
Contingent Liabilities, Accounting Policies, Tax Tables and Expense Tables

The following information forms part of the 2003 *Budget Economic and Fiscal Update* (BEFU), released by the Treasury on 15 May 2003. This information should be read in conjunction with the published 2003 BEFU. The information contains:

- **Contingent liabilities** – write-ups of the nature of each item in the tables outlined in the Specific Fiscal Risks chapter.
- **Crown accounting policies** – outline of the specific Crown accounting policies and forecast assumptions. The published GAAP tables only provide a summary.
- **Tax tables** – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts.
- **Expense tables** – detailed expense tables of core Crown expenses.

Contingent Liabilities

The Specific Fiscal Risks chapter in the published 2003 BEFU includes tables listing quantifiable and unquantified contingent liability as at 31 March 2003. Following are the detailed write-ups outlining the nature of the items in the tables in the Specific Fiscal Risks chapter.

Quantifiable Contingent Liabilities

Guarantees and indemnities

Cook Islands – Asian Development Bank (ADB) loans

Before 1992, the New Zealand Government guaranteed the Cook Islands' borrowing from the ADB. These guarantees have first call on New Zealand's Official Development Assistance to the Cook Islands.

\$20 million at 31 March 2003 (\$25 million at 31 December 2002).

Indemnification of receivers and managers – Terralink Limited

The Crown has issued a Deed of Receivership indemnity to the appointed receivers of Terralink Limited against claims arising from the conduct of the receivership.

\$10 million at 31 March 2003 (\$10 million at 31 December 2002).

Indemnification of touring exhibitions

The Crown has a contingent liability for damages and losses under the scheme for indemnifying touring exhibitions.

\$140 million at 31 March 2003 (\$153 million at 31 December 2002).

Ministry of Transport – funding guarantee

The Minister of Finance has issued a guarantee of \$10 million to the Transport Accident Investigation Commission. The guarantee allows the Commission to assure payment to suppliers of specialist salvage equipment in the event of the Commission initiating an urgent investigation of any future significant transport accident.

\$10 million at 31 March 2003 (\$10 million at 31 December 2002).

Post Office Bank (PostBank) – guaranteed deposits

In the sale of PostBank to ANZ Banking Group Limited (ANZ), the Crown agreed to continue its guarantee, under the Post Office Bank Act 1987, for certain PostBank deposits lodged with the Bank before 1 July 1988. ANZ agreed to indemnify the Crown for the cost of any liability that may arise from the Crown guarantee. The amount guaranteed reduces as deposits mature.

\$14 million at 31 March 2003 (\$14 million at 31 December 2002).

Guarantees and indemnities of state-owned enterprises and Crown entities

\$23 million at 31 March 2003 (\$23 million at 31 December 2002).

Other guarantees and indemnities

\$43 million at 31 March 2003 (\$38 million at 31 December 2002).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled capital at 31 March 2003 \$m	Uncalled capital at 31 December 2002 \$m
Asian Development Bank	1,215	1,278
European Bank for Reconstruction and Development	14	14
International Bank for Reconstruction and Development	1,484	1,561

Legal proceedings and disputes

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases were decided against the Crown.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

Health – legal claims

Claims against the Crown in respect of people allegedly contracting hepatitis C through contaminated blood and blood products, claims arising from the Gisborne inquiry, and claims relating to the cervical screening inquiry.

\$119 million at 31 March 2003 (\$120 million at 31 December 2002).

Police – legal claims

Claims against the Police for alleged legal or administrative faults.

\$32 million at 31 March 2003 (\$31 million at 31 December 2002).

Tax in dispute

Represents 50% of the outstanding debt of those tax assessments raised against which an objection has been lodged and legal action is proceeding.

\$40 million at 31 March 2003 (\$63 million at 31 December 2002).

Legal claims against state-owned enterprises and Crown entities

\$34 million at 31 March 2003 (\$34 million at 31 December 2002).

Other legal claims

\$65 million at 31 March 2003 (\$64 million at 31 December 2002).

Other quantifiable contingent liabilities*International finance organisations*

The Crown has lodged promissory notes with the following international finance organisation:

	31 March 2003 \$m	31 December 2002 \$m
International Monetary Fund	1,318	1,392

Payment of the notes depends upon the operation of the rules of the organisation.

Reserve Bank – demonetised currency

The Crown has a contingent liability for the face value of the demonetised \$1 and \$2 notes issued which have yet to be repatriated.

\$23 million at 31 March 2003 (\$23 million at 31 December 2002).

Other quantifiable contingent liabilities of state-owned enterprises and Crown entities

\$144 million at 31 March 2003 (\$148 million at 31 December 2002).

Other quantifiable contingent liabilities

\$41 million at 31 March 2003 (\$44 million at 31 December 2002).

Unquantifiable Contingent Liabilities

This part of the Statement provides details of those contingent liabilities of the Crown which cannot be quantified.

Institutional guarantees and indemnities

The following institutional guarantees have been provided through legislation.

Air New Zealand Limited

The Crown indemnified the directors of Air New Zealand Limited against any liability arising from breaches of sections 135 and 136 of the Companies Act 1993. The indemnities expired on 18 January 2002, but it is possible that claims could arise retrospectively.

As part of the Air New Zealand Limited settlement with the Voluntary Administrator for the Ansett Group, the Minister of Finance provided the Voluntary Administrator with an indemnity that would be triggered if Air New Zealand Limited were liquidated within two years of the settlement and the settlement monies were sought by the liquidator at that time. The indemnity expires on 3 October 2003 and is for a maximum of A\$150 million.

Asure New Zealand Limited

The Crown has indemnified the directors of Asure New Zealand Limited in the event that they incur any personal liability for redundancies arising from any agreement by international trading partners that allows post-mortem meat inspection by parties other than the Ministry of Agriculture and Forestry, or its sub-contractor.

At Work Insurance Limited

The Crown has indemnified the liquidators of At Work Insurance Limited (Deloitte Touche Tohmatsu) against various employment-related claims.

Auckland rail lease

The Crown has indemnified Tranz Rail Limited against any losses arising from breaches of the Sale and Purchase Agreement with the Crown relating to the purchase of the Auckland rail lease and infrastructure assets.

Commerce Commission – indemnity for damages

Under a Deed of Indemnity dated 12 November 1991, the Minister of Finance agreed to indemnify the Commission when it gives an undertaking as to damages when seeking injunctions under the Fair Trading and Commerce Acts, and subsequently the Court orders the Commission to pay damages. The sum payable under this Deed is limited to an amount up to \$40 million per case taken to Court. The Commerce Act was amended with effect from 26 May 2001, to remove the need for the Commission to provide such undertakings. The Fair Trading Act is being similarly amended.

Crown research institutes (CRIs)

The Crown has indemnified the CRIs for any costs arising from certain third-party claims that are the result of acts or omissions prior to the transfer date, for costs of complying with statutes, ordinances and bylaws which relate to or affect certain buildings, and (subject to certain limitations) for the costs of obtaining title to land.

DFC New Zealand Limited (under statutory management) (DFC)

DFC and the National Provident Fund have been indemnified for certain potential tax liabilities.

District Court Judges, Justices of the Peace, Coroners and Disputes Tribunal

Section 119 of the District Courts Act 1947 indemnifies District Court Judges acting in their civil jurisdictions. Section 196A of the Summary Proceedings Act 1957 also indemnifies District Court Judges for any liabilities arising as a result of an act done by a Judge in excess of, or without, jurisdiction.

Section 35 of the Coroners Act 1988 confers on Coroners acting within the Coroners Act 1988 the same privileges and immunities as District Court Judges under the Summary Proceedings Act 1957.

Under section 197 of the Summary Proceedings Act 1957, Justices of the Peace are similarly covered as long as a High Court Judge certifies that they have acted in good faith and ought to be indemnified.

Section 58 of the Disputes Tribunal Act 1988 confers on Disputes Tribunal referees acting within the Disputes Tribunal Act 1988 the same protection as Justices of the Peace under the Summary Proceedings Act 1957.

District health boards (DHBs)

The Crown has provided transitional indemnities to directors and officers of some DHBs, for liabilities arising from inherited assets and business practices under the Building Act 1991 and the Health and Safety in Employment Act 1992.

Earthquake Commission

The Crown is liable to meet any deficiency in the Earthquake Commission's assets in meeting the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993).

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy, royalty or impost imposed on ECNZ for the use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The Agreement also provides for compensation for any net costs to ECNZ arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to Contact Energy. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited, and Genesis Power Limited.

Under the Transpower New Zealand Limited (Transpower) Sale and Purchase and Debt Assumption Agreements, the Crown has indemnified ECNZ for any losses resulting from changes in tax rules applicable to transactions listed in the Agreements. Additionally, the Crown has indemnified the directors and officers of ECNZ for any liability they may incur in their personal capacities as a result of the Transpower separation process.

Following the split of ECNZ in 1999 into three new companies, the Crown has indemnified ECNZ in relation to all ECNZ's pre-split liabilities, including:

- existing debt and swap obligations
- hedge contracts and obligations
- any liabilities that arise out of the split itself.

Fletcher Challenge Limited (FCL)

Under the Sale and Purchase Agreement with FCL for the sale of the Forestry Corporation of New Zealand Limited, the Crown has indemnified FCL for the costs of cleaning up environmental contamination. In respect of on-site environmental costs and losses incurred up to settlement date (27 September 1996), FCL will pay the first \$30 million of any clean-up and half of the next \$20 million. The Crown will pay for half of any cost over \$30 million and for all costs over \$50 million. The on-site indemnity runs until 1 January 2020.

The Crown has also indemnified FCL in respect of off-site environmental costs and losses incurred up until settlement date. The off-site indemnity is unlimited as to amount and time.

Housing New Zealand Corporation (HNZC)

The Crown has indemnified the following entities in respect of the accuracy of information provided on the sale of various parcels of HNZC (formerly Housing Corporation of New Zealand) mortgages: Countrywide Bank, TSB Bank, and Westpac Banking Corporation.

The Crown has indemnified the directors and officers of HNZC against any liabilities in respect of the sale of mortgages to ANZ Bank and Mortgage Corporation.

Under the sale of mortgages to Westpac, HNZC has insured the purchaser against certain credit losses, with the Crown standing behind this obligation.

Legal proceedings have been initiated against a number of defendants, including the Crown, alleging breach of fiduciary duties in respect of the transfer of the Agreement for Sale and Purchase and mortgage agreements to HNZC under the Housing Assets Transfer Act 1993.

In addition, the Crown has provided a warranty in respect of title to the assets transferred to HNZC (formerly Housing New Zealand) and has indemnified the company against any breach of this warranty. The Crown has indemnified the company against any third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of the company against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Indemnities against acts of war and terrorism

The Crown has indemnified Air New Zealand against claims arising from acts of war and terrorism, that cannot be met from insurance, up to a limit of US\$1 billion in respect of any one claim.

Maui Partners

The Crown has entered into deeds of confidentiality with the Maui Partners in relation to the provision of gas reserves information. The deeds contain an indemnity against any losses arising from a breach of the deeds.

Ministry of Agriculture and Forestry – indemnity provided for the eradication of the painted apple moth

The Crown has indemnified AgriQuality New Zealand Limited against claims made by third parties arising from the eradication of the painted apple moth under contract to the Chief Executive of the Ministry of Agriculture and Forestry.

Ministry of Fisheries – indemnity provided for delivery of registry services

The Crown has indemnified Commercial Fisheries Services Limited against claims made by third parties arising from Commercial Fisheries Services undertaking registry services under contract to the Chief Executive of the Ministry of Fisheries. This indemnity, provided under the Fisheries Acts 1983 and 1996, expires on 30 October 2006 unless varied, in which case it will expire on 30 September 2008.

National Provident Fund (NPF)

Under the NPF Restructuring Act 1990, the Crown guarantees:

- the benefits payable by all NPF Schemes (Section 60)
- investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (Section 61)
- any deficiency in certain NPF defined contribution schemes when application of the 4% minimum earnings rate causes negative reserves to arise (Section 72). The NPF has advised that a deficiency will arise for the year ended 31 March 2003, and the estimated liability of \$25 million was reported in the Crown financial statements for 31 December 2002.

New Zealand Railways Corporation

The Crown has indemnified the directors of the New Zealand Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor.

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the Securities Commission, the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.

Pharmaceutical Management Agency Limited (Pharmac) – indemnity

Section 99 of the Social Security Act 1964 provided for the fixing of prices for pharmaceutical products by way of a list specified by the Minister of Health (“the Drug Tariff”). This list was superseded by a list (“the Pharmaceutical Schedule”) developed and issued by Pharmac, a company owned by the Crown and having various powers under the New Zealand Public Health and Disability Act 2000.

Under the Transfer Agreement between Pharmac and the Crown, the Crown has indemnified Pharmac against any liability in respect of operations, activities, decisions and policies relating to the Drug Tariff and the Pharmaceutical Schedule.

A number of legal claims have been lodged against Pharmac. If these claims are successful, the Crown's financial position may be adversely affected by any damages arising either directly through the indemnity, or indirectly through its ownership of Pharmac.

Public Trust

The Crown is liable to meet any deficiency in the Public Trust's Common Fund (section 52 of the Public Trust Act 2001).

Purchasers of Crown operations

The Crown has indemnified the purchasers of various Crown operations for losses owing to changes in legislation which uniquely and adversely affect those purchasers.

Reserve Bank of New Zealand (the Reserve Bank)

Under section 146 of the Reserve Bank of New Zealand Act 1989, every statutory manager of a Registered Bank, every person appointed under section 99 or section 101 of the Act and every member of an advisory committee, shall be indemnified by the Crown in respect of any liability arising from the exercise, purported exercise or omission to exercise of any power conferred by Part V of the Act, unless that power has been exercised in bad faith.

The Crown pays to the Reserve Bank any exchange losses incurred by the Reserve Bank as a result of dealing in foreign exchange under sections 17, 18 and 21(2) of the Act.

Tainui lease guarantees

Several leases of Tainui land at Huntly and Meremere have been transferred from ECNZ to Genesis Power. The Crown has provided guarantees to Tainui Corporation relating to Genesis Power's obligations under the lease agreements.

Tax liabilities

The Crown has granted to the purchasers of the State Insurance Office Limited and the Rural Banking and Finance Corporation Limited an indemnity for certain potential tax liabilities.

Works Civil Construction

The Crown has provided an indemnity to the purchasers of Works Civil Construction in relation to the activities of the Ministry of Works and Development prior to 1 April 1989. In addition, an indemnity has been provided against certain costs, claims or damages in relation to the Clyde and Ohaaki power projects.

Works Consultancy Services

The Crown has provided an indemnity to the purchasers of Works Consultancy Services in relation to the activities of the Ministry of Works and Development prior to 1 April 1989.

Other unquantifiable contingent liabilities

Accident Compensation Corporation (ACC)

A Court decision has determined that the ACC practice, prior to the Accident Insurance Act 1998, of allowing for familial responsibility when determining attendant care entitlements was not legitimate. The decision is likely to apply to a number of seriously injured claimants.

Education – legal claim

The Court of Appeal judgment in *Daniels and Others v Attorney-General* has upheld the legality of the policy known as Special Education 2000. The Court did find that a procedural error occurred in the statutory process of disestablishing special units in 1998. This point is to be the subject of a remedies hearing in the High Court in July 2003. The plaintiffs will argue for units to be re-established, and, while the Crown will resist this argument there are possible implications from the range of remedies available.

Education – fees collected on behalf of members of the Māori University Students Association

The Māori University Students Association have registered a claim with the Waitangi Tribunal in respect of funding allocated under the former section 229 of the Education Act 1989.

Environmental liabilities

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities.

During 2001/02 departments managing significant Crown properties undertook exercises to establish the nature and quantity of any contaminated sites. Where appropriate, departmental systems have been implemented to identify, monitor and assess potential contaminated sites.

In accordance with FRS-15: *Provisions, Contingent Liabilities and Contingent Assets* any contaminated sites for which costs can be reliably measured have been included in the Statement of Financial Position as provisions. As at 31 March 2003, the value of these provisions was \$7 million.

New Zealand Post Primary Teachers' Association

The New Zealand Post Primary Teachers' Association has filed legal proceedings against the Crown in respect of the Ministry of Education's proposed handling of the pay status of some secondary teachers who do not hold degrees within the terms of settlement of the Secondary Teachers' Collective Agreement.

Sale of Crown assets

On the sale of Crown assets and the corporatisation of Crown assets into SOEs and Crown entities, the Crown has generally provided a warranty that the Crown was the rightful owner of the assets transferred, and that the assets were free of encumbrances.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

Settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngai Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds \$1 billion in 1994 present-value terms, the Crown is liable to make payments to maintain the real value of Ngai Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngai Tahu. The non-quantifiable contingent liability relates to the risk that total settlement redress, including binding recommendations from the Waitangi Tribunal, will trigger these relativity payments.

Accounting Policies and Forecast Assumptions

The Forecast Financial Statements contained in the Generally Accepted Accounting Practice (GAAP) Series Table Chapter of the published 2003 BEFU are prepared on the basis of the following accounting policies and forecast assumptions.

Basis of Combination

Accounting policy

Ministers of the Crown, departments, offices of Parliament, the Reserve Bank of New Zealand, state-owned enterprises (including Air New Zealand Limited) and Crown entities are combined using the purchase method of combination. Corresponding assets, liabilities, revenues and expenses are added together line by line. Transactions and balances between these sub-entities are eliminated on combination.

This is a change in accounting policy.

Revenue

Revenue levied through the Crown's sovereign power

Accounting policy

The Crown provides many services and benefits that do not give rise to revenue. Further, payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits, as there is no direct relationship between paying tax and receiving Crown services and transfers.

Such revenue is received through the exercise of the Crown's sovereign power. Where possible, revenue is recognised at the time the debt to the Crown arises, as identified in the following table:

Revenue Type	Revenue Recognition Point
Source deductions (SSCWT) & (PAYE)	When an individual is forecast to earn income that is subject to PAYE
Residents' withholding taxes ¹	When an individual is forecast to receive interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When forecast benefits are provided that give rise to FBT
Provisional tax ²	Forecast payment due date
Terminal tax ²	Forecast assessment filed date
Goods and services tax	When the liability to the Crown is forecast to be incurred
Excise duty	When goods are forecast to be subject to duty
Road user charges and motor vehicle fees	When payment for the fee or charge is forecast to be made
Stamp and cheque duties	Forecast assessment filed date
Other indirect taxes	When the debt to the Crown is forecast to arise
Levies (eg, ACC Levies)	When the obligation to pay the levy to the Crown is forecast to arise.
¹	Corresponds to forecast withholding taxes on residents' interest and dividend income in Note 1 to the Forecast Financial Statements.
²	Provisional and terminal taxes are paid by "other persons" and companies (refer to Note 1 to the Forecast Financial Statements).

Revenue earned through operations

Accounting policy

Where revenue will be earned by the Crown in exchange for the provision of outputs (products or services) to third parties, the Crown earns its revenue through operations. This revenue is recognised when it is forecast to be earned.

Investment income

Accounting policy

Investment income is recognised in the period in which it is forecast to be earned.

Premiums

Accounting policy

Premiums arising on the issue of a debt instrument, up to the forecast finalisation date, are treated as a reduction in the cost of borrowing. Premiums are recognised in the Forecast Statement of Financial Position on issue, and are amortised over the period of the instrument on a yield-to-maturity basis.

Premiums on forecast bond sales with the same maturity date and coupon rate as bonds already on issue are calculated using the same maturity and coupon rate information. These premiums are treated on issue as a reduction in the cost of borrowing, and in general are amortised over the period of the instrument on a yield-to-maturity basis.

The forward margin associated with forward foreign-exchange contracts is amortised over the period of the contract on a straight-line basis.

Forecast assumption

Forecast bond sales with new maturity dates are assumed to be issued at par value, and therefore no premiums are forecast for these instruments.

Gains

General

Accounting policy

Realised gains arising from the sale of assets or the early repurchase of liabilities are recognised in the Forecast Statement of Financial Performance in the period in which the transactions are forecast to occur.

Foreign-currency monetary assets and liabilities

Accounting policy

Unrealised gains are recognised in the Forecast Statement of Financial Performance.

Forecast assumption

Forecasts of foreign-currency monetary assets and liabilities for the year ending 30 June 2003 and the other forecast periods use the exchange rates prevailing on 28 February 2003. As a consequence, no realised or unrealised exchange gains are forecast for the entire forecast period.

Property, plant and equipment

Accounting policy

To the extent that a forecast gain reverses a loss previously charged to the Statement of Financial Performance, the gain is credited to the Forecast Statement of Financial Performance.

Forecast assumption

The 30 June 2003 forecasts for the value of property, plant and equipment use the valuations as recorded in the Crown Financial Statements for the year ended 30 June 2002 and any additional valuations that have occurred up to 28 February 2003.

The value of property, plant and equipment for the other forecast periods is forecast using the same valuation as that used for the 30 June 2003 forecasts. As a consequence, no realised or unrealised gains are forecast for the entire forecast period.

Investments and marketable securities & deposits

Forecast assumption

All investments and marketable securities and deposits held for investment that are forecast to be held after the forecast finalisation date are assumed to be held to maturity.

The investment income forecast of these financial asset portfolios held by the Crown are based on long run rate of return assumptions appropriate to the forecast portfolio mix.

Expenses

General

Accounting policy

Expenses are recognised in the financial periods to which they are forecast to relate.

Welfare benefits

Accounting policy

Welfare benefits are recognised in the reporting periods during which it is forecast an application for a benefit has been received and the eligibility criteria met.

Grants and subsidies

Accounting policy

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is forecast to be made. Otherwise, the expense is recognised when it is forecast that the specific criteria will be fulfilled and notice given to the Crown.

Treaty of Waitangi settlements

Forecast assumption

There is a multi-year appropriation (MYA) established for the payment of claims associated with Treaty of Waitangi settlements. The actual amount expensed in any one year may be greater or less than the amount forecast for that particular year, since actual expenses depend on the settlements reached.

Discounts

Accounting policy

Discounts arising on the issue of debt instruments up to the forecast finalisation date are treated as an increase in the cost of borrowings. Discounts are recognised in the Forecast Statement of Financial Position on issue, and are amortised over the period of the instrument on a yield-to-maturity basis.

Discounts on forecast bond sales with the same maturity date and coupon rate as bonds already on issue are calculated using the same maturity and coupon rate information. These discounts are treated on issue as an increase in the cost of borrowing, and in general are amortised over the period of the instrument on a yield-to-maturity basis.

Forecast assumption

Forecast bond sales with new maturity dates are assumed to be issued at par value, and therefore no discounts are forecast for these instruments.

Losses

General

Accounting policy

Forecast realised losses arising from the sale of assets or the early repurchase of liabilities are recognised in the Forecast Statement of Financial Performance in the period in which the transaction is forecast to occur.

Foreign-currency monetary assets and liabilities

Accounting policy

Unrealised losses are recognised in the Forecast Statement of Financial Performance.

Forecast assumption

The 30 June 2003 forecasts for foreign-currency monetary assets and liabilities use the exchange rates prevailing on 28 February 2003.

Forecasts of foreign-currency monetary assets and liabilities for the other forecast periods are based on the exchange rates used for the 30 June 2003 forecast. As a consequence, no realised or unrealised exchange losses are forecast for these years.

Property, plant and equipment and liabilities

Accounting policy

Unrealised losses are first applied against the revaluation reserve for that class of asset. The balance, if any, is charged to the Forecast Statement of Financial Performance.

Forecast assumption

The 30 June 2003 forecasts for the value of property, plant and equipment use valuations as recorded in the Crown Financial Statements for the year ended 30 June 2002, and any additional actual valuations that have occurred up to 28 February 2003.

The value of property plant and equipment for the other forecast periods is forecast using the same valuation used for the 30 June 2003 forecasts. As a consequence, no realised or unrealised losses are forecast beyond the current year.

Investments and marketable securities & deposits

Forecast assumption

All investments and marketable securities held for investment that are forecast to be held after the forecast finalisation date are assumed to be held to maturity. Therefore, no losses are forecast for these assets.

Foreign-currency transactions

Accounting policy

Short-term transactions covered by forward exchange contracts are translated into New Zealand dollars using the forward rates specified in those contracts.

Other transactions in foreign currencies are translated into New Zealand dollars using the exchange rates prevailing on 28 February 2003. Forecast exchange gains or losses arising on translation of these transactions are recognised in the Forecast Statement of Financial Performance.

The resulting exchange gains or losses are included in the Forecast Statement of Financial Performance in the period in which they are forecast to arise. The forward margin associated with existing forward exchange contracts is amortised over the period of the contract on a straight-line basis.

Forecast assumption

Outstanding foreign-exchange contracts are translated using the exchange rate prevailing on 28 February 2003.

For forecasting purposes, the exchange rates prevailing on 28 February 2003 are assumed to prevail throughout the other forecast periods.

Depreciation

Accounting policy

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an asset, less any forecast residual value, over its estimated useful life. Typically, the estimated useful lives of different classes of assets are as follows:

Freehold buildings	25 to 60 years
Specialist military equipment	5 to 25 years
Other plant and equipment	3 to 25 years
State highways:	
Pavement (surfacing)	7 years
Pavement (other)	36 years
Bridges	90 to 100 years
Aircrafts (ex Specialist military equipment)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 55 years

Assets

Foreign monetary assets

Accounting policy

Foreign monetary assets existing at the forecast finalisation date and subject to forward exchange contracts are translated at the contract rate. Other foreign-currency monetary assets are translated at the exchange rates prevailing on 28 February 2003.

Forecast assumption

For forecasting purposes, the exchange rates on 28 February 2003 are assumed to prevail throughout the other forecast periods.

Receivables and advances

Accounting policy

Receivables and advances are recorded at the amounts forecast to be collected in cash.

Inventories

Accounting policy

Inventories, except for unissued currency stocks, existing at the forecast finalisation date are recorded at the lower of cost and net realisable value. Inventories forecast to be acquired after that date are recorded at the forecast cost.

Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued.

Investments

Marketable securities held for trading purposes

Accounting policy

Marketable securities held for trading purposes at the forecast finalisation date are recorded at fair value.

Marketable securities that are forecast to be acquired after that date and held for trading purposes are recorded at forecast cost of acquisition.

Equity investments

Accounting policy

Listed equity investments existing at the forecast finalisation date (other than those forming part of the reporting entity) are recorded at fair value.

Other equity investments existing at the forecast finalisation date (other than those forming part of the reporting entity) are recorded at the lower of forecast cost and fair value.

Equity investments which are forecast to be purchased after that date are recorded at the forecast cost.

Other investments

Accounting policy

Other investments existing at the forecast finalisation date, including marketable securities held for investment, are recorded at the lower of cost and fair value.

Other investments that are forecast to be purchased after that date are valued at the forecast cost.

Investment sales

Forecast assumption

The proceeds from sales of investments or entities are only included in the forecasts when those sales have been contractually confirmed at the forecast finalisation date.

Items of property, plant and equipment

Accounting policy

Items of property, plant and equipment are initially recorded at cost. Revaluations are made to most classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the assets. Revaluation to fair value is based on the fair value of the asset. Where an asset is recorded at its depreciated replacement cost, depreciated replacement cost is based on the estimated present cost of construction, reduced by factors for age and deterioration of the asset.

For each property, plant and equipment asset project borrowing costs incurred during the period required to complete and prepare the assets for its intended use are expensed.

Classes of property, plant and equipment are revalued at least every five years where appropriate.

Land and buildings

Accounting policy

Holdings of land and buildings at the forecast finalisation date are recorded at the latest available valuation calculated on a fair value basis. In cases where valuations conducted in accordance with New Zealand Property Institute's standards are not available, valuations conducted in accordance with the Rating Valuation Act 1998, which have been confirmed as appropriate by an independent valuer, have been used.

Land and buildings forecast to be purchased after the forecast finalisation date are valued at their forecast cost.

Forecast assumption

Valuations are assumed to remain constant over the forecast period.

Specialist military equipment

Accounting policy

Specialist military equipment existing at the forecast finalisation date is recorded at depreciated replacement cost less accumulated depreciation. Valuations have been obtained through specialist assessment by New Zealand Defence Force advisers, and the basis of the valuation have been confirmed as appropriate by an independent valuer.

Specialist military equipment forecast to be purchased after that date is valued at forecast cost.

State highways

Accounting policy

State highways existing at the forecast finalisation date are recorded at depreciated replacement cost, based on the estimated present cost of constructing the existing asset by the most appropriate method of construction. State highways forecast to be developed after that date are valued at forecast cost.

Land associated with the state highways is valued using an opportunity cost based on adjacent use, as an approximation of fair value.

Forecast assumption

The value is assumed to be constant over the other forecast periods.

Aircrafts (ex specialist military equipment)

Accounting policy

Aircraft (ex SME) existing at the forecast finalisation date are valued at fair value, less subsequent depreciation.

Aircraft (ex SME) forecasts to be purchased after that date are valued at forecast cost.

Electricity distribution network

Accounting policy

The electricity distribution network existing at the forecast finalisation date is recorded at the most recent valuation, adjusted for subsequent additions, disposals and depreciation. Valuations are based on optimised deprived value.

Electricity distribution network components forecast to be purchased after that date are valued at forecast cost.

Electricity generation assets

Accounting policy

Electricity generation assets existing at forecast finalisation date are recorded at cost less accumulated depreciation.

Electricity generation assets forecast to be purchased after that date are recorded at forecast cost.

Other plant and equipment

Accounting policy

Other plant and equipment, which include motor vehicles and office equipment, existing at forecast finalisation date is recorded at cost less accumulated depreciation.

Other plant and equipment forecast to be purchased after that date is recorded at forecast cost.

Other physical assets for which an objective estimate of market value is difficult to obtain

Accounting policy

Such assets (national parks, for example) existing at the forecast finalisation date are recorded at the best estimate of fair value.

Any such assets forecast to be acquired after that date are valued at forecast cost.

Forecast assumption

The value is assumed to be constant over the other forecast periods.

Commercial forests

Accounting policy

Commercial forests are recorded at forecast fair value. This takes into account age, quality of timber, market expectations and the forest management plan.

Forecast assumption

Commercial forests are valued at an estimate of fair value using discounted cash flow techniques. Post-tax cash flows and three-year rolling average log prices have been used. Log prices are assumed to be constant over the forecast period.

Goodwill and intangible assets

Accounting policy

The excess of cost over the fair value of the net assets of entities acquired (subsidiaries) at the date of acquisition is recognised as goodwill. The balance of goodwill is assessed annually for impairment purposes that may be required in excess of annual amortisation.

Goodwill and identifiable intangible assets are amortised on a systematic basis to the Statement of Financial Performance over the period of expected benefit. The maximum period of amortisation is 20 years.

Liabilities

Borrowings

Accounting policy

In the Forecast Statement of Financial Position, borrowings, including currency swaps existing at the forecast finalisation date, are recorded at nominal value adjusted for the unamortised portion of the premium or discount on issue.

Borrowings forecast to be raised after that date are recorded at forecast cost.

Forecast assumption

Forecasts of borrowings incorporate a number of technical assumptions regarding the use of the Crown's fiscal surplus for domestic debt reduction. These assumptions may not reflect the actual future composition of the domestic debt programmes, as these decisions have yet to be made.

Foreign monetary liabilities

Accounting policy

Foreign monetary liabilities existing at the forecast finalisation date and subject to forward exchange contracts are translated at contract rates. Other foreign-currency monetary liabilities are translated at exchange rates prevailing on 28 February 2003.

Forecast assumption

For forecasting purposes, the exchange rates prevailing on 28 February 2003 are assumed to prevail throughout the other forecast periods.

Pension liabilities

Forecast assumption

Forecasts of Government Superannuation Fund pension liabilities in respect of the contributory service of superannuation scheme members are based on financial assumptions applied to the latest actuarial value of the Crown's liability for pension payments net of the scheme's assets, adjusted in future years for any projected changes in demographic assumptions.

Currency issued

Accounting policy

Currency (including demonetised currency) issued at the forecast finalisation date or forecast to be issued after that date is recognised at face value.

The face value of collectors' currency is recorded as a contingent liability.

Leases

Accounting policy

Finance leases transfer to the Crown as lessee substantially all the risks and rewards incident on the ownership of a leased asset. The obligations under such forecast leases are capitalised at the forecast present value of the minimum lease payments. The capitalised values are amortised over the period forecast for benefits from their use to arise.

Forecast operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the forecast term of the lease.

The cost of forecast leasehold improvements is capitalised and amortised over the forecast unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

Employee entitlements

Accounting policy

Forecast liabilities for annual leave are recognised as they are forecast to accrue to employees. Provision is also made for forecast long-service and retiring leave obligations to employees.

Other liabilities

Accounting policy

All other liabilities are recorded at the forecast obligation to pay.

Commitments

The commitments reported in these Forecast Financial Statements are **actual** commitments at 31 March 2003.

Existing commitments include operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included.

Specific Fiscal Risks

Accounting policy

The specific fiscal risks reported in these Forecast Financial Statements are the **actual** risks **existing at 30 April 2003** and contingent liabilities and assets as at 31 March 2003. They include existing contingent liabilities and assets, which are recognised at the point the contingency is evident.

The Statement of Specific Fiscal Risks contained in the 2003 BEFU has been prepared in accordance with sections 10(3)(b) and 11 of the Fiscal Responsibility Act 1994.

Annex A: Expense Tables

Treasury's website contains these tables with more history years included.

Table A.1 – Core Crown expenses by category

(\$ million)	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Social security and welfare	12,497	12,889	12,883	13,207	13,485	13,954	14,446	14,897	15,404	16,006
GSF	735	1,372	736	1,112	1,409	2,190	923	909	907	901
Health	5,361	5,875	6,146	6,660	7,032	7,586	8,176	8,505	9,173	9,263
Education	5,162	5,337	5,712	6,136	6,473	7,152	7,607	7,774	7,869	7,989
Core government services	1,508	1,634	1,642	1,798	1,540	1,650	1,693	1,676	1,717	1,666
Law and order	1,329	1,482	1,509	1,541	1,733	1,760	1,774	1,797	1,792	1,790
Defence	1,065	1,022	1,163	1,242	1,162	1,190	1,192	1,181	1,181	1,181
Transport and communications	850	923	929	905	989	1,404	1,316	1,345	1,375	1,403
Economic and industrial services	769	813	881	1,037	1,013	1,106	1,226	1,206	1,215	1,201
Primary services	407	322	256	279	304	364	367	354	357	353
Heritage, culture and recreation	286	304	427	400	434	530	575	580	586	590
Housing and community	29	40	63	50	93	109	135	116	112	110
Other	168	34	46	75	110	68	110	107	105	105
Finance costs	2,673	2,367	2,205	2,304	2,118	2,133	2,023	2,075	2,153	2,071
Net foreign exchange (gains)/losses	13	(47)	(62)	(47)	75	38	..	..	..	..
New operating spending up to Budget 2004	..	..	..	..	..	..	175	220	220	220
Forecast new operating spending	..	..	..	..	..	..	..	550	865	1,745
Core Crown Expenses	32,852	34,367	34,536	36,699	37,970	41,234	41,738	43,292	45,031	46,594

Source: The Treasury

Table A.2 – Social security and welfare

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Welfare benefits	11,730	12,006	12,072	12,385	12,614	12,925	13,422	13,920	14,428	15,030
Social rehabilitation & compensation	123	91	70	62	91	126	113	114	115	116
Departmental expenses	532	654	634	618	657	689	695	676	671	670
Other non-departmental expenses	125	155	120	151	125	215	217	188	191	191
	12,510	12,906	12,896	13,216	13,487	13,955	14,447	14,898	15,405	16,007
Less GST on Crown Spending	13	17	13	9	2	1	1	1	1	1
Core Crown Social Security and Welfare	12,497	12,889	12,883	13,207	13,485	13,954	14,446	14,897	15,404	16,006

Source: The Treasury

Table A.3 – New Zealand superannuation and welfare benefits

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
New Zealand Superannuation	5,106	5,071	5,068	5,273	5,450	5,642	5,894	6,100	6,369	6,711
Domestic Purposes Benefit	1,501	1,451	1,433	1,444	1,501	1,519	1,567	1,598	1,641	1,690
Unemployment Benefit	1,436	369	..	..	1,369	1,286	1,317	1,397	1,433	1,476
Community Wage	..	1,486	1,937	1,849	..	..	..	..	..	..
Accommodation Supplement	793	843	867	795	720	708	741	784	819	854
Invalids Benefit	599	630	677	745	832	915	999	1,069	1,141	1,219
Sickness Benefit	400	97	..	..	375	420	454	479	501	520
Disability Allowance	198	204	204	210	224	240	259	278	297	315
Transitional Retirement Benefit	111	116	125	127	97	46	8	..	..	..
Income Related Rents	..	..	..	161	274	297	329	342	354	366
Family Support	874	912	899	878	848	922	802	796	790	788
Child Tax Credit	121	164	167	161	157	157	159	159	159	160
Special Benefit	60	44	35	40	49	83	130	151	159	163
Benefits paid in Australia	63	146	147	171	159	121	103	96	87	77
Paid Parental Leave	..	..	..	..	..	55	64	66	68	71
Other benefits	468	473	513	531	559	514	596	605	610	620
Total Welfare Benefits	11,730	12,006	12,072	12,385	12,614	12,925	13,422	13,920	14,428	15,030

Source: The Treasury

Table A.4 – Beneficiary numbers

(Thousands)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
New Zealand Superannuation	470	464	456	449	448	454	461	470	482	495
Domestic Purposes Benefit	115	113	111	110	110	110	110	111	112	113
Unemployment Benefit	152	..	..	..	140	126	126	132	132	133
Accommodation Supplement	310	320	324	297	270	261	265	275	281	286
Invalids Benefit	48	50	53	58	62	67	71	75	78	82
Sickness Benefit	36	..	..	..	35	38	40	42	43	44

Source: The Treasury

Table A.5 – GSF pension expense

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Pension expenses	726	703	679	691	973	978	1,010	1,037	1,061	1,079
Revaluation of Unfunded Liability	(233)	429	(201)	164	436	1,212	(87)	(128)	(154)	(178)
Core Crown GSF	493	1,132	478	855	1,409	2,190	923	909	907	901

Source: The Treasury

Table A.6 – Health

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Departmental outputs	58	58	59	116	136	152	173	143	143	138
Health service purchasing	5,723	6,107	6,401	6,807	6,979	7,598	8,259	8,622	9,308	9,472
Other non-departmental outputs	18	135	121	101	70	75	124	126	112	77
Health payments to ACC	185	237	264	291	484	486	418	444	462	483
Other expenses	17	36	29	27	44	42	41	41	41	41
	6,001	6,573	6,874	7,342	7,713	8,353	9,015	9,376	10,066	10,211
Less GST on Crown Spending	640	698	728	778	781	862	941	978	1,000	1,055
Plus Other Eliminations	..	..	..	96	100	95	102	107	107	107
Core Crown Health Expenses	5,361	5,875	6,146	6,660	7,032	7,586	8,176	8,505	9,173	9,263

Source: The Treasury

Table A.7 – Health service purchasing

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Personal health services:										
Northern	1,337	1,452	1,582	1,671	..	..	..	..	..	..
Midland	844	890	936	997	..	..	..	..	..	..
Central	981	1,047	1,104	1,174	..	..	..	..	..	..
Southern	910	1,004	1,015	1,097	..	..	..	..	..	..
Additional health purchases	96	70	..	..	..	..	..	..	..	..
Total Personal Health	4,168	4,463	4,637	4,939	..	..	..	..	..	..
Disability support services										
Northern	465	495	520	557	..	..	..	..	..	..
Midland	285	303	306	332	..	..	..	..	..	..
Central	361	383	411	428	..	..	..	..	..	..
Southern	343	355	410	426	..	..	..	..	..	..
Total Disability Support	1,454	1,536	1,647	1,743	..	..	..	..	..	..
Payments to District Health Boards	..	..	..	..	5,439	5,931	6,474	6,801	7,376	7,524
National Disability Support Services	..	..	..	..	1,315	1,436	1,517	1,555	1,664	1,680
Public Health Service Purchasing	101	108	117	125	225	231	268	266	268	268
Total Health Servicing Purchasing (GST inclusive)	5,723	6,107	6,401	6,807	6,979	7,598	8,259	8,622	9,308	9,472

Source: The Treasury

Table A.8 – Health-related payments to ACC

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Petrol excise	65	66	67	67	69	69	..	..	..	..
Medical treatment	120	171	197	224	415	417	418	444	462	483
Total Health related payments (GST inclusive)	185	237	264	291	484	486	418	444	462	483

Source: The Treasury

Table A.9 – Education

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Early childhood education	277	294	325	331	358	397	430	446	460	469
Primary and secondary schools	2,978	3,147	3,405	3,505	3,638	3,785	4,008	4,053	4,055	4,058
Tertiary funding	1,871	1,843	1,913	2,133	2,408	2,739	2,753	2,878	2,976	3,110
Departmental expenses	316	360	396	419	467	630	682	679	678	672
Other education expenses	272	255	271	302	253	301	479	479	479	473
	5,714	5,899	6,310	6,690	7,124	7,852	8,352	8,535	8,648	8,782
<i>Less GST on Crown Spending</i>	552	562	598	554	651	700	745	761	779	793
Core Crown Education	5,162	5,337	5,712	6,136	6,473	7,152	7,607	7,774	7,869	7,989

Source: The Treasury

Table A.10 – Primary and secondary education

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Primary	1,515	1,624	1,731	1,780	1,838	1,913	2,040	2,032	2,024	2,020
Secondary	1,158	1,155	1,312	1,333	1,311	1,384	1,478	1,530	1,542	1,549
Secondary allowances	..	..	..	..	..	..	..	..	..	..
School transport	94	93	100	106	109	117	118	119	120	121
Special needs support	211	275	262	286	281	254	252	255	254	253
Professional Development	..	..	..	..	14	100	103	100	98	98
Schooling Improvement	..	..	..	..	85	17	17	17	17	17
Total Schools Funding (GST inclusive)	2,978	3,147	3,405	3,505	3,638	3,785	4,008	4,053	4,055	4,058

Places (year)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Primary	466,460	466,500	465,863	463,000	465,000	466,000	463,000	462,000	459,000	454,000
Secondary	243,600	248,800	249,905	251,000	257,000	264,000	272,000	277,000	279,000	278,000

Sources: Ministry of Education, The Treasury

Table A.11 – Tertiary education

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Tuition	1,183	1,236	1,219	1,362	1,554	1,743	1,711	1,783	1,903	1,996
Other tertiary funding	258	128	161	153	180	224	252	269	283	295
Total Tertiary Education and Training	1,441	1,364	1,380	1,515	1,734	1,967	1,963	2,052	2,186	2,291
Tertiary student allowances	344	378	376	391	401	405	433	444	460	479
Student loan provision and write-offs	86	101	157	227	273	367	357	382	330	340
Total Tertiary Funding (GST inclusive)	1,871	1,843	1,913	2,133	2,408	2,739	2,753	2,878	2,976	3,110

Places (year)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EFT Students	148,978	169,469	175,166	192,000	218,000	236,000	237,000	244,000	253,000	262,000

Sources: Ministry of Education, The Treasury

Table A.12 – Core government services

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Official development assistance	195	204	219	226	223	230	246	245	245	245
Indemnity and guarantee expenses	(5)	(28)	10	253	..	..	..	..	..	..
Departmental expenses	888	892	867	901	907	1,006	1,050	1,014	1,053	1,006
Science expenses	389	405	424	247	244	263	307	306	320	323
Other expenses	95	232	190	190	228	205	123	142	127	119
	1,562	1,705	1,710	1,817	1,602	1,704	1,726	1,707	1,745	1,693
<i>Less GST on Crown Spending</i>	54	71	68	19	62	54	33	31	28	27
Total Core Crown Government Services	1,508	1,634	1,642	1,798	1,540	1,650	1,693	1,676	1,717	1,666

Source: The Treasury

Table A.13 – Law and order

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Departmental expenses:										
Police	611	708	762	724	755	799	813	819	822	821
Ministry of Justice	11	11	12	13	15	15	16	16	16	16
Department of Corrections	290	324	328	369	412	404	403	419	411	407
Department for Courts	194	206	174	181	189	212	216	216	218	219
Other departments	92	99	65	67	71	78	77	79	78	78
Total Departments	1,198	1,348	1,341	1,354	1,442	1,508	1,525	1,549	1,545	1,541
Non-departmental outputs	109	114	150	177	195	204	204	214	210	205
Other expenses	38	37	40	29	118	71	68	58	61	67
	1,345	1,499	1,531	1,560	1,755	1,783	1,797	1,821	1,816	1,813
<i>Less GST on Crown Spending</i>	16	17	22	19	22	23	23	24	24	23
Core Crown Law and Order	1,329	1,482	1,509	1,541	1,733	1,760	1,774	1,797	1,792	1,790

Source: The Treasury

Table A.14 – Defence

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
NZDF Core expenses	955	986	996	1,058	1,077	1,133	1,149	1,140	1,140	1,140
NZDF write-offs	..	5	77	104	..	..	..	..	..	..
NZDF East Timor deployment	..	..	22	22	20	..	..	..	..	..
MSD East Timor deployment	..	..	17	22	23	13	1	..	..	..
Other departments	110	31	51	36	43	44	42	41	41	41
GST on defence acquisitions	..	8	84	25	34	40	64	14	..	..
	1,065	1,030	1,247	1,267	1,197	1,230	1,256	1,195	1,181	1,181
<i>Less GST on Crown Spending</i>	..	8	84	25	35	40	64	14	..	..
Core Crown Defence	1,065	1,022	1,163	1,242	1,162	1,190	1,192	1,181	1,181	1,181

Source: The Treasury

Table A.15 – Transport and communications

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Transfund	828	880	903	890	941	1,270	1,251	1,289	1,323	1,355
Departmental outputs	67	71	70	75	78	81	82	82	82	82
Other non-departmental expenses	52	61	57	52	56	69	73	65	65	65
Goodwill amortisation				..	23	47	47	47	47	47
Auckland rail write-off				..	..	81	..	..	..	..
Other expenses	1	17	6	9	22	5	10	13	12	12
	948	1,029	1,036	1,026	1,120	1,553	1,463	1,496	1,529	1,561
<i>Less GST on Crown Spending</i>	98	106	107	121	131	149	147	151	154	158
Core Crown Transport	850	923	929	905	989	1,404	1,316	1,345	1,375	1,403

Source: The Treasury

Table A.16 – Economic and industrial

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Departmental outputs	292	450	374	422	414	433	502	491	488	478
Employment initiatives	294	166	209	204	209	238	252	245	247	247
Non-departmental outputs	159	176	198	423	420	422	529	530	542	537
Other expenses	95	66	163	92	114	168	104	104	105	108
	840	858	944	1,141	1,157	1,261	1,387	1,370	1,382	1,370
<i>Less GST on Crown Spending</i>	71	45	63	104	144	155	161	164	167	169
Core Crown Economic and Industrial Services	769	813	881	1,037	1,013	1,106	1,226	1,206	1,215	1,201

Source: The Treasury

Table A.17 – Employment initiatives

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Training incentive allowance	34	30	35	36	36	51	50	47	47	47
Community employment projects	18	15	18	17	21	21	21	20	20	20
Subsidised work	124	77	103	95	92	105	119	109	109	109
Employment support for disabled	..	17	50	53	60	61	62	69	71	71
Total Employment Initiative Expenses (GST inclusive)	294	166	209	204	209	238	252	245	247	247

Source: The Treasury

Table A.18 – Primary services

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Departmental expenses	281	233	182	194	220	261	246	244	238	235
Non-departmental outputs	51	68	63	69	86	96	103	102	109	117
Other expenses	91	33	20	24	9	19	32	21	24	15
	423	334	265	287	315	376	381	367	371	367
<i>Less GST on Crown Spending</i>	16	12	9	8	11	12	14	13	14	14
Core Crown Primary Services	407	322	256	279	304	364	367	354	357	353

Source: The Treasury

Table A.19 – Heritage, culture and recreation

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Community grants	20	20	18	18	6	6	6	6	6	6
Departmental outputs	199	208	199	206	212	253	260	257	258	258
Non-departmental outputs	58	70	158	181	160	203	225	225	225	225
Other expenses	20	18	81	19	96	99	116	124	129	134
	297	316	456	424	474	561	607	612	618	623
<i>Less GST on Crown Spending</i>	11	12	29	24	40	31	32	32	32	33
Core Crown Heritage, Culture and Recreation	286	304	427	400	434	530	575	580	586	590

Source: The Treasury

Table A.20 – Housing and community development

(\$ million)	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Housing subsidies	2	1	1	..	22	25	32	29	28	29
Departmental outputs	30	29	27	35	51	63	71	64	62	61
Other non-departmental expenses	(3)	11	40	15	20	21	32	23	22	20
	29	41	68	50	93	109	135	116	112	110
<i>Less GST on Crown Spending</i>	..	1	5	..	..	..	..	..	..	..
Core Crown Housing and Community Development	29	40	63	50	93	109	135	116	112	110

Source: The Treasury

The Operating Balance Excluding Revaluations and Accounting policy Changes (OBERAC)

The OBERAC is an additional fiscal indicator that strips out revaluation movements and accounting policy changes to provide a measure of underlying financial stewardship. The OBERAC is not a measure of the controllable portion of the operating balance. As such, it does not isolate aspects of the operating balance (such as tax revenue and unemployment benefits) that arise from cyclical factors.

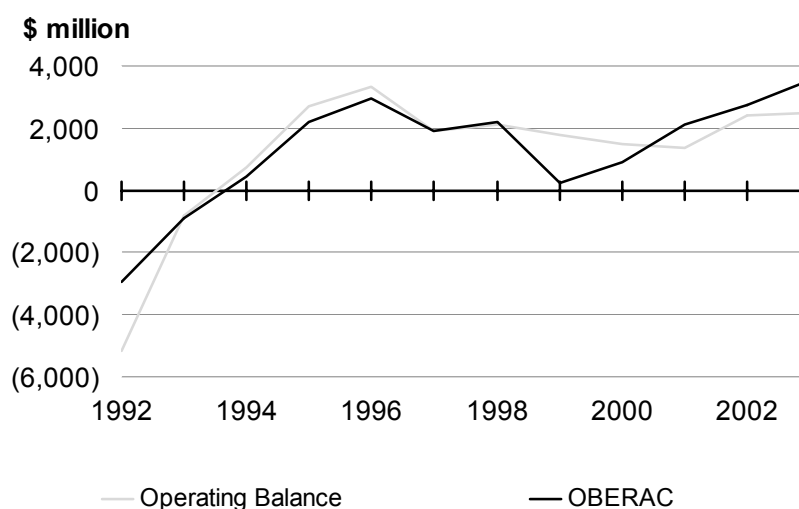
Revaluations have significantly affected the operating balance as it is a relatively small balancing item between two large numbers: total revenue and total expenses. Revaluation effects are not forecast beyond the current year as a matter of policy given their inherent uncertainty.

The OBERAC is calculated by adjusting for the following revaluation effects (unless the revaluation is a result of a policy decision):

- Net Present Valued assets and liabilities such as the GSF pension liability, ACC outstanding claims liability and NZS Fund assets
- market-valued financial assets and liabilities, such as tradeable MSDs
- gains or losses on sale. Selling an asset for greater (or less) than its book value is a terminal revaluation
- changes in accounting policy around the recognition of assets and liabilities. For example the recognition of the Public Trust reserves in 1999/2000 would be adjusted for had they met the materiality limit outlined below

The materiality limit for adjustments is \$100 million. Materiality is from a Crown-wide, rather than an individual department perspective and applies for any one year.

The graph below indicates the extent to which the OBERAC has differed from the operating balance reported in the accounts over the past ten years.



Source: The Treasury

Detail of OBERAC calculation

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating Balance	(5,149)	(819)	755	2,695	3,314	1,908	2,127	1,763	1,503	1,358	2,391	1,361
Adjustments												
Net GSF pension liability movts	420	664	111	155	226	(4)	(233)	429	(201)	164	436	1,505
ACC revaluation	-	-	-	-	-	-	-	-	(519)	420	43	893
NPF liability movement	-	-	-	-	-	-	-	-	-	253	-	-
Transpower valuation movts	-	-	-	-	-	-	407	14	(54)	59	(64)	-
Gain on sale of assets												
Contact	-	-	-	-	-	-	-	(1,421)	-	-	-	-
Airport companies	-	-	-	-	-	-	-	(204)	-	-	-	-
Hydro stations	-	-	-	-	-	-	-	(195)	-	-	-	-
Spectrum licences	-	-	-	-	-	-	-	-	-	(140)	-	-
Other sales (BNZ, TVNZ shares, etc)	-	(283)	(129)	-	-	-	-	(140)	-	-	-	-
Write-downs (eg, Defence)	-	-	301	-	-	-	-	-	155	103	-	-
(Gains)/losses on marketable securities and deposits	-	-	-	(114)	-	-	(110)	-	-	(102)	-	282
EQC asset valuation decreases	-	-	-	-	-	-	-	-	-	-	130	-
Maui gas receivable revaluation	-	-	-	-	-	-	-	-	-	-	(260)	-
Unrealised forest revaluations	-	(766)	292	-	-	-	-	-	-	-	-	-
Exchange rate movements	1,764	296	(898)	(551)	(603)	-	-	-	-	-	75	-
Total adjustments	2,184	(89)	(323)	(510)	(377)	(4)	64	(1,517)	(619)	757	360	2,680
OBERAC	(2,965)	(908)	432	2,185	2,937	1,904	2,191	246	884	2,115	2,751	4,041

Source: The Treasury

Reconciliation of Operating Balance to Net Crown Debt

(\$ million)	2002 Actual	2003 Forecast	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast
Operating balance	2,391	1,361	3,761	4,474	5,289	6,181
Less/(plus) valuation items	360	2,680	-	-	-	-
OBERAC	2,751	4,041	3,761	4,474	5,289	6,181
Less NZS Fund contributions	(600)	(1,200)	(1,879)	(2,114)	(2,299)	(2,433)
Less after-tax income of the NZS Fund	(15)	(69)	(187)	(347)	(525)	(726)
Available after NZS Fund requirements	2,136	2,772	1,695	2,013	2,465	3,022
Decrease/(increase in net debt)	(780)	(151)	(513)	83	530	1,193
Difference	(2,916)	(2,923)	(2,208)	(1,930)	(1,935)	(1,829)

This difference comprises:

Non-cash elements of the OBERAC

SOE/CE retained surplus net of

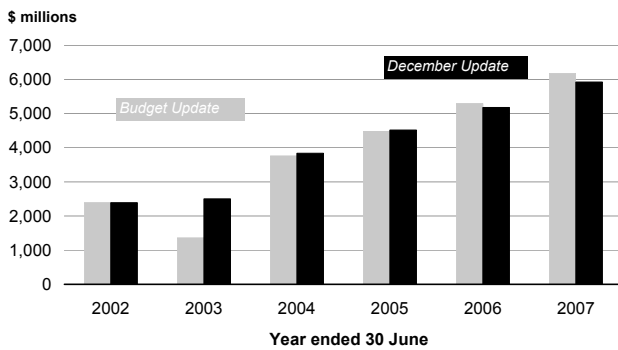
dividends (excluding valuation issues)	(427)	(1,183)	(1,030)	(1,317)	(1,478)	(1,505)
Depreciation	955	884	923	960	974	974
(Gain)/loss on sale of assets	14	-	-	-	-	-
Commercial forests and net FX movements	(24)	38	-	-	-	-
Student loan influences	86	136	99	83	(12)	(49)
Cash elements not in the OBERAC						
Circulating currency	196	228	-	-	-	-
Net purchase of physical assets						
including capital contingency provision	(1,220)	(1,210)	(1,465)	(1,112)	(1,011)	(1,058)
Asset sale receipts	-	-	-	-	-	-
Net capital injections	(1,223)	(485)	(659)	(305)	(220)	(118)
GSF cross holding elimination	(1,470)	(1,182)	1	3	2	1
Other working capital movements	197	(149)	(77)	(242)	(190)	(74)
	(2,916)	(2,923)	(2,208)	(1,930)	(1,935)	(1,829)

Fiscal Forecast Comparison to 2002 December Update

The following series of graphs and tables provides a comparison of key fiscal indicators to those contained in the *2002 December Update*.

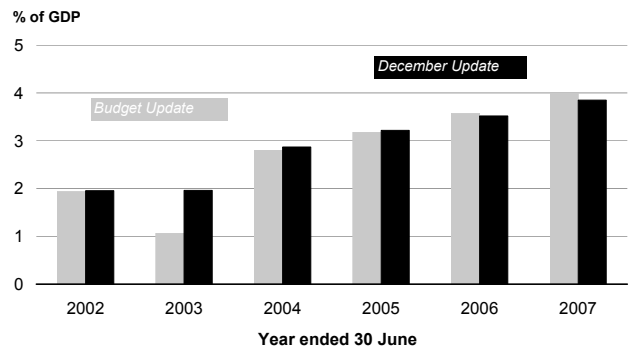
Operating Balance

Operating balance comparison
\$ millions



Sources: The Treasury

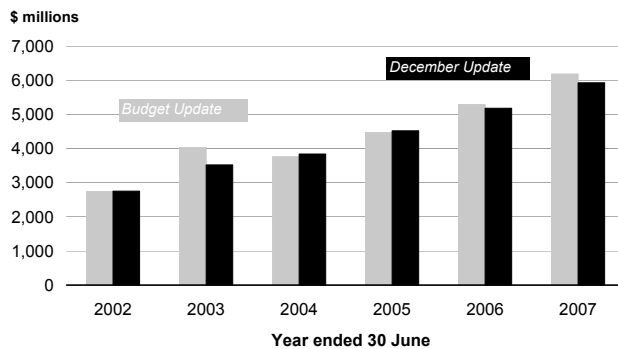
Operating balance comparison
% of GDP



Sources: The Treasury

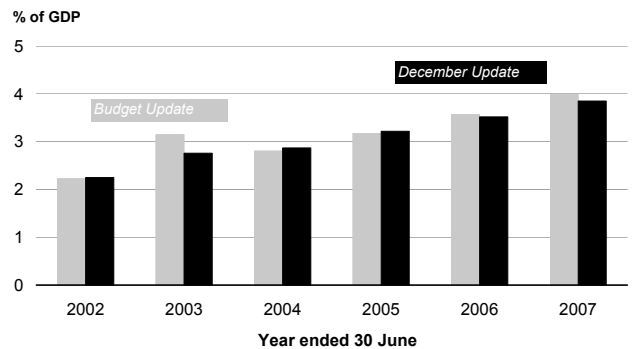
OBERAC

OBERAC comparison
\$ million



Source: The Treasury

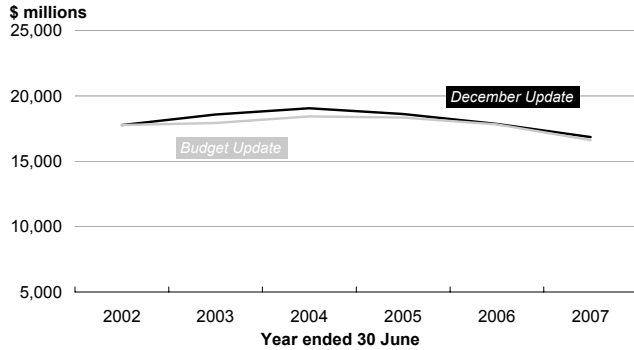
OBERAC comparison
% of GDP



Source: The Treasury

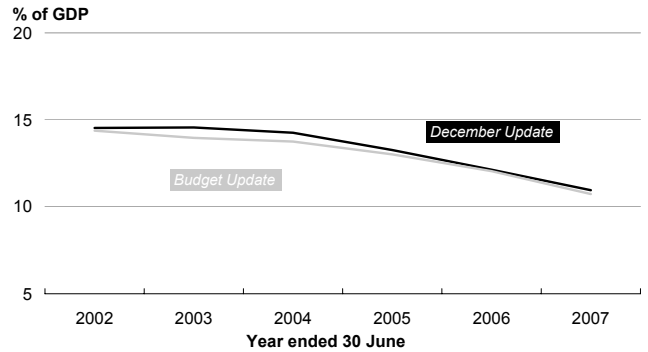
Net Core Crown Debt

Net core Crown debt comparison
\$ million



Source: The Treasury

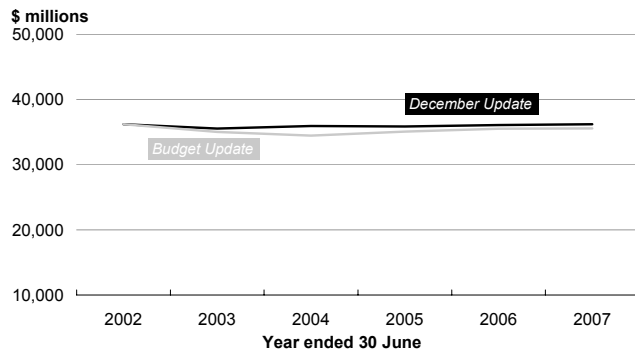
Net core Crown debt comparison
% of GDP



Source: The Treasury

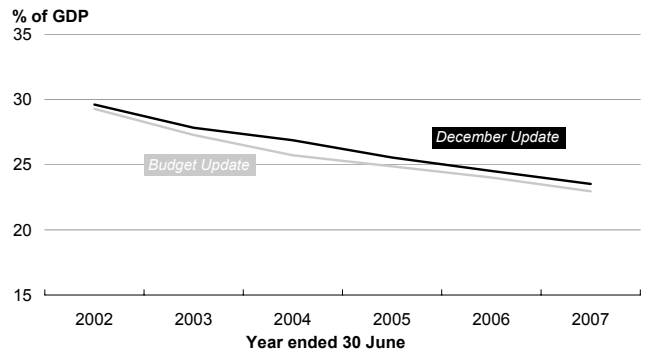
Gross Debt

Gross debt comparison
\$ million



Source: The Treasury

Gross debt comparison
% of GDP



Source: The Treasury

Key Fiscal Indicators Comparison to 2002 December Update

Fiscal Indicators (\$ million)	Budget 2003			DEFU 2003 Variance	Budget 2004			DEFU 2004 Variance	Budget 2005			DEFU 2005 Variance	Budget 2006			DEFU 2006 Variance	Budget 2007			DEFU 2007 Variance
	2002 Actual	2003 Forecast	DEFU 2003 Forecast		2004 Forecast	DEFU 2004 Forecast	2005 Forecast		DEFU 2005 Forecast	2006 Forecast	DEFU 2006 Forecast		2007 Forecast	DEFU 2007 Forecast						
Revenue																				
Total revenue	51,225	55,847	55,461	386	58,798	58,042	756	61,627	60,973	654	64,530	63,756	774	67,370	66,411	959				
Total core Crown revenue	39,911	42,612	42,244	368	44,469	44,006	463	46,449	46,233	216	48,842	48,533	309	51,270	50,780	490				
Expenses																				
Total expenses	48,834	54,486	52,956	1,530	55,037	54,205	832	57,153	56,457	696	59,241	58,575	666	61,189	60,486	703				
Total core Crown expenses	37,970	41,234	40,112	1,122	41,738	41,151	587	43,292	42,831	461	45,031	44,603	428	46,594	46,150	444				
Operating balance	2,391	1,361	2,505	(1,144)	3,761	3,837	(76)	4,474	4,516	(42)	5,289	5,181	108	6,181	5,925	256				
OBERAC	2,751	4,041	3,521	520	3,761	3,837	(76)	4,474	4,516	(42)	5,289	5,181	108	6,181	5,925	256				
Debt Indicators																				
Gross sovereign-issued debt	36,202	35,015	35,522	(507)	34,459	35,923	(1,464)	35,066	35,860	(794)	35,515	36,069	(554)	35,559	36,196	(637)				
Net core Crown debt	17,771	17,922	18,582	(660)	18,435	19,058	(623)	18,352	18,620	(268)	17,822	17,854	(32)	16,629	16,853	(224)				
Net worth	18,726	20,197	21,231	(1,034)	23,958	25,068	(1,110)	28,432	29,584	(1,152)	33,721	34,765	(1,044)	39,902	40,690	(788)				
Nominal GDP	123,629	128,389	127,674	715	134,034	133,669	365	141,021	140,378	643	147,911	147,169	742	154,906	153,883	1,023				
Fiscal Indicators as a % of GDP																				
Revenue																				
Total Crown revenue	41.4%	43.5%	43.4%	0.1%	43.9%	43.4%	0.4%	43.7%	43.4%	0.3%	43.6%	43.3%	0.3%	43.5%	43.2%	0.3%				
Total core Crown revenue	32.3%	33.2%	33.1%	0.1%	33.2%	32.9%	0.3%	32.9%	32.9%	0.0%	33.0%	33.0%	0.0%	33.1%	33.0%	0.1%				
Expenses																				
Total Crown expenses	39.5%	42.4%	41.5%	1.0%	41.1%	40.6%	0.5%	40.5%	40.2%	0.3%	40.1%	39.8%	0.3%	39.5%	39.3%	0.2%				
Total core Crown expenses	30.7%	32.1%	31.4%	0.7%	31.1%	30.8%	0.4%	30.7%	30.5%	0.2%	30.4%	30.3%	0.1%	30.1%	30.0%	0.1%				
Operating balance	1.9%	1.1%	2.0%	-0.9%	2.8%	2.9%	-0.1%	3.2%	3.2%	0.0%	3.6%	3.5%	0.1%	4.0%	3.9%	0.1%				
OBERAC	2.2%	3.1%	2.8%	0.4%	2.8%	2.9%	-0.1%	3.2%	3.2%	0.0%	3.6%	3.5%	0.1%	4.0%	3.9%	0.1%				
Debt Indicators																				
Gross sovereign-issued debt	29.3%	27.3%	27.8%	-0.5%	25.7%	26.9%	-1.2%	24.9%	25.5%	-0.7%	24.0%	24.5%	-0.5%	23.0%	23.5%	-0.6%				
Net core Crown debt	14.4%	14.0%	14.6%	-0.6%	13.8%	14.3%	-0.5%	13.0%	13.3%	-0.3%	12.0%	12.1%	-0.1%	10.7%	11.0%	-0.2%				
Net worth	15.1%	15.7%	16.6%	-0.9%	17.9%	18.8%	-0.9%	20.2%	21.1%	-0.9%	22.8%	23.6%	-0.8%	25.8%	26.4%	-0.7%				