

The Treasury

Budget 2014 Information Release

Release Document

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

Reference: T2014/469

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THE TREASURY

Kaitohutohu Kaupapa Rawa

Date: 25 March 2014

To: Minister of Finance (Hon Bill English)
Minister of Health (Hon Tony Ryall)

Deadline: 27 March 2014
(if any)

Aide Memoire: DHB Debt Renewal Appropriation

This Aide Memoire is to advise you of urgent appropriation issues that have emerged from the joint Treasury/Ministry of Health review of the provision of Crown debt funding to district health boards (DHBs):

- There is no appropriation in place to allow the Debt Management Office (DMO) to renew Crown loans to DHBs when the loans mature. It is the position of the Treasury that, because these loans are not bank deposits or public securities for Treasury management purposes, but rather are loans for policy purposes, this appropriation is required.
- On 15 April 2014 \$112.3 million of DHB loans will mature and an additional \$31.2 million will mature by 30 June.
- Unappropriated expenditure related to past loan renewals will need to be identified and validated.

Cabinet approval will be needed prior to 15 April 2014 for a fiscally neutral \$143.5 million appropriation in Vote Health to permit the renewal of existing Crown funding to DHBs for the remainder of 2013/14.

A DHB loan renewal appropriation will also be needed in Budget 2014 for \$439.7 million of DHB loans maturing in the 2014/15 fiscal year. Any unappropriated expenditure related to past renewals will need to be validated in a Financial Review Bill, but further analysis is required to determine the precise amount.

The Ministry of Health was consulted in the preparation of this Aide Memoire.

The Office of the Auditor-General has been asked to provide confirmation of the need for an appropriation to renew loans, but we are awaiting their response.

Background

Following our meeting on 12 February 2014 to discuss DHB balance sheets (refer to Joint Reports T2013/3104 and T2014/133), Treasury and Ministry officials have been

undertaking a review of issues related to a transition away from the use of debt by DHBs to an equity-only regime.

Through this process it has been determined that there is no appropriation in place to renew loans made by the Ministry of Health to the DHBs on behalf of the Minister of Finance. It is not clear at this point how this oversight occurred.

Up until now, when DHB loans mature, the Ministry has instructed the DMO to renew each loan on the understanding that all required appropriations are in place. In effect, the Crown has been lending DHBs the funds they need to repay their debt when it matures. Usually, however, no money changes hands since the maturing loan and the new loan amounts are netted out to eliminate settlement risk.

Under the Public Finance Act, these loans must be appropriated. Without an appropriation, maturing DHB loans cannot be refinanced. With \$112.3 million in DHB loans maturing on 15 April, and an additional \$31.2 million maturing by 30 June, DHBs will be required to repay their maturing loans unless Cabinet approves a loan renewal appropriation for 2013/14.

DHB Loan Renewal Appropriation

Since responsibility for DHB loans shifted to the Ministry from the Crown Health Financing Agency (CHFA) in July 2012, no funds have been appropriated for the renewal of loans in Vote Health. Further analysis of past loan renewals will be required to determine the precise amount of unappropriated loans that have been issued, including for the pre-2012 period. The 2013/14 Financial Review Bill would be the appropriate legislative vehicle for validating unappropriated loans.

Next Steps

To enable the renewal of maturing DHB loans in 2013/14, the Minister of Health will need to seek Cabinet approval prior to 15 April for a \$143.5 million non-departmental capital appropriation. The amount would need to be reflected in the 2013/14 Supplementary Estimates and until then could be met from imprest supply. To enable the renewal of maturing DHB loans in 2014/15, a \$439.7 million non-departmental capital appropriation will be required in Vote Health in Budget 2014.

The Ministry and Treasury will continue to analyse past loans to determine the extent to which loans were rolled over since 2007 without an appropriation in place. The 2013/14 Financial Review Bill will be needed to validate any loans that have been renewed without an appropriation.

The 31 March report back to Ministers on issues related to a transition away from the use of debt by DHBs to an equity-only regime will be deferred until mid-April.

Davin Hall, Senior Analyst, Budget & Public Services, 04 917 6195

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