



Struan Little
Acting Secretary and Chief Executive
The Treasury
PO Box 3724
Wellington 6140
16 October 2024

Kia ora Struan,

I would like to formally acknowledge the thoughtful and considered process your officials pursued in reviewing the social rate of time preference discount rate. It has led to an outcome that I believe is good for the environment and New Zealand as a whole.

As you will recall, this work arose in part from a recommendation in my December 2021 report *Wellbeing budgets and the environment: A promised land?*¹ While the process to review discount rates and implement changes took time, I believe this was time well spent.

As part of this process Treasury officials commissioned reviews by leading economists in New Zealand and overseas. While these reviews did not agree with the specific recommendation made in my report (hyperbolic discounting), they did substantiate my critique of the current model. Treasury officials stayed true to the spirit of my recommendation and continued to work through the process, looking at alternative ways forward. While my team and I were outside the process, from what we could see the rigour of the debate that occurred within the Treasury was impressive.

While the discount rate is an esoteric concept that many do not understand, it is a critical element of calculating cost benefit analyses over long time periods. Traditional assets tend to depreciate to zero in a matter of decades. By contrast, unimpaired natural capital typically generates ecosystem services over much longer timeframes. I am fully aware that the discount rate does not change the total quantum of public funds that can be invested. However, the change should tilt investment towards capital that can generate benefits longer into the future.

I am realistic about the change this will make in the short term. The public sector discount rate was just one barrier working against investment in 'natural' or 'green' infrastructure. There are others. For example, the benefits from investing in natural capital often fall across a number of public sector silos, which can lead to them being overlooked. This can make it

¹ PCE, 2021. *Wellbeing budgets and the environment: A promised land?* Wellington: Parliamentary Commissioner for the Environment. <https://pce.parliament.nz/publications/wellbeing-budgets-and-the-environment>.

difficult to channel funding streams towards more integrated, place-based approaches. I hope you will remain alive to these ongoing shortcomings, which, beyond being intellectually absorbing, have large real-world effects!

That said, I am delighted to see a significant barrier to a more level public investment playing field removed. Thank you again for your efforts and those of your staff.

With kind regards

A handwritten signature in black ink, consisting of a long, sweeping horizontal line that curves upwards at the end, followed by a vertical line that descends from the peak of the curve.

Simon Upton

Parliamentary Commissioner for the Environment
Te Kaitiaki Taiao a Te Whare Pāremata