

IN-CONFIDENCE

BM-2-3-2011

8 February 2011

Treasury Circular 2011/04

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MARCH BASELINE UPDATE 2011: CHANGES TO THE CAPITAL CHARGE RATE

1. This circular provides additional guidance for departments on capital charge rate adjustments required as part of the March Baseline Update and should be read in conjunction with Treasury Circular 2010/14.

2. On November 15, Cabinet agreed that from 1 July 2011, the public sector discount rate will be used as the new capital charge rate for all departments [CAB Min (10) 41/9 refers].

- Capital charge will increase from the current rate of 7.5 percent to the public sector discount rate of 8 percent.
- The new rate will apply, for the first time, to the net assets (General Taxpayers' Funds) that departments hold on 30 June 2011.
- Departments can seek a baseline increase equivalent to the change in capital charge expense. The baseline increase should be classified as a 'technical adjustment'.
- Departments can only seek a baseline increase through MBU for capital charge expenses that relate to departmental assets.

3. The capital charge rules for Crown entities are currently under review. The consultation process with Crown entities will last until 18 February. If a department has capital charge applied to non-departmental assets, the capital charge rate should not be adjusted through MBU.

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4. Following the consultation process, the rules and capital charge rate for Crown entities will be finalised in March/April. Any baseline changes required as a result of changes to capital charge applied to Crown entities will be processed as part of the Budget.

Richard Downing
Fiscal Management
for Secretary to the Treasury