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## Additional Fiscal Information

The following information is to provide users of the 2005 Budget Economic and Fiscal Update (BEFU) with further detail.

- Fiscal forecast comparison to the 2004 December Economic and Fiscal Update (DEFU) – a comparison of the BEFU key fiscal indicators with the DEFU.
- Additional fiscal indicators – explanations of additional indicators such as the OBERAC (including a history series back to 1996), estimates of the structural fiscal balance and fiscal impulse.
- Core Crown reconciliations – additional core Crown information including a reconciliation of the operating balance to net core Crown debt and core Crown net cash flows from operations to the operating balance.

The following information forms part of the BEFU, released by the Treasury on 19 May 2005. This information should be read in conjunction with the published BEFU. The information contains:

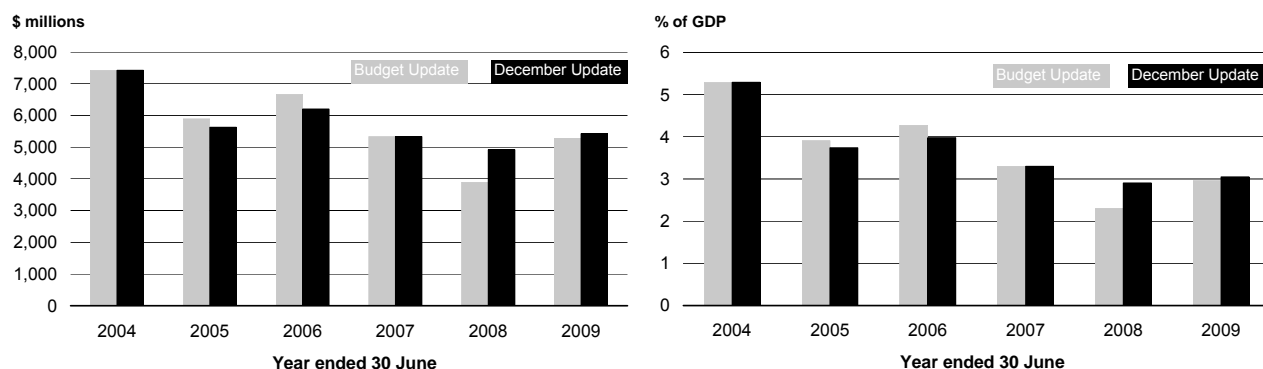
- Tax tables – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts.
- Expense tables – detailed expense tables of core Crown expenses from 1999/2000 to 2008/09.
- Contingent liabilities – write-ups of the nature of each item in the tables outlined in the BEFU 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.

## Fiscal Forecast Comparison to the 2004 December Economic and Fiscal Update

The following series of graphs and tables provides a comparison of key fiscal indicators to those contained in the DEFU.

### Operating Balance

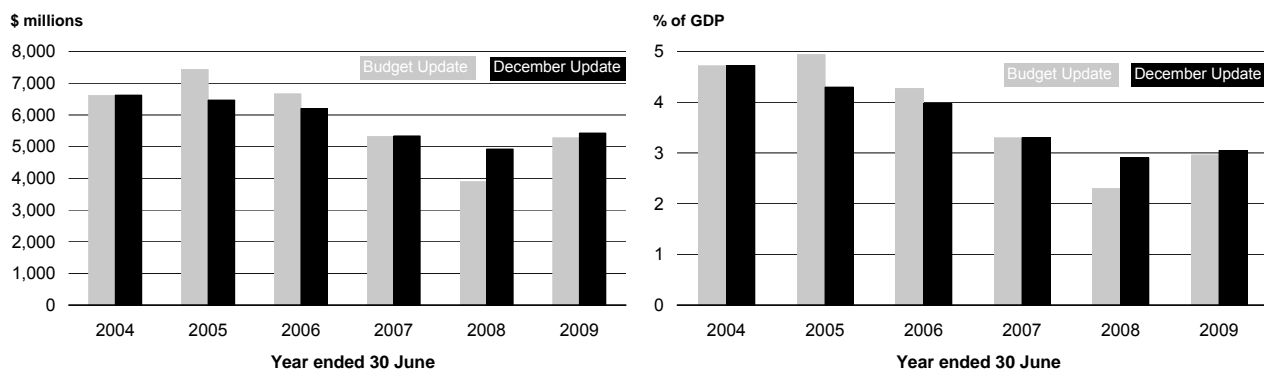
Operating balance comparison



Source: The Treasury

### OBERAC

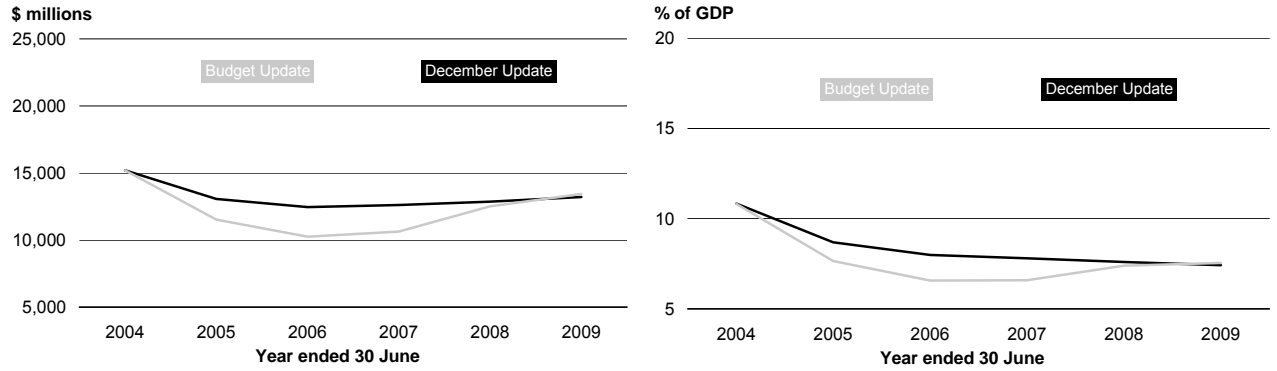
OBERAC comparison



Source: The Treasury

## Net Core Crown Debt

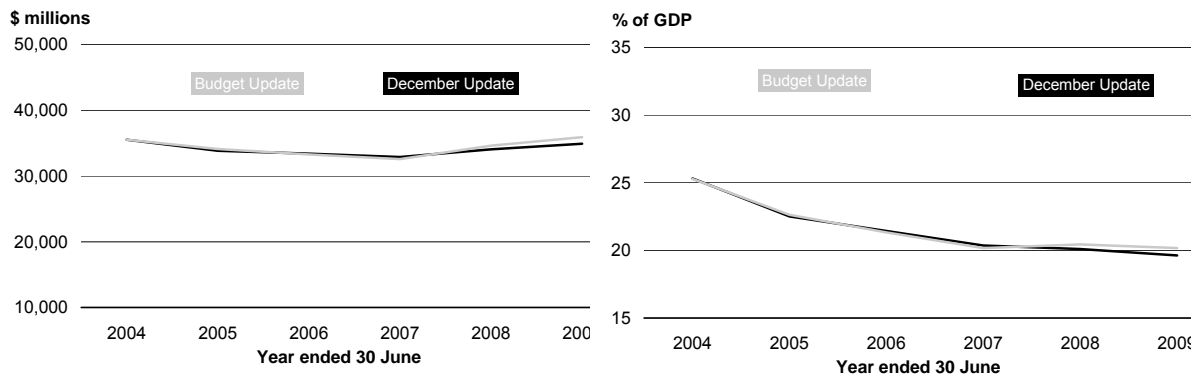
Net core Crown debt comparison



Source: The Treasury

## Gross Debt

Gross debt comparison



Source: The Treasury

## Key Fiscal Indicators Comparison to the 2004 December Economic and Fiscal Update

Fiscal Indicators (\$ million)	2004				2005				2006				2007				2008				2009			
	Actual	Budget Forecast	DEFU Forecast	Variance	Forecast	DEFU Forecast	Variance	Forecast	DEFU Forecast	Variance	Forecast	DEFU Forecast	Variance	Forecast	DEFU Forecast	Variance	Forecast	DEFU Forecast	Variance	Forecast	DEFU Forecast	Variance		
<b>Revenue</b>																								
Total revenue	60,387	65,265	64,643	622	68,770	68,071	699	71,238	71,020	218	73,856	74,406	(550)	78,156	78,305	(149)								
Total core Crown revenue	46,932	51,145	50,581	564	53,297	52,818	479	55,008	54,983	25	57,056	57,812	(756)	60,792	61,116	(324)								
<b>Expenses</b>																								
Total expenses	53,057	59,513	59,155	358	62,244	62,009	235	66,047	65,825	222	70,101	69,622	479	73,020	73,016	4								
Total core Crown expenses	41,608	45,327	45,751	(424)	48,245	48,092	153	51,323	51,225	98	54,780	54,521	259	57,210	57,423	(213)								
Operating balance	7,424	5,891	5,627	264	6,665	6,201	464	5,330	5,334	(4)	3,894	4,923	(1,029)	5,275	5,428	(153)								
OBERAC	6,629	7,445	6,467	978	6,665	6,201	464	5,330	5,334	(4)	3,894	4,923	(1,029)	5,275	5,428	(153)								
<b>Debt Indicators</b>																								
Gross sovereign-issued debt	35,527	34,111	33,846	265	33,284	33,409	(125)	32,583	32,905	(322)	34,629	34,056	573	35,925	34,931	994								
Net core Crown debt	15,204	11,533	13,065	(1,532)	10,257	12,461	(2,204)	10,640	12,612	(1,972)	12,527	12,873	(346)	13,439	13,215	224								
Net worth	35,463	41,972	41,109	863	48,637	47,310	1,327	53,967	52,644	1,323	57,861	57,567	294	63,136	62,995	141								
Nominal GDP	140,512	150,714	150,400	314	156,065	155,871	194	161,582	161,625	(43)	169,470	169,487	(17)	178,172	178,029	143								
<b>Fiscal Indicators as a % of GDP</b>																								
<b>Revenue</b>																								
Total Crown revenue	43.0%	43.3%	43.0%	0.3%	44.1%	43.7%	0.4%	44.1%	43.9%	0.1%	43.6%	43.9%	-0.3%	43.9%	44.0%	-0.1%								
Total core Crown revenue	33.4%	33.9%	33.6%	0.3%	34.2%	33.9%	0.3%	34.0%	34.0%	0.0%	33.7%	34.1%	-0.4%	34.1%	34.3%	-0.2%								
<b>Expenses</b>																								
Total Crown expenses	37.8%	39.5%	39.3%	0.2%	39.9%	39.8%	0.1%	40.9%	40.7%	0.1%	41.4%	41.1%	0.3%	41.0%	41.0%	0.0%								
Total core Crown expenses	29.6%	30.1%	30.4%	-0.3%	30.9%	30.9%	0.1%	31.8%	31.7%	0.1%	32.3%	32.2%	0.2%	32.1%	32.3%	-0.1%								
Operating balance	5.3%	3.9%	3.7%	0.2%	4.3%	4.0%	0.3%	3.3%	3.3%	0.0%	2.3%	2.9%	-0.6%	3.0%	3.0%	-0.1%								
OBERAC	4.7%	4.9%	4.3%	0.6%	4.3%	4.0%	0.3%	3.3%	3.3%	0.0%	2.3%	2.9%	-0.6%	3.0%	3.0%	-0.1%								
<b>Debt Indicators</b>																								
Gross sovereign-issued debt	25.3%	22.6%	22.5%	0.1%	21.3%	21.4%	-0.1%	20.2%	20.4%	-0.2%	20.4%	20.1%	0.3%	20.2%	19.6%	0.5%								
Net core Crown debt	10.8%	7.7%	8.7%	-1.0%	6.6%	8.0%	-1.4%	6.6%	7.8%	-1.2%	7.4%	7.6%	-0.2%	7.5%	7.4%	0.1%								
Net worth	25.2%	27.8%	27.3%	0.5%	31.2%	30.4%	0.8%	33.4%	32.6%	0.8%	34.1%	34.0%	0.2%	35.4%	35.4%	0.1%								

## 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.

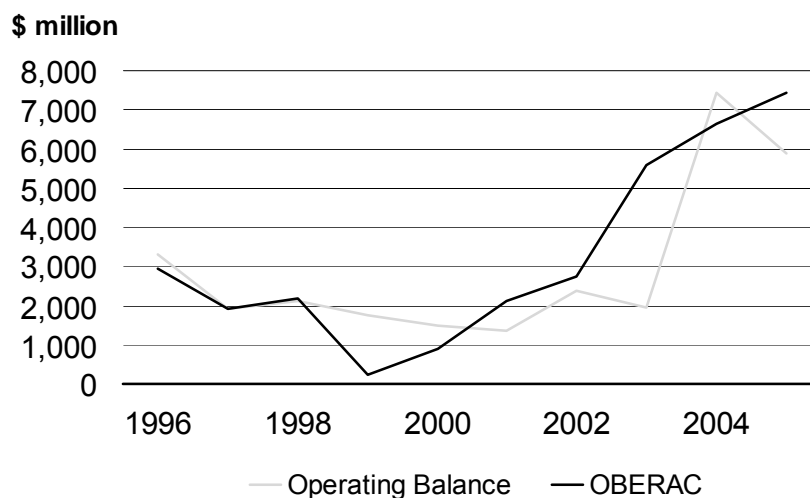
Revaluations have significantly affected the operating balance as it is a relatively small balancing item between two large numbers: total revenue and total expenses. Revaluation effects are not forecast beyond the current year as a matter of policy given their inherent uncertainty.

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

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Operating Balance</b>	<b>3,314</b>	<b>1,908</b>	<b>2,127</b>	<b>1,763</b>	<b>1,503</b>	<b>1,358</b>	<b>2,391</b>	<b>1,966</b>	<b>7,424</b>	<b>5,891</b>
<b>Adjustments</b>										
Net GSF pension liability movts	226	(4)	(233)	429	(201)	164	436	1,752	(508)	426
ACC revaluation	-	-	-	-	(519)	420	43	1,347	(309)	1,202
NPF liability movement	-	-	-	-	-	253	-	197	-	-
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)	-	-	-	(140)	-	-	-	-	-	-
Write-downs (eg, Defence)	-	-	-	-	155	103	-	269	127	-
(Gains)/losses on marketable securities and deposits	-	-	(110)	-	-	(102)	-	-	-	(74)
EQC asset valuation decreases	-	-	-	-	-	-	130	49	(105)	-
Maui gas receivable revaluation	-	-	-	-	-	-	(260)	-	-	-
Unrealised forest revaluations	-	-	-	-	-	-	-	-	-	-
Exchange rate movements	(603)	-	-	-	-	-	75	-	-	-
<i>Total adjustments</i>	<i>(377)</i>	<i>(4)</i>	<i>64</i>	<i>(1,517)</i>	<i>(619)</i>	<i>757</i>	<i>360</i>	<i>3,614</i>	<i>(795)</i>	<i>1,554</i>
<b>OBERAC</b>	<b>2,937</b>	<b>1,904</b>	<b>2,191</b>	<b>246</b>	<b>884</b>	<b>2,115</b>	<b>2,751</b>	<b>5,580</b>	<b>6,629</b>	<b>7,445</b>

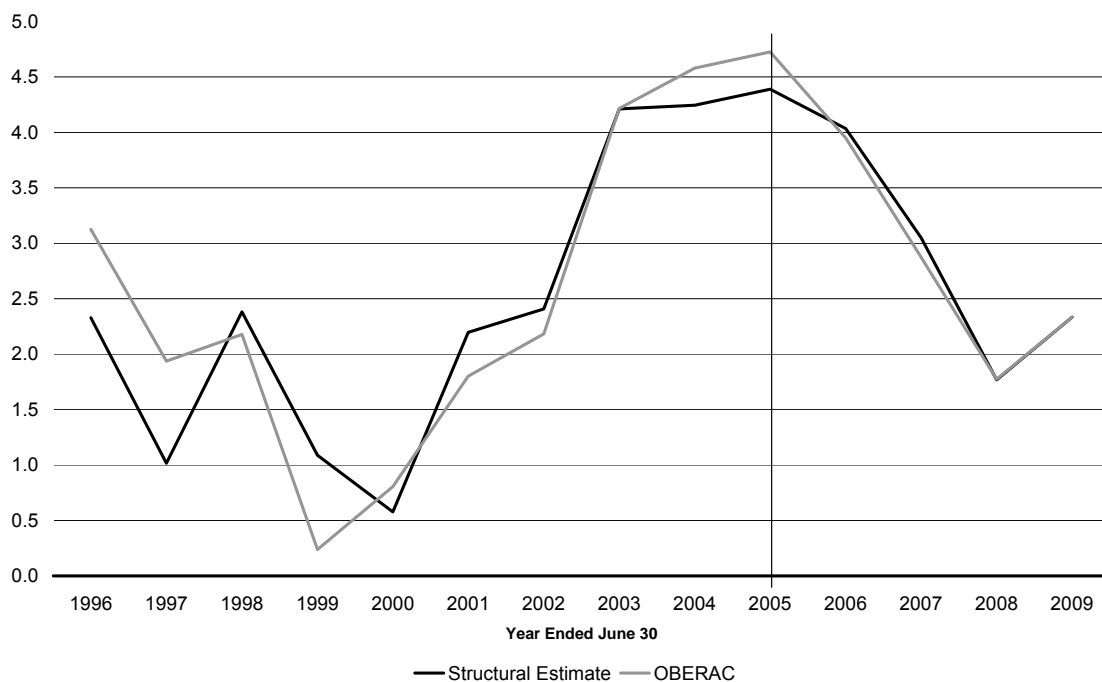
Source: The Treasury

## Estimates of the Structural Fiscal Balance and Fiscal Impulse

The structural (or cyclically-adjusted) fiscal balance adjusts the actual fiscal balance for fluctuations of output around trend output. The adjustment also incorporates estimates of the responsiveness of different revenue types, and unemployment, to changes in output. The structural fiscal balance provides an estimate of the underlying fiscal position – that is, what the fiscal balance would be if the economy was operating at trend. Because it is based on a number of assumptions and is sensitive to new information, the estimate is subject to some uncertainty.

The graph shows that the forecast OBERAC (excluding net NZSF returns) is reasonably close to the forecast structural surplus because forecast deviations from trend output are relatively small.

### Estimated structural balance and OBERAC: Excluding net NZSF returns (% of GDP)



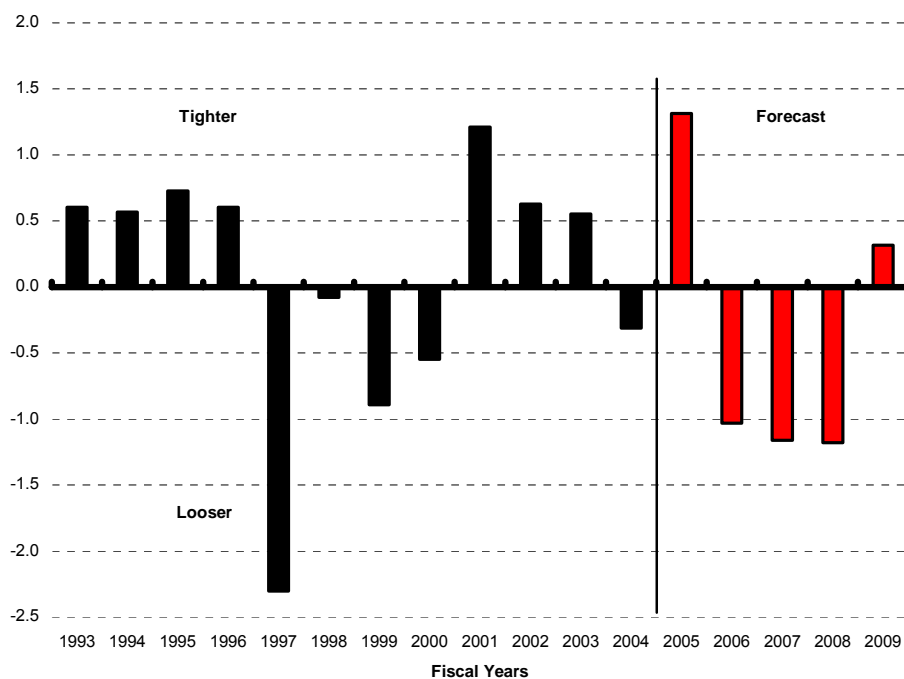
Source: The Treasury

The government’s spending actions show up in the economic forecasts in a number of ways. Public consumption incorporates government spending on employees and purchases of other goods and services, including military equipment. Non-market investment includes new physical investment undertaken by the government in areas like education, health and on roads. Other government spending such as transfers (eg, New Zealand Superannuation and unemployment benefits) flows through the household sector and into private consumption. In addition, the government withdraws money from the economy through income tax, corporate tax and GST.

Fiscal impulse is a measure of whether changes in fiscal policy are adding to, or subtracting from, aggregate demand pressures in the economy. In the graph below, a

positive fiscal impulse represents a tightening of policy relative to the previous year. The fiscal impulse indicator presented here removes estimated cyclical influences (ie, so-called automatic fiscal stabilisers) and net interest payments. This yields a measure of “discretionary” fiscal policy changes. Fiscal impulse is calculated as the *change* in the estimated structural primary cash balance. The fiscal impulse indicator treats selected capital items as components of expenditure and is derived from detailed (Core Crown) cash flow information.

### Estimated fiscal impulse (% of GDP)



Source: The Treasury

Indicators of fiscal impulse based on fiscal aggregates have limitations. At best they can only provide an indication of the first round impact of changes in fiscal policy. They focus only on the net impact of tax and spending decisions and so do not take into account the composition of changes in fiscal policy (which may be relevant for the assessment of inflationary impacts).

*Ex post* estimates of fiscal impulse may differ from the *ex ante* (or “real time”) view because of revisions to the evolution of the structural component of the fiscal balance and changes in the implementation of spending plans (both operating and capital). Fiscal impulses are sensitive to the estimated cyclical adjustment and the removal of net interest payments.

Furthermore, a measure of discretionary fiscal policy changes does not provide a complete account of the overall impact of fiscal policy because it excludes the effect of automatic stabilisers and net interest payments. For example, in the year ended June 2004 the fiscal impulse indicator suggested a slightly expansionary fiscal policy. However, *overall* fiscal policy was neutral in the sense that its effect on aggregate demand was neither expansionary nor contractionary. For the 2005 year both the fiscal impulse and

overall impact suggest a contractionary fiscal policy with the fiscal impulse being smaller than the overall effect. For 2006 to 2008 both approaches yield expansionary impacts on GDP with fiscal impulses across the years 2006 to 2008 of around one percent of GDP.

Treasury’s approach to estimating structural fiscal balances and fiscal impulses is set out in Treasury Working Papers 01/10 and 02/30. The 2002 *December Update* discussed some of the alternative techniques used to estimate trend output (see pages 38 - 40).

### Summary table

Years ended June (% of GDP)

Structural OBERAC (ex net NZSF returns)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
-2.96	0.36	0.54	1.84	2.33	1.02	2.38	1.09	0.58	2.20	2.41	4.21	4.25	4.42	4.03	3.05	1.77	2.33

Fiscal Impulse

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	0.60	0.57	0.73	0.60	-2.30	-0.08	-0.89	-0.55	1.21	0.63	0.55	-0.31	1.31	-0.74	-1.45	-1.24	0.38

Source: The Treasury

## Reconciliation of Operating Balance to Net Crown Debt

	2004	2005	2006	2007	2008	2009
(\$ million)	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Operating balance	7,424	5,891	6,665	5,330	3,894	5,275
Less/(plus) valuation items	(795)	1,554	-	-	-	-
OBERAC	6,629	7,445	6,665	5,330	3,894	5,275
Less NZS Fund contributions	(1,879)	(2,107)	(2,337)	(2,375)	(2,533)	(2,744)
Less after-tax income of the NZS Fund	(193)	(411)	(467)	(639)	(828)	(1,042)
Available after NZS Fund requirements	4,557	4,927	3,861	2,316	533	1,489
Decrease/(increase in net debt)	2,373	3,671	1,276	(383)	(1,887)	(912)
Difference	<b>(2,184)</b>	<b>(1,256)</b>	<b>(2,585)</b>	<b>(2,699)</b>	<b>(2,420)</b>	<b>(2,401)</b>
This difference comprises:						
Non-cash elements of the OBERAC						
SOE/CE retained surplus net of						
dividends (excluding valuation issues)	(1,791)	(1,275)	(1,613)	(1,645)	(1,618)	(1,693)
Depreciation	920	1,013	1,104	1,141	1,195	1,218
(Gain)/loss on sale of assets	3	-	-	-	-	-
Commercial forests and net FX movements	(235)	-	-	-	-	-
Student loan influences	(80)	(153)	(29)	(22)	(9)	(3)
Cash elements not in the OBERAC						
Circulating currency	114	205	-	-	-	-
Net purchase of physical assets						
including capital contingency provision	(1,299)	(1,693)	(2,228)	(1,893)	(1,701)	(1,564)
Asset sale receipts	-	-	-	-	-	-
Net capital injections	(20)	(596)	(448)	(291)	(193)	(84)
Other working capital movements	204	1,243	629	11	(94)	(275)
	<b>(2,184)</b>	<b>(1,256)</b>	<b>(2,585)</b>	<b>(2,699)</b>	<b>(2,420)</b>	<b>(2,401)</b>

## Reconciliation of Core Crown Net Cash Flows from Operations to Total Crown Operating Balance

(\$ million)	2004 Actuals	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast
<b>Core Crown Net Cash Flows from Operations</b>	<b>5,443</b>	<b>8,251</b>	<b>6,324</b>	<b>4,386</b>	<b>2,728</b>	<b>3,681</b>
<i>Items included in the operating balance but not in net cash flows from operations</i>						
<b>Valuation changes</b>						
(Increase)/decrease in pension liabilities	315	(561)	24	58	93	125
National Provident Fund guarantee	(9)	-	-	-	-	-
Revaluation losses on assets	(100)	-	-	-	-	-
Revaluation of commercial forests	(40)	-	-	-	-	-
<b>Total valuation changes</b>	<b>166</b>	<b>(561)</b>	<b>24</b>	<b>58</b>	<b>93</b>	<b>125</b>
<b>Property, plant &amp; equipment asset movements</b>						
Depreciation	(920)	(1,013)	(1,104)	(1,141)	(1,195)	(1,218)
<b>Total property, plant &amp; equipment movements</b>	<b>(920)</b>	<b>(1,013)</b>	<b>(1,104)</b>	<b>(1,141)</b>	<b>(1,195)</b>	<b>(1,218)</b>
<b>Other Non-cash Items</b>						
Student loans	(80)	(153)	(29)	(22)	(9)	(3)
Amortisation of goodwill	(47)	(47)	(47)	(47)	(47)	(47)
Accrued income on NZS Fund	193	411	467	639	828	1,042
<b>Total Other Non-cash Items</b>	<b>66</b>	<b>211</b>	<b>391</b>	<b>570</b>	<b>772</b>	<b>992</b>
<b>Total other investing and financing items</b>	<b>254</b>	<b>(160)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Movements in Working Capital</b>						
Increase/(decrease) in receivables	609	(490)	48	56	36	50
Increase/(decrease) in inventories	3	4	(2)	(4)	9	54
(Increase)/decrease in payables	(297)	(424)	(629)	(240)	(167)	(102)
<b>Total movements in working capital</b>	<b>315</b>	<b>(910)</b>	<b>(583)</b>	<b>(188)</b>	<b>(122)</b>	<b>2</b>
<b>Core Crown Operating Balance</b>	<b>5,324</b>	<b>5,818</b>	<b>5,052</b>	<b>3,685</b>	<b>2,276</b>	<b>3,582</b>
<b>SOE/CE surpluses</b>	<b>2,100</b>	<b>73</b>	<b>1,613</b>	<b>1,645</b>	<b>1,618</b>	<b>1,693</b>
<b>Total Crown Operating Balance</b>	<b>7,424</b>	<b>5,891</b>	<b>6,665</b>	<b>5,330</b>	<b>3,894</b>	<b>5,275</b>

# Tax Revenue Tables

**Table 1** – Treasury and Inland Revenue forecasts of tax revenue

(\$ million)	2003/04	2004/05		2005/06		2006/07		2007/08		2008/09	
	Actual	Treasury Forecast	IRD	Treasury Forecast	IRD	Treasury Forecast	IRD	Treasury Forecast	IRD	Treasury Forecast	IRD
<b>Direct Tax</b>											
<b>Individuals</b>											
Source deductions	16,908	18,189	18,200	19,240	19,230	20,157	20,160	21,139	21,155	22,030	22,025
Other persons tax	4,027	3,982	4,001	4,051	4,070	4,282	4,287	4,332	4,338	4,671	4,705
Refunds	(860)	(894)	(880)	(874)	(900)	(897)	(910)	(897)	(920)	(897)	(930)
Fringe benefit tax	410	444	435	456	451	434	427	458	440	473	456
<b>Subtotal: Individuals</b>	<b>20,485</b>	<b>21,721</b>	<b>21,756</b>	<b>22,873</b>	<b>22,851</b>	<b>23,976</b>	<b>23,964</b>	<b>25,032</b>	<b>25,013</b>	<b>26,277</b>	<b>26,256</b>
<b>Company Tax (net)</b>	<b>6,514</b>	<b>7,778</b>	<b>7,794</b>	<b>8,413</b>	<b>8,404</b>	<b>8,201</b>	<b>8,283</b>	<b>7,842</b>	<b>7,998</b>	<b>8,966</b>	<b>9,099</b>
<b>Withholding taxes on:</b>											
Resident interest income	1,188	1,420	1,470	1,459	1,529	1,384	1,471	1,410	1,435	1,525	1,450
Non-resident income	800	924	937	793	813	774	797	795	820	830	846
Resident dividend income	49	65	59	63	65	63	65	64	65	66	65
Foreign-source dividends	139	167	166	176	182	181	185	186	190	191	195
<b>Subtotal: Withholding Tax</b>	<b>2,176</b>	<b>2,576</b>	<b>2,632</b>	<b>2,491</b>	<b>2,589</b>	<b>2,402</b>	<b>2,518</b>	<b>2,455</b>	<b>2,510</b>	<b>2,612</b>	<b>2,556</b>
<b>Total Income Tax</b>	<b>29,175</b>	<b>32,075</b>	<b>32,182</b>	<b>33,777</b>	<b>33,844</b>	<b>34,579</b>	<b>34,765</b>	<b>35,329</b>	<b>35,521</b>	<b>37,855</b>	<b>37,911</b>
<b>Other: Estate and gift duties</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total Direct Tax</b>	<b>29,177</b>	<b>32,078</b>	<b>32,184</b>	<b>33,779</b>	<b>33,846</b>	<b>34,581</b>	<b>34,767</b>	<b>35,331</b>	<b>35,523</b>	<b>37,857</b>	<b>37,913</b>
<b>Indirect Tax</b>											
<b>GST</b>											
GST (Customs)	4,308	4,507	4,517	4,867	4,892	5,308	5,342	5,581	5,604	5,842	5,845
GST (IRD)	8,467	9,056	8,898	9,151	9,261	9,406	9,468	9,981	9,980	10,697	10,600
<b>Subtotal: GST</b>	<b>12,775</b>	<b>13,563</b>	<b>13,415</b>	<b>14,018</b>	<b>14,153</b>	<b>14,714</b>	<b>14,810</b>	<b>15,562</b>	<b>15,584</b>	<b>16,539</b>	<b>16,445</b>
<b>Excise duties on:</b>											
Alcoholic drinks	476	484	484	505	505	524	524	544	544	563	563
Tobacco products	819	800	800	850	850	874	874	897	897	918	918
Petroleum fuels	947	815	815	902	902	926	926	949	949	982	982
<b>Subtotal: Excise Duties</b>	<b>2,242</b>	<b>2,099</b>	<b>2,099</b>	<b>2,257</b>	<b>2,257</b>	<b>2,324</b>	<b>2,324</b>	<b>2,390</b>	<b>2,390</b>	<b>2,463</b>	<b>2,463</b>
<b>Other Indirect Tax</b>											
Customs duty	720	929	929	1,048	1,048	1,091	1,091	1,113	1,113	1,083	1,083
Carbon tax (net)	..	..	..	..	..	90	90	362	362	359	359
Road user charges	667	727	720	796	785	841	820	888	865	939	915
Motor vehicle fees	211	216	218	219	225	224	230	230	240	239	245
Stamp and cheque duties	56	59	62	56	62	56	62	56	60	56	60
Gaming duties	295	321	314	321	328	332	339	340	348	348	357
Energy resources levy	75	75	75	72	72	67	67	64	64	64	64
Other	..	..	..	..	..	..	..	..	..	..	..
<b>Subtotal: Other Indirect Tax</b>	<b>2,024</b>	<b>2,327</b>	<b>2,318</b>	<b>2,512</b>	<b>2,520</b>	<b>2,701</b>	<b>2,699</b>	<b>3,053</b>	<b>3,052</b>	<b>3,088</b>	<b>3,083</b>
<b>Total Indirect Tax</b>	<b>17,041</b>	<b>17,989</b>	<b>17,832</b>	<b>18,787</b>	<b>18,930</b>	<b>19,739</b>	<b>19,833</b>	<b>21,005</b>	<b>21,026</b>	<b>22,090</b>	<b>21,991</b>
<b>Total Tax</b>	<b>46,218</b>	<b>50,067</b>	<b>50,016</b>	<b>52,566</b>	<b>52,776</b>	<b>54,320</b>	<b>54,600</b>	<b>56,336</b>	<b>56,549</b>	<b>59,947</b>	<b>59,904</b>
Tax-to-GDP	32.9%	33.2%	33.2%	33.7%	33.8%	33.6%	33.8%	33.2%	33.4%	33.6%	33.6%
<b>Core Crown Eliminations</b>	These are removed from Total Tax to arrive at Core Crown taxation.										
Core Crown income tax	154	263	263	285	285	354	354	429	429	515	515
GST on departmental outputs	885	955	955	1,022	1,022	1,015	1,015	1,041	1,041	1,041	1,041
GST on Crown expenses	2,171	2,394	2,394	2,632	2,632	2,956	2,956	3,214	3,214	3,455	3,455
<b>Core Crown Taxation</b>	<b>43,008</b>	<b>46,455</b>	<b>46,404</b>	<b>48,627</b>	<b>48,837</b>	<b>49,995</b>	<b>50,275</b>	<b>51,652</b>	<b>51,865</b>	<b>54,936</b>	<b>54,893</b>
Tax-to-GDP	30.6%	30.8%	30.8%	31.2%	31.3%	30.9%	31.1%	30.5%	30.6%	30.8%	30.8%
<b>Total Crown Eliminations</b>	These are removed from Core Crown taxation to arrive at Total Crown taxation.										
Income tax from SOEs and CEs	441	442	442	492	492	515	515	525	525	553	553
Lottery duty	35	33	33	33	33	36	36	37	37	39	39
<b>Total Crown Taxation</b>	<b>42,532</b>	<b>45,980</b>	<b>45,929</b>	<b>48,102</b>	<b>48,312</b>	<b>49,444</b>	<b>49,724</b>	<b>51,090</b>	<b>51,303</b>	<b>54,344</b>	<b>54,301</b>
Tax-to-GDP	30.3%	30.5%	30.5%	30.8%	31.0%	30.6%	30.8%	30.1%	30.3%	30.5%	30.5%
GDP	140,512	150,714	150,714	156,065	156,065	161,582	161,582	169,470	169,470	178,172	178,172

Sources: Inland Revenue, The Treasury

**Table 2 – Treasury and Inland Revenue forecasts of tax receipts (cash)**

(\$ million)	2003/04	2004/05		2005/06		2006/07		2007/08		2008/09	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
		Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
<b>Direct Tax</b>											
<b>Individuals</b>											
Source deductions	17,012	18,189	18,200	19,240	19,230	20,157	20,160	21,139	21,155	22,030	22,025
Other persons tax	4,352	4,561	4,542	4,611	4,630	4,936	4,927	5,003	5,046	5,342	5,354
Refunds	(1,406)	(1,369)	(1,372)	(1,410)	(1,452)	(1,538)	(1,552)	(1,568)	(1,592)	(1,568)	(1,612)
Fringe benefit tax	410	432	427	452	445	432	424	451	440	470	458
<b>Subtotal: Individuals</b>	<b>20,368</b>	<b>21,813</b>	<b>21,797</b>	<b>22,893</b>	<b>22,853</b>	<b>23,987</b>	<b>23,959</b>	<b>25,025</b>	<b>25,049</b>	<b>26,274</b>	<b>26,225</b>
<b>Company Tax (net)</b>	<b>6,581</b>	<b>7,863</b>	<b>7,806</b>	<b>8,413</b>	<b>8,426</b>	<b>8,201</b>	<b>8,247</b>	<b>7,842</b>	<b>7,980</b>	<b>8,966</b>	<b>9,097</b>
<b>Withholding taxes on:</b>											
Resident interest income	1,217	1,418	1,470	1,459	1,529	1,384	1,471	1,410	1,435	1,525	1,450
Non-resident income	776	913	923	779	813	774	797	795	820	830	846
Resident dividend income	53	65	60	63	65	63	65	64	65	66	65
Foreign-source dividends	128	180	175	175	182	181	185	186	190	191	195
<b>Subtotal: Withholding Tax</b>	<b>2,174</b>	<b>2,576</b>	<b>2,628</b>	<b>2,476</b>	<b>2,589</b>	<b>2,402</b>	<b>2,518</b>	<b>2,455</b>	<b>2,510</b>	<b>2,612</b>	<b>2,556</b>
<b>Total Income Tax</b>	<b>29,123</b>	<b>32,252</b>	<b>32,231</b>	<b>33,782</b>	<b>33,868</b>	<b>34,590</b>	<b>34,724</b>	<b>35,322</b>	<b>35,539</b>	<b>37,852</b>	<b>37,878</b>
Other: Estate and gift duties	2	2	2	2	2	2	2	2	2	2	2
<b>Total Direct Tax</b>	<b>29,125</b>	<b>32,254</b>	<b>32,233</b>	<b>33,784</b>	<b>33,870</b>	<b>34,592</b>	<b>34,726</b>	<b>35,324</b>	<b>35,541</b>	<b>37,854</b>	<b>37,880</b>
<b>Indirect Tax</b>											
<b>GST</b>											
GST (Customs)	4,262	4,498	4,517	4,867	4,892	5,308	5,342	5,581	5,604	5,842	5,845
GST (IRD)	8,252	8,959	8,898	9,152	9,261	9,407	9,468	9,982	9,980	10,698	10,600
<b>Subtotal: GST</b>	<b>12,514</b>	<b>13,457</b>	<b>13,415</b>	<b>14,019</b>	<b>14,153</b>	<b>14,715</b>	<b>14,810</b>	<b>15,563</b>	<b>15,584</b>	<b>16,540</b>	<b>16,445</b>
<b>Excise duties on:</b>											
Alcoholic drinks	476	484	484	505	505	524	524	544	544	563	563
Tobacco products	800	810	810	850	850	874	874	897	897	918	918
Petroleum fuels	944	815	815	902	902	926	926	949	949	982	982
<b>Subtotal: Excise Duties</b>	<b>2,220</b>	<b>2,109</b>	<b>2,109</b>	<b>2,257</b>	<b>2,257</b>	<b>2,324</b>	<b>2,324</b>	<b>2,390</b>	<b>2,390</b>	<b>2,463</b>	<b>2,463</b>
<b>Other Indirect Tax</b>											
Customs duty	726	959	959	1,048	1,048	1,091	1,091	1,113	1,113	1,083	1,083
Carbon tax (net)	..	..	..	..	..	60	60	362	362	359	359
Road user charges	668	723	720	792	785	836	820	884	865	934	915
Motor vehicle fees	223	216	218	224	225	224	230	230	240	239	245
Stamp and cheque duties	56	59	62	56	62	56	62	56	60	56	60
Gaming duties	294	315	314	321	328	332	339	340	348	348	357
Energy resources levy	75	77	77	72	72	68	68	65	65	64	64
Other	..	3	3	1	1	1	1	1	1	1	1
<b>Subtotal: Other Indirect Tax</b>	<b>2,042</b>	<b>2,352</b>	<b>2,353</b>	<b>2,514</b>	<b>2,521</b>	<b>2,668</b>	<b>2,671</b>	<b>3,051</b>	<b>3,054</b>	<b>3,084</b>	<b>3,084</b>
<b>Total Indirect Tax</b>	<b>16,776</b>	<b>17,918</b>	<b>17,877</b>	<b>18,790</b>	<b>18,931</b>	<b>19,707</b>	<b>19,805</b>	<b>21,004</b>	<b>21,028</b>	<b>22,087</b>	<b>21,992</b>
<b>Total Tax</b>	<b>45,901</b>	<b>50,172</b>	<b>50,110</b>	<b>52,574</b>	<b>52,801</b>	<b>54,299</b>	<b>54,531</b>	<b>56,328</b>	<b>56,569</b>	<b>59,941</b>	<b>59,872</b>
Tax-to-GDP	32.7%	33.3%	33.2%	33.7%	33.8%	33.6%	33.7%	33.2%	33.4%	33.6%	33.6%
<b>Core Crown Eliminations</b>	These are removed from Total Tax to arrive at Core Crown taxation.										
Core Crown income tax	112	263	263	285	285	354	354	429	429	515	515
GST on departmental outputs	885	955	955	1,022	1,022	1,015	1,015	1,041	1,041	1,041	1,041
GST on Crown expenses	2,173	2,394	2,394	2,632	2,632	2,956	2,956	3,214	3,214	3,455	3,455
<b>Core Crown Taxation</b>	<b>42,731</b>	<b>46,560</b>	<b>46,498</b>	<b>48,635</b>	<b>48,862</b>	<b>49,974</b>	<b>50,206</b>	<b>51,644</b>	<b>51,885</b>	<b>54,930</b>	<b>54,861</b>
Tax-to-GDP	30.4%	30.9%	30.9%	31.2%	31.3%	30.9%	31.1%	30.5%	30.6%	30.8%	30.8%
<b>Total Crown Eliminations</b>	These are removed from Core Crown taxation to arrive at Total Crown taxation.										
Income tax from SOEs and CEs	389	411	411	496	496	477	477	488	488	509	509
Lottery duty	34	33	33	33	33	36	36	37	37	39	39
<b>Total Crown Taxation</b>	<b>42,308</b>	<b>46,116</b>	<b>46,054</b>	<b>48,106</b>	<b>48,333</b>	<b>49,461</b>	<b>49,693</b>	<b>51,119</b>	<b>51,360</b>	<b>54,382</b>	<b>54,313</b>
Tax-to-GDP	30.1%	30.6%	30.6%	30.8%	31.0%	30.6%	30.8%	30.2%	30.3%	30.5%	30.5%

Sources: Inland Revenue, The Treasury

## Annex A: Expense Tables

**Table A.1 – Core Crown expenses by category**

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Social security and welfare	12,883	13,207	13,485	13,907	14,252	14,736	15,611	16,558	17,517	18,108
GSF	736	1,112	1,409	2,625	660	1,581	1,019	1,019	1,011	1,000
Health	6,146	6,660	7,032	7,501	8,111	8,815	9,666	10,152	10,229	10,284
Education	5,712	6,136	6,473	7,016	7,585	8,068	8,681	8,994	9,183	9,256
Core government services	1,642	1,798	1,540	1,780	1,741	1,962	2,098	2,064	2,107	2,107
Law and order	1,509	1,541	1,733	1,734	1,843	2,019	2,177	2,229	2,253	2,260
Defence	1,163	1,242	1,162	1,199	1,311	1,321	1,341	1,431	1,501	1,578
Transport and communications	929	905	989	1,408	1,461	1,596	1,895	2,027	2,237	2,249
Economic and industrial services	881	1,037	1,013	1,054	1,192	1,629	1,679	1,730	1,870	1,734
Primary services	256	279	304	355	368	409	445	418	420	419
Heritage, culture and recreation	427	400	434	515	634	756	786	758	755	758
Housing and community	63	50	93	102	139	169	214	259	259	249
Other	46	75	110	75	52	24	117	117	117	117
Finance costs	2,205	2,304	2,118	2,360	2,252	2,190	2,245	2,035	2,044	1,978
Net foreign exchange (gains)/losses	(62)	(47)	75	118	7	21	..	..	..	..
New operating spending for the 2005 Budget	..	..	..	..	..	31	271	283	271	262
Forecast new operating spending	..	..	..	..	..	..	..	1,249	3,006	4,851
<b>Core Crown Expenses</b>	<b>34,536</b>	<b>36,699</b>	<b>37,970</b>	<b>41,749</b>	<b>41,608</b>	<b>45,327</b>	<b>48,245</b>	<b>51,323</b>	<b>54,780</b>	<b>57,210</b>

Source: The Treasury

**Table A.2 – Social security and welfare**

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Welfare benefits	12,072	12,385	12,614	12,884	13,181	13,401	14,289	15,250	16,131	16,702
Social rehabilitation & compensation	67	60	87	146	118	141	133	135	137	141
Departmental expenses	634	618	657	666	705	807	862	816	807	798
Other non-departmental expenses	110	144	127	211	248	387	327	357	442	467
<b>Core Crown Social Security and Welfare</b>	<b>12,883</b>	<b>13,207</b>	<b>13,485</b>	<b>13,907</b>	<b>14,252</b>	<b>14,736</b>	<b>15,611</b>	<b>16,558</b>	<b>17,517</b>	<b>18,108</b>

Source: The Treasury

**Table A.3 – New Zealand superannuation and welfare benefits**

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
New Zealand Superannuation	5,068	5,273	5,450	5,642	5,889	6,082	6,392	6,763	7,131	7,491
Domestic Purposes Benefit	1,433	1,444	1,501	1,520	1,569	1,549	1,502	1,507	1,541	1,566
Unemployment Benefit	..	..	1,369	1,274	1,084	831	800	903	960	968
Community Wage	1,937	1,849	..	..	..	..	..	..	..	..
Accommodation Supplement	867	795	720	706	702	748	803	843	879	902
Invalids Benefit	677	745	832	914	976	1,028	1,088	1,147	1,215	1,279
Sickness Benefit	..	..	375	421	470	510	541	573	611	647
Disability Allowance	204	210	224	241	257	267	270	291	312	331
Transitional Retirement Benefit	125	127	97	47	11	..	..	..	..	..
Income Related Rents	..	161	274	296	340	373	391	411	431	449
Family Support	899	878	848	862	833	915	1,312	1,469	1,683	1,688
Child Tax Credit	167	161	157	143	155	142	141	46	16	13
Special Benefit	35	40	49	82	140	176	149	67	34	22
In Work Payment	..	..	..	..	..	..	57	289	350	356
Benefits paid in Australia	147	171	159	121	103	91	80	70	60	52
Paid Parental Leave	..	..	..	56	63	78	98	135	137	141
Other benefits	513	531	559	559	589	611	665	736	771	797
<b>Total Welfare Benefits</b>	<b>12,072</b>	<b>12,385</b>	<b>12,614</b>	<b>12,884</b>	<b>13,181</b>	<b>13,401</b>	<b>14,289</b>	<b>15,250</b>	<b>16,131</b>	<b>16,702</b>

Source: The Treasury

**Table A.4 – Beneficiary numbers**

(Thousands)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
New Zealand Superannuation	456	449	448	454	461	469	480	493	503	514
Domestic Purposes Benefit	111	110	110	110	110	109	107	105	104	104
Unemployment Benefit	..	..	140	126	104	78	72	79	82	81
Community Wage	200	189	..	..	..	..	..	..	..	..
Accommodation Supplement	324	297	270	261	249	243	251	259	265	268
Invalids Benefit	53	58	62	67	70	74	76	78	81	84
Sickness Benefit	..	..	35	38	42	45	47	48	50	52

Source: The Treasury

**Table A.5 – GSF Pension Expenses**

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Pension expenses	937	948	973	978	975	1,020	1,043	1,077	1,104	1,125
Revaluation of Unfunded Liability	(201)	164	436	1,647	(315)	561	(24)	(58)	(93)	(125)
<b>Core Crown GSF</b>	<b>736</b>	<b>1,112</b>	<b>1,409</b>	<b>2,625</b>	<b>660</b>	<b>1,581</b>	<b>1,019</b>	<b>1,019</b>	<b>1,011</b>	<b>1,000</b>

Source: The Treasury

**Table A.6 – Health**

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Departmental outputs	59	116	136	148	161	158	153	144	143	142
Health service purchasing	5,688	6,138	6,307	6,783	7,452	8,112	8,980	9,488	9,571	9,616
Other non-departmental outputs	106	88	61	59	71	169	123	109	91	91
Health payments to ACC	264	291	484	482	409	344	380	382	394	406
Other expenses	29	27	44	29	18	32	30	29	30	29
<b>Core Crown Health Expenses</b>	<b>6,146</b>	<b>6,660</b>	<b>7,032</b>	<b>7,501</b>	<b>8,111</b>	<b>8,815</b>	<b>9,666</b>	<b>10,152</b>	<b>10,229</b>	<b>10,284</b>

Source: The Treasury

**Table A.7 – Health service purchasing**

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Payments to District Health Boards	4,119	4,476	4,936	5,328	6,441	7,236	8,067	8,590	8,668	8,707
National Disability Support Services	1,464	1,550	1,170	1,260	793	637	652	636	634	634
Public Health Service Purchasing	105	112	201	195	218	239	261	262	269	275
<b>Total Health Servicing Purchasing</b>	<b>5,688</b>	<b>6,138</b>	<b>6,307</b>	<b>6,783</b>	<b>7,452</b>	<b>8,112</b>	<b>8,980</b>	<b>9,488</b>	<b>9,571</b>	<b>9,616</b>

Source: The Treasury

**Table A.8 – Health-related payments to ACC**

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Petrol excise	67	67	69	69	..	..	..	..	..	..
Medical treatment	197	224	415	413	409	344	380	382	394	406
<b>Total Health related payments</b>	<b>264</b>	<b>291</b>	<b>484</b>	<b>482</b>	<b>409</b>	<b>344</b>	<b>380</b>	<b>382</b>	<b>394</b>	<b>406</b>

Source: The Treasury

**Table A.9** – Education

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Early childhood education	289	319	343	373	393	448	523	574	670	694
Primary and secondary schools	3,028	3,261	3,325	3,449	3,692	3,954	4,188	4,313	4,306	4,290
Tertiary funding	1,758	1,992	2,225	2,470	2,535	2,646	2,852	3,015	3,131	3,190
Departmental expenses	396	419	467	621	679	748	789	778	768	765
Other education expenses	241	145	113	103	286	272	329	314	308	317
<b>Core Crown Education</b>	<b>5,712</b>	<b>6,136</b>	<b>6,473</b>	<b>7,016</b>	<b>7,585</b>	<b>8,068</b>	<b>8,681</b>	<b>8,994</b>	<b>9,183</b>	<b>9,256</b>

Source: The Treasury

**Table A.10** – Primary and secondary education

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Primary	1,540	1,705	1,706	1,749	1,884	1,965	2,075	2,135	2,124	2,114
Secondary	1,166	1,202	1,182	1,269	1,385	1,529	1,630	1,685	1,688	1,685
School transport	89	96	98	103	106	110	114	116	117	118
Special needs support	233	258	251	227	221	235	250	259	260	257
Professional Development	..	..	76	86	84	100	104	103	102	101
Schooling Improvement	..	..	12	15	12	15	15	15	15	15
<b>Total Schools Funding</b>	<b>3,028</b>	<b>3,261</b>	<b>3,325</b>	<b>3,449</b>	<b>3,692</b>	<b>3,954</b>	<b>4,188</b>	<b>4,313</b>	<b>4,306</b>	<b>4,290</b>

Places (year)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Primary	465,863	463,000	465,000	469,000	464,000	458,000	455,000	452,000	450,000	452,000
Secondary	249,905	251,000	257,000	265,000	277,000	285,000	289,000	289,000	289,000	288,000

Sources: Ministry of Education, The Treasury

**Table A.11** – Tertiary education

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Tuition	1,082	1,344	1,515	1,729	1,770	1,860	2,000	2,126	2,221	2,258
Other tertiary funding	143	30	36	62	66	91	115	125	127	126
<b>Total Tertiary Education and Training</b>	<b>1,225</b>	<b>1,374</b>	<b>1,551</b>	<b>1,791</b>	<b>1,836</b>	<b>1,951</b>	<b>2,115</b>	<b>2,251</b>	<b>2,348</b>	<b>2,384</b>
Tertiary student allowances	376	391	401	388	380	368	398	412	424	434
Student loan provision and write-offs	157	227	273	291	319	327	339	352	359	372
<b>Total Tertiary Funding</b>	<b>1,758</b>	<b>1,992</b>	<b>2,225</b>	<b>2,470</b>	<b>2,535</b>	<b>2,646</b>	<b>2,852</b>	<b>3,015</b>	<b>3,131</b>	<b>3,190</b>

Places (year)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EFT Students	175,706	193,660	219,239	245,152	247,975	251,858	262,762	266,443	272,448	275,084

Sources: Ministry of Education, The Treasury

**Table A.12** – Core government services

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Official development assistance	218	226	223	230	237	311	320	333	371	371
Indemnity and guarantee expenses	10	253	..	197	9	..	..	..	..	..
Departmental expenses	867	901	907	1,025	1,096	1,174	1,299	1,266	1,256	1,253
Science expenses	367	226	202	250	283	151	157	158	160	162
Other expenses	180	192	208	78	116	326	322	307	320	321
<b>Total Core Crown Core Government Services</b>	<b>1,642</b>	<b>1,798</b>	<b>1,540</b>	<b>1,780</b>	<b>1,741</b>	<b>1,962</b>	<b>2,098</b>	<b>2,064</b>	<b>2,107</b>	<b>2,107</b>

Source: The Treasury

**Table A.13 – Law and order<sup>1</sup>**

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Departmental expenses:										
Police	762	724	755	800	844	895	950	952	943	943
Ministry of Justice	12	13	15	15	178	263	314	320	324	329
Department of Corrections	328	369	412	403	439	505	550	570	592	595
Department for Courts	174	181	189	211	53	..	..	..	..	..
Other departments	65	67	71	77	81	73	66	75	68	68
<b>Total Departments</b>	<b>1,341</b>	<b>1,354</b>	<b>1,442</b>	<b>1,506</b>	<b>1,595</b>	<b>1,736</b>	<b>1,880</b>	<b>1,917</b>	<b>1,927</b>	<b>1,935</b>
Non-departmental outputs	130	159	178	177	178	239	251	267	273	272
Other expenses	38	28	113	51	70	44	46	45	53	53
<b>Core Crown Law and Order</b>	<b>1,509</b>	<b>1,541</b>	<b>1,733</b>	<b>1,734</b>	<b>1,843</b>	<b>2,019</b>	<b>2,177</b>	<b>2,229</b>	<b>2,253</b>	<b>2,260</b>

Source: The Treasury

**Table A.14 – Defence**

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
NZDF Core expenses	996	1,058	1,076	1,095	1,182	1,250	1,276	1,370	1,447	1,524
NZDF write-offs	77	104	..	23	72	..	..	..	..	..
NZDF East Timor deployment	22	22	20	20	..	..	..	..	..	..
MSD East Timor deployment	17	22	23	13	12	10	8	2	..	..
Other departments	51	36	43	48	45	61	57	59	54	54
GST on defence acquisitions	..	..	..	..	..	..	..	..	..	..
<b>Core Crown Defence</b>	<b>1,163</b>	<b>1,242</b>	<b>1,162</b>	<b>1,199</b>	<b>1,311</b>	<b>1,321</b>	<b>1,341</b>	<b>1,431</b>	<b>1,501</b>	<b>1,578</b>

Source: The Treasury

**Table A.15 – Transport and communications**

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Transfund	803	775	817	1,131	1,222	1,320	1,525	1,750	1,953	1,991
Departmental outputs	70	75	78	80	83	100	104	104	103	103
Other non-departmental expenses	50	46	49	61	84	74	121	91	99	105
Goodwill amortisation	..	..	23	47	47	47	47	47	47	47
Rail write-offs	..	..	..	81	19	..	..	..	..	..
Rail costs	..	..	..	..	3	51	96	33	33	1
Other expenses	6	9	22	8	3	4	2	2	2	2
<b>Core Crown Transport</b>	<b>929</b>	<b>905</b>	<b>989</b>	<b>1,408</b>	<b>1,461</b>	<b>1,596</b>	<b>1,895</b>	<b>2,027</b>	<b>2,237</b>	<b>2,249</b>

Source: The Treasury

**Table A.16 – Economic and industrial**

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Departmental outputs	374	422	414	424	478	523	576	550	549	544
Employment initiatives	209	204	209	217	222	241	243	251	252	253
Non-departmental outputs	144	324	282	277	444	698	732	710	699	698
Flood relief	..	..	..	..	15	50	..	..	..	..
Savings package	..	..	..	..	..	..	33	132	289	158
Other expenses	154	87	108	136	33	117	95	87	81	81
<b>Core Crown Economic and Industrial Services</b>	<b>881</b>	<b>1,037</b>	<b>1,013</b>	<b>1,054</b>	<b>1,192</b>	<b>1,629</b>	<b>1,679</b>	<b>1,730</b>	<b>1,870</b>	<b>1,734</b>

Source: The Treasury

<sup>1</sup> Courts merged with Justice on 1 October 2003.

**Table A.17** – Employment initiatives

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Training incentive allowance	35	36	36	37	42	44	43	44	43	43
Community employment projects	18	17	21	21	16	11	..	..	..	..
Subsidised work	103	95	92	95	100	114	110	113	113	113
Employment support for disabled	50	53	60	61	61	66	84	88	90	91
Other employment assistance schemes	3	3	..	3	3	6	6	6	6	6
<b>Total Employment Initiative Expenses</b>	<b>209</b>	<b>204</b>	<b>209</b>	<b>217</b>	<b>222</b>	<b>241</b>	<b>243</b>	<b>251</b>	<b>252</b>	<b>253</b>

Source: The Treasury

**Table A.18** – Primary services

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Departmental expenses	182	194	220	265	269	297	308	297	296	295
Non-departmental outputs	54	61	75	80	81	102	124	114	117	117
Other expenses	20	24	9	10	18	10	13	7	7	7
<b>Core Crown Primary Services</b>	<b>256</b>	<b>279</b>	<b>304</b>	<b>355</b>	<b>368</b>	<b>409</b>	<b>445</b>	<b>418</b>	<b>420</b>	<b>419</b>

Source: The Treasury

**Table A.19** – Heritage, culture and recreation

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Community grants	18	18	6	6	3	5	7	7	7	7
Departmental outputs	199	206	212	253	269	313	346	328	332	335
Non-departmental outputs	137	159	130	212	258	336	342	340	339	341
Other expenses	73	17	86	44	104	102	91	83	77	75
<b>Core Crown Heritage, Culture and Recreation</b>	<b>427</b>	<b>400</b>	<b>434</b>	<b>515</b>	<b>634</b>	<b>756</b>	<b>786</b>	<b>758</b>	<b>755</b>	<b>758</b>

Source: The Treasury

**Table A.20** – Housing and community development

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Housing subsidies	1	..	22	25	27	33	27	28	28	28
Departmental outputs	27	35	51	57	77	106	129	121	117	116
Other non-departmental expenses	40	15	20	20	35	30	58	110	114	105
<b>Core Crown Housing and Community Development</b>	<b>63</b>	<b>50</b>	<b>93</b>	<b>102</b>	<b>139</b>	<b>169</b>	<b>214</b>	<b>259</b>	<b>259</b>	<b>249</b>

Source: The Treasury

## Contingent Liabilities

The Specific Fiscal Risks chapter in the published 2005 BEFU includes tables listing quantifiable and unquantified contingent liabilities as at 31 March 2005. 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*

Guarantees and indemnities are disclosed in accordance with FRS 15 *Provisions, Contingent Liabilities and Contingent Assets*. In addition, guarantees given under Section 56 of the Public Finance Act 1989 are disclosed in accordance with Section 27(f) of the same act.

#### *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.

\$18 million at 31 March 2005 (\$17 million at 31 December 2004).

#### *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 2005 (\$10 million at 31 December 2004).

#### *Ministry of Justice – Treaty settlements, tax liabilities*

Under Deeds of Settlement completed in the Treaty settlement process the Crown has indemnified the appropriate governance entity against any goods and services tax or income tax liability arising from the payment of tangible redress.

\$76 million at 31 March 2005 (\$76 million at 31 December 2004).

#### *Mighty River Power Limited – guaranteed payment obligations*

Mighty River Power Limited and certain subsidiaries have guaranteed payment obligations in relation to bank borrowings under a Standby and Cash Advances Facility and Revolving Advances Facility. Mighty River Power Limited has guaranteed payment obligations of \$30 million under a letter of credit provided by a bank in favour of TPC Holdings Limited

\$17 million at 31 March 2005 (\$16 million at 31 December 2004).

#### *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 2005 (\$10 million at 31 December 2004).

*New Zealand Railways Corporation (NZRC) – guaranteed borrowings*

Section 10 of the Finance Act 1990 guarantees all loans and swap obligations of the NZRC. In September 2004 the Minister of Finance approved an overdraft facility for the NZRC of up to \$10 million.

\$10 million at 31 March 2005 (\$10 million at 31 December 2004).

*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, of 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.

\$11 million at 31 March 2005 (\$11 million at 31 December 2004).

*Other guarantees and indemnities of SOEs and Crown entities*

\$5 million at 31 March 2005 (\$4 million at 31 December 2004).

*Other guarantees and indemnities*

\$9 million at 31 March 2005 (\$10 million at 31 December 2004).

***Uncalled capital***

The Crown's uncalled capital subscriptions are as follows:	<b>Uncalled capital at 31 March 2005 \$m</b>	<b>Uncalled capital at 31 December 2004 \$m</b>
Asian Development Bank	1,046	1,031
European Bank for Reconstruction and Development	13	13
International Bank for Reconstruction and Development	1,159	1,144

***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.

*Air New Zealand Limited – legal claim*

New Zealand International Airlines Limited (NZIA), a wholly owned subsidiary of Air New Zealand Limited, received an income taxation notice of assessment from the Hong Kong Inland Revenue Department after 31 December 2003, covering the years ended 30 June 1989 to 30 June 2002. If the assessment position is extrapolated to 31 December 2004 a possible liability of \$107 million could result. NZIA considers the assessments can be challenged, and will contest them.

\$107 million at 31 March 2005 (\$107 million at 31 December 2004).

*Health – legal claims*

Claims against the Crown in respect of people allegedly contracting hepatitis C through contaminated blood and blood products.

\$104 million at 31 March 2005 (\$104 million at 31 December 2004).

*Tax in dispute*

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

\$408 million at 31 March 2005 (\$487 million at 31 December 2004).

*Transpower New Zealand Limited*

A claim has commenced against both Transpower and Powerco Limited alleging breaches of the Commerce Act. Transpower has filed a statement of defence.

\$20 million at 31 March 2005 (\$20 million at 31 December 2004).

*Other legal claims against SOEs and Crown entities*

\$5 million at 31 March 2005 (\$7 million at 31 December 2004).

***Other legal claims***

\$83 million at 31 March 2005 (\$88 million at 31 December 2004).

**Other quantifiable contingent liabilities***International finance organisations*

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

	31 March 2005 \$m	31 December 2004 \$m
IMF	1,252	1,285

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 2005 (\$23 million at 31 December 2004).

*Social Development – claim for judicial review*

A claim for judicial review of the Crown's interpretation and application of Special Benefit direction. The claim seeks representation order for all applicants for the Special Benefit from December 2000 to date.

\$52 million at 31 March 2005 (\$49 million at 31 December 2004).

*Transpower New Zealand Limited – other quantifiable contingent liabilities*

In the current self-regulating environment, Transpower operates its revenue setting methodology with an Economic Value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. The balance of the accumulated gain (loss) from monopoly activities attributable to customers (the EV balance) may be passed on to customers over time. Any such transfer would occur after consideration by Directors of the balance of this account and its likely future movement in order to preserve stability and predictability of prices.

\$86 million at 31 March 2005 (\$86 million at 31 December 2004).

*Other quantified contingent liabilities of SOEs and Crown entities*

\$27 million at 31 March 2005 (\$29 million at 31 December 2004).

*Other quantifiable contingent liabilities*

\$18 million at 31 March 2005 2004 (\$28 million at 31 December 2004).

**Unquantifiable Contingent Liabilities**

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

## ***Institutional Guarantees***

### ***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.

### ***Bona Vacantia property***

P&O NZ Ltd sought a declaratory judgement that property disclaimed by a liquidator is bona vacantia. A settlement has been reached, which includes a Crown indemnity in favour of New Zealand Aluminium Smelters and Comalco in relation to aluminium dross disposed of in their landfill, for costs that may be incurred in removing the dross and disposing of it at another site if they are required to do so by an appropriate authority. The Minister of Finance signed the indemnity on 24 November 2003. In February 2004, a similar indemnity was signed in respect of aluminium dross currently stored at another site in Invercargill.

### ***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.

### ***District Court Judges, Justices of the Peace, Coroners and Disputes Tribunals***

Section 119 of the District Courts Act 1947 indemnifies District Court Judges acting in their civil jurisdiction. 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 Coroner 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 – director indemnity – (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.

*EQC*

The Crown is liable to meet any deficiency in the EQC'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, or royalty 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 Contact Energy stands in place of ECNZ in respect of those assets transferred from ECNZ 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.

*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 September 2009.

*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.

#### *Genesis Power Ltd (Genesis Energy)*

The Crown has entered into a deed with Genesis Energy to share a specified and limited amount of risk around the sufficiency of Genesis Energy's long term supply of gas to cover the Huntly e3p's (a 385 MW combined cycle gas turbine power station) minimum needs. The agreement sees the Crown compensate Genesis Energy in the event it has less gas than it needs.

#### *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: ANZ Bank, National Bank (formerly Countrywide Bank) and Westpac Banking Corporation.

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

**HCNZ Lender's Mortgage Insurance Indemnity:** The Minister of Finance is deemed under section 24(2) of the Housing Corporation Act 1974 to have guaranteed HCNZ in respect of Homebuy first mortgages insured by HCNZ through contracted insurance agents.

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 confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information. The deed contains an indemnity against any losses arising from a breach of the deed.

*National Provident Fund*

The National Provident Fund (NPF) has been indemnified for certain potential tax liabilities. 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)
- payment to certain NPF defined contribution schemes where application of the 4% minimum earnings rate causes any deficiency or increased deficiencies in reserves to arise (section 72).

A provision has been made in these financial statements in respect of the actuarially assessed deficit in the DBP (Annuitants') Scheme (refer Note 15 of the financial statements).

*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.

The Crown has further indemnified the directors of NZ Railways Corporation against any liability arising from the transfer of the rail network and associated assets and liabilities to the Corporation on 1 September 2004.

*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.

*Ports of Auckland*

The Crown has entered into a confidentiality agreement with Ports of Auckland in relation to the purchase of two marinas. The agreement contains an indemnity against any losses arising from a breach of the agreement.

*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)*

Section 21(2) of the Reserve Bank Act 1989 requires the Crown to pay the Reserve Bank the amount of any exchange losses incurred by the Reserve Bank as a result of dealing in foreign exchange under sections 17 and 18 of the Act.

### *State Insurance and Rural Bank – 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.

### *Synfuels-Waitara Outfall Indemnity*

As part of the 1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI), the Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site.

The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.

### *Tainui Corporation*

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.

### *Toll NZ Ltd – purchase of rail network assets*

The agreement between the Crown and Toll NZ Ltd for the Crown's purchase of the rail network and associated assets on 30 June 2004 contains the following provisions:

- The Crown has indemnified Toll against any liability arising from the assigned contracts, leases, etc after their assignment dates
- The Crown has indemnified Toll against certain potential claims by employees
- The Crown has an option to purchase the Tranz Scenic Stations from Toll for a period of three years (to 30 June 2007).

### *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***

#### *Abuse Claims*

There is ongoing legal action against the Crown in relation to historical abuse claims. At this stage the number of claimants and outcome of these cases are uncertain.

#### *Accident Compensation Corporation (ACC) litigations*

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. No accrual has been made for such contingent liabilities as ACC will be vigorously defending these claims.

A particular issue before the courts is access of ACC claimants to lump sum compensation for asbestos related illnesses. On 6 August 2004, the District Court upheld an interpretation that a lump sum payment was required to be paid in respect of one claimant.

At this stage, the potential implications of the decision are uncertain, but could expose ACC to substantial future liability in respect of claims for asbestosis and possibly other illnesses listed under Schedule 2 of the Injury Prevention Rehabilitation and Compensation Act 2001.

#### *Building Industry Authority litigation*

The Building Industry Authority is one of a number of defendants in lawsuits alleging negligence on the part of the Authority regarding its performance on weathertightness issues. The Authority considers that other proceedings are likely to be brought against it both in the High Court and under the Weathertight Homes Resolution Services Act.

The Authority had no direct involvement with any of the buildings concerned. The outcome of the claims essentially depends on questions of law relating to the Authority's performance of its statutory duties. The Authority considers that it has at all times performed those duties properly. In the absence of decided cases on the relevant questions of law there is no certainty as to the outcome of the claims. Notwithstanding the outcomes of the claims, should the Authority be found to be liable, the amounts payable will depend on the amounts paid by other defendants who are also held to be liable.

It is therefore not currently possible to quantify the Authority's contingent liabilities.

#### *Environmental Liabilities*

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

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 2005, the value of these provisions was \$9.4 million.

#### *Genesis Power Limited*

Carter Holt Harvey (CCH) commenced proceedings against Genesis Power Limited in May 2001 in connection with a co-generation agreement with ECNZ.

#### *Kyoto Protocol*

The Kyoto Protocol is a protocol to the United Nations Framework Convention on Climate Change (UNFCCC). The Protocol addresses climate change by committing developed countries to reduce their combined greenhouse gas emissions by at least 5% compared to 1990 levels over the First Commitment Period (CP1 - 2008-2012).

New Zealand is a signatory to the Protocol, which imposes legally binding emission reduction targets on New Zealand. The Protocol entered into force on 16 February 2005, as a result of Russia's decision to ratify. The Government's climate change response strategy includes a range of measures that are designed to reduce New Zealand's greenhouse gas emissions.

The position of each country for CP1 is calculated in an agreed manner. Countries may sell any surplus units to countries that need to purchase units to make up a deficit in meeting their Kyoto obligations through domestic action. Alternatively, they can choose to hold on to any surplus emission units to count against emission obligations in future commitment periods.

At this stage, estimates of New Zealand's likely position over CP1 are not sufficiently robust to warrant quantification and formal recognition in the Crown accounts. The Government is currently developing systems to more accurately forecast New Zealand's likely future position. It is anticipated that the net position may be able to be estimated with some degree of certainty for disclosure in the 30 June 2005 Crown Financial Statements.

#### *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 2005 BEFU are prepared on the basis of the following accounting policies and forecast assumptions.

### Basis of Combination

#### *Accounting policy*

Ministers of the Crown, departments, the Reserve Bank of New Zealand, the Government Superannuation Fund (GSF), state-owned enterprises (including Air New Zealand Limited) and Crown entities (excluding Tertiary education institutions (TEIs)) 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. Offices of Parliament are not included in the forecast financial statements.

TEIs are equity accounted, which recognises these entities' net assets, including asset revaluation movements and surpluses and deficits.

Page 56 of the 30 June 2004 Crown financial statements outlines why there is a difference in the accounting treatment of TEIs from other Crown entities and the exclusion of Offices of Parliament.

### 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:

<b>Revenue Type</b>	<b>Revenue Recognition Point</b>
Source deductions (SSCWT) & (PAYE)	When an individual is forecast to earn income that is subject to PAYE
Residents' withholding taxes <sup>1</sup>	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 <sup>2</sup>	Forecast payment due date
Terminal tax <sup>2</sup>	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.
<sup>1</sup> Corresponds to forecast withholding taxes on residents' interest and dividend income in Note 1 to the Forecast Financial Statements.	
<sup>2</sup> 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 2005 and the other forecast periods use the exchange rates prevailing on 28 February 2005. 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 2005 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 2004 and any additional valuations that have occurred up to 31 March 2005.

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 2005 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 2005 forecasts for foreign-currency monetary assets and liabilities use the exchange rates prevailing on 28 February 2005.

Forecasts of foreign-currency monetary assets and liabilities for the other forecast periods are based on the exchange rates used for the 30 June 2005 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 2005 forecasts for the value of property, plant and equipment use valuations as recorded in the Crown Financial Statements for the year ended 30 June 2004, and any additional actual valuations that have occurred up to 31 March 2005.

The value of property plant and equipment for the other forecast periods is forecast using the same valuation used for the 30 June 2005 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 2005. 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 2005.

For forecasting purposes, the exchange rates prevailing on 28 February 2005 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)	50 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 2005.

#### *Forecast assumption*

For forecasting purposes, the exchange rates on 28 February 2005 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.

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

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.

#### *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 (fair value) 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 the most recent valuation, adjusted for subsequent additions, disposals and 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 2005.

#### *Forecast assumption*

For forecasting purposes, the exchange rates prevailing on 28 February 2005 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 2005.

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 9 May 2005** and contingent liabilities and assets as at 31 March 2005. 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 2005 BEFU has been prepared in accordance with sections 10(3)(b) and 11 of the Fiscal Responsibility Act 1994.