The Treasury

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[12] Not in scope

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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.

From: Matthew Bell
Sent: Tuesday, 16 April 2013 6:58 p.m.
To: Renee Philip
Cc: Mark Blackmore; Kamlesh Patel; John Janssen; Vinayak Nagaraj; Simon McLoughlin; Richard Forgan; Colin Hall; Peter Mawson
Subject: RE: NZS Fund contribution calculation

Renee

I've used the archives of old Fiscal Strategy Models and NZS Fund Models to have a look at what would have happened if we had applied a rationale of requiring core Crown net debt, in nominal dollar terms, to be reducing in the fiscal year in which capital contributions restart, rather than just core Crown net debt to GDP reducing in the resumption year. Another way of putting this is requiring core Crown residual cash to be greater than zero when the Fund contribution is included, as against our current rationale of checking that core Crown OBEGAL covers the size of the Fund contribution.

In every Budget EFU round except one, since the Fund contribution holiday began in Budget 2009, I found the new Fund contribution resumption rationale **moved the fiscal year in which contributions restart out one year.** This was also true of the latest official projection, that of the 2012 Half Year EFU, where the revised rationale would have seen the calculated resumption year move from 2018/19 to 2019/20.

The only exception was Budget 2012, where we projected contributions would restart in 2017/18 and core Crown residual cash still was positive with the contribution in this year i.e. both rationales delivered the same result.

Hence I think we are fairly safe in telling the MoF and his advisors that, if he does wish to change the rationale for calculating when Fund contributions restart to one where net debt in nominal dollars is required to be still falling, it will normally result in extending the "contribution holiday" by one year, relative to the methodology currently applied.

Happy to provide more detail, answer questions etc

Regards
Matt

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From: Renee Philip
Sent: Tuesday, 16 April 2013 4:21 p.m.
To: Mark Blackmore; Matthew Bell; Kamlesh Patel; John Janssen; Vinayak Nagaraj; Simon McLoughlin; Richard Forgan; Colin Hall
Subject: FW: NZS Fund contribution calculation

Fyi – below is an email to Cam, at his request, following the confusing discussion about NZS Fund contributions at Fiscal Issues today.

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Please note: I work part-time and I do not work Wednesdays

From: Renee Philip
Sent: Tuesday, 16 April 2013 4:15 p.m.
To: ^Parliament: Cameron Burrows
Subject: NZS Fund contribution calculation

[SEEMAIL]
Hi Cam,

Following on from the discussion at Fiscal Issues today, here is an explanation of how NZS Fund contributions are calculated in the projection period. This is based on implementing the policy as announced in Budget 2009.

In 2009, the FSR stated that contributions would resume when there was: "An operating balance sufficient in terms of cash flows to meet contributions and other capital spending, in combination with the debt ratio not increasing." (pg 43)

To determine whether the operating balance is sufficient in terms of cash flows to meet contributions and other capital spending, we look at whether Core Crown OBEGAL > NZS Fund contributions. We use core Crown OBEGAL because:

- Total Crown OBEGAL includes surpluses from other entities (SOEs, Crown entities), which are not available to the core Crown to reduce debt or contribute to the NZS Fund
- Core Crown OBEGAL is a proxy for core Crown net cash flows from operations plus purchases of assets of existing stock (because it includes depreciation). This means that some capital spending could still be funded by borrowings (e.g. capital allowances, student loans, other capital such as transport). However, this is generally small enough that the debt ratio will not increase.

There are three options for how we could calculate this going forward:

1. Continue the current approach; the prelim projections show that contributions would resume in 2017/18 (although the margin is very tight and there is a good chance this will move out to 2018/19 in the final projections). Under this approach, contributions would resume before nominal net debt is falling if the contribution resumes in 2017/18 (although net debt is falling as a percent of GDP).
2. Change the calculation so that the residual cash surplus (before NZS Fund contributions) > NZS Fund contributions. This would ensure that NZS Fund contributions would only be made if there is no increase in nominal debt after that contribution has been made. The prelim projections show that contributions would resume in 2018/19 under this approach.
3. Delay contributions until the debt ratio is below 20% of GDP – the prelim projections show that contributions would resume in 2020/21.

I hope this helps to clarify things. In order to change approach, it would be good if we had a decision by the end of April.

Cheers,
Renee

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Please note: I work part-time and I do not work Wednesdays

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