional transport, security and cleaning. The cost of providing these services would be estimated in advance, and included in a contract between MBIE and the requesting group / body.
18. The staffing costs for engagement and planning around the provision of bespoke MIQ arrangements would continue to be covered by the MIQ baseline.
19. Our assumption is that District Health Boards will invoice MBIE (or the requesting group directly) costs associated with providing additional services, such as additional testing, for

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<sup>1</sup> The fixed fee is recovered as Crown revenue. MBIE records a loan asset on its books which is covered through its baseline.

<sup>2</sup> This is subject to change as MBIE is working on increasing the charges for critical workers by amending the MIQ Fees Regulations. \$3,100 is a subsidised fee and, for example, does not fully cover Health costs.

bespoke MIQ arrangements. The Ministry of Health is doing further work to clarify these arrangements.

### **...supported by a fiscally neutral adjustment to the MIQ appropriation**

20. A fiscally neutral adjustment to the Isolation and Quarantine Management appropriation is needed to provide MBIE with the authority to both spend (to deliver the additional services), and subsequently recover the costs of providing the additional services from the relevant group.
21. We propose that the *Isolation and Quarantine Management* multi-category appropriation is increased by a total of \$20.7 million across the 2020/2021 and 2021/22 financial years (**Table One, Annex One**).
22. The figure is based on the assumption that MIQ will be asked to accommodate and provide bespoke MIQ arrangements for 2900 individuals through to June 2022.
23. There is a considerable amount of uncertainty in this figure because Ministerial decisions on bespoke group arrivals are made in the context of competing priorities for limited MIQ spaces and the health risks associated with each request.
24. The increase would be offset by the costs for the additional MIQ services being recovered from the relevant group and would, therefore, have no impact on the Operating Balance and Net Core Crown Debt (**Table Two, Annex Two**).

### **Technical adjustments to appropriations would follow**

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25. If you agree to the proposed approach, the following technical adjustments / steps would be made:
  - The proposed changes to appropriation for 2020/21 would be included in the 2020/21 Supplementary Estimates.
  - Expenditure would be met, in the interim from Imprest Supply.
  - The operating balance and net core Crown debt impact (which is nil) of the expenses incurred would be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020.
  - The forecast for the Delivery of Services category within the *Isolation and Quarantine Management* multi-category appropriation would be adjusted to reflect the cost recovery changes.

### **The advantages of the approach include ...**

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26. The advantages of the proposed approach include:
  - a. the Crown's costs would be more fully recovered than under the current approach for providing bespoke MIQ arrangements
  - b. the costs of providing bespoke arrangements would be better carried by those who benefit from having access to bespoke MIQ arrangements
  - c. the proposed approach aligns with that taken for critical workers
  - d. a potential rationalisation in the number of requests for bespoke MIQ arrangements and 'on the ground' changes, such as ad-hoc changes to training schedules that result in additional costs, and

- e. options for agencies to subsidise requests by either directly funding<sup>3</sup> requesting groups, or paying the invoice on their behalf, would be available.

## **The disadvantages of the approach include ...**

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- 27. Our estimate of the likely costs of providing bespoke MIQ services is uncertain and dependent on decisions made by Ministers on border exemptions. In the event of the costs being under-estimated, we would come back to you both, seeking another adjustment to the appropriation.
- 28. While a cost recovery approach can result in bad debts, MBIE believes the risk is relatively low, given the relationships, underpinning contract, and reputational damage that could ensue from a failure for a group to pay the agreed costs.
- 29. Under the current fixed, flat fee model, groups are better placed to plan likely costs of staying in MIQ and accessing additional, bespoke services. Planning by groups may be more difficult under the proposed mixed charging model. This could be mitigated by MBIE providing an estimate of likely costs to the requestor before they agree to the contract for those services.
- 30. Implementing the proposed approach is more resource intensive than the current approach because manual processing will be needed to generate invoices. We believe, however, that the additional resourcing requirements can be met within baseline funding.

## **Consultation**

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- 31. Treasury and Sport New Zealand support the proposed approach to enable recovery of the costs of providing bespoke MIQ arrangements.
- 32. The Ministry of Health support the approach and are working through the approach District Health Boards could take to recover their costs from supporting additional services to support bespoke MIQ arrangements.

## **Next steps**

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- 33. MBIE and Treasury officials will include the financial adjustments to the appropriate budget documents.
- 34. We suggest the starting date for new arrangements be decisions taken from 9 December 2020, which would capture any decisions taken on post-Christmas Netball (January 2021) and Cricket (from February 2021) proposals. Sport New Zealand will work through the associated communications with the related sporting bodies.

## **Annexes**

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### **Annex One: Proposed Appropriation Adjustments**

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<sup>3</sup> Likely through Crown funding from the appropriations of another portfolio.



## Annex One: Proposed Appropriation Adjustments

**Table One:** Proposed changes to the *Isolation and Quarantine Management* multi-category appropriation to enable MBIE to recover the costs of providing bespoke MIQ services

	\$m – increase /(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & out years
<b>Vote Building and Construction</b> <b>Minister of COVID-19 Response</b> Multi-Category Expenses and Capital Expenditure: Isolation and Quarantine Management MCA Non-departmental Output Expenses: Delivery of Services (funded by revenue)	6.181	14.532	-	-	-
<b>Total</b>	<b>6.181</b>	<b>14.532</b>	-	-	-

**Table Two:** Overall impact on the Crown's Operating Balance and New Core Debt

	\$m – increase /(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & out years
<b>Vote Building and Construction</b> Operating Balance and net core Crown debt Operating Balance impact only Net Core Crown Debt Impact Only No Impact	-	-	-	-	-
<b>Total</b>	<b>6.181</b>	<b>14.532</b>	-	-	-