

The Treasury

Budget 2017 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



Reference: T2016/1814

BM-2-1-2017

Date: 21 September 2016

To: Minister of Finance (Hon Bill English)
Associate Minister of Finance (Hon Steven Joyce)
Associate Minister of Finance (Hon Paula Bennett)

Deadline: None

Aide Memoire: Dealing with Terranova outside the allowance

You asked for advice about how to deal with Terranova outside the Budget 17 operating allowance. The proposal was to reserve the allowance for other items and let the costs of Terranova flow directly to the bottom line.

You can do exactly that. The cost to the Crown will be from higher prices for residential and home-based care from the date a settlement is implemented. If you decide to manage this cost outside the operating allowance, it will simply be reflected in the forecasts as an additional expense, affecting OBEGAL and net debt.

Both forecasts and settlement costs are still an unknown quantity at this stage. Table 1 shows how Terranova would affect OBEGAL if we were to use the Budget 16 forecasts and the most recent indicative costings from the Ministry of Health. Net debt would be roughly [38] billion higher by 2020 compared to the Budget 2016 track: around [38] of GDP in 2020 compared to the Budget 2016 track of 20.8%.

Table 1. Terranova: estimated OBEGAL impacts

	2017/18	2018/19	2019/20	2020/21	2021/22
OBEGAL (B16 forecast)	2,455	4,972	6,681	7,138*	8,313*
Terranova (fiscal cost)	[38]				
Adjusted OBEGAL					

* Projections per the fiscal strategy model

The cost of a settlement will be reflected in the forecasts once it can be quantified with reasonable certainty and is more likely than not to be incurred. We normally look for a Cabinet decision committing the government to a particular course of action before incorporating items into the fiscal forecasts. This would probably be Cabinet's approval of the terms of a negotiated settlement, to which the other parties (unions, providers and district health boards) were also committed.

In practice, this means that settlement costs may not be reflected in the forecasts until the Budget Economic and Fiscal Update 2017 (published next May). The Half Year Update will be published on 8 December this year. It seems unlikely that an agreement will have been reached by then. The timetable proposed by the Ministry of Health does envisage Cabinet approving a settlement during the week of 5 December, but this is optimistic.

John Marney, Principal Advisor, Health, [39]

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