
Additional Fiscal Information

The following information is to provide users of the 2004 Budget Economic and Fiscal Update with further detail.

- **Fiscal forecast comparison to 2003 December Update** – a comparison of the 2004 BEFU key fiscal indicators to the *2003 December Update*.
- **Additional fiscal indicators** – explanations of additional indicators such as the OBERAC (including a history series back to 1992), 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 2004 *Budget Economic and Fiscal Update* (BEFU), released by the Treasury on 27 May 2004. This information should be read in conjunction with the published 2004 BEFU. The information contains:

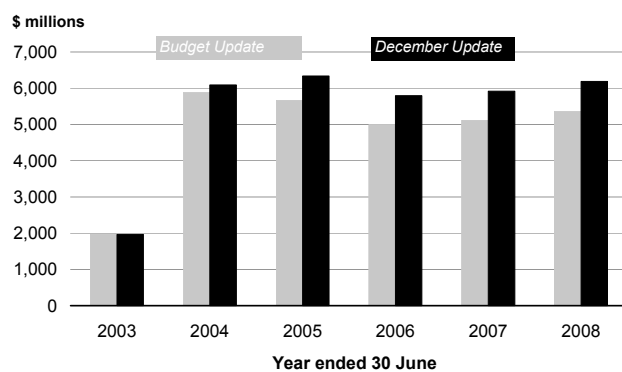
- **Tax tables** – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts.
- **Expense tables** – detailed expense tables of core Crown expenses from 1998/99 to 2007/08.
- **Contingent liabilities** – write-ups of the nature of each item in the tables outlined in the Specific Fiscal Risks chapter.
- **Crown accounting policies** – outline of the specific Crown accounting policies and forecast assumptions. The published GAAP tables only provide a summary.

Fiscal Forecast Comparison to 2003 December Update

The following series of graphs and tables provides a comparison of key fiscal indicators to those contained in the *2003 December Update*.

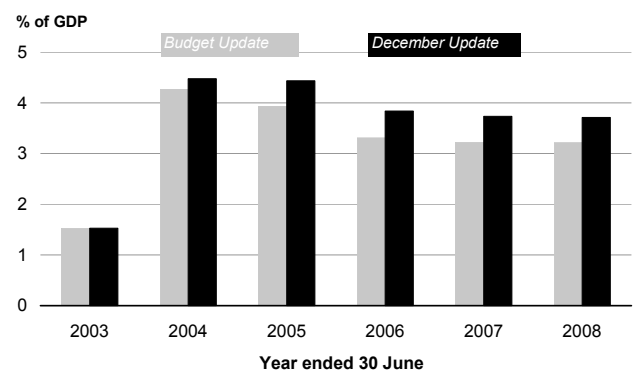
Operating Balance

Operating balance comparison



Sources: The Treasury

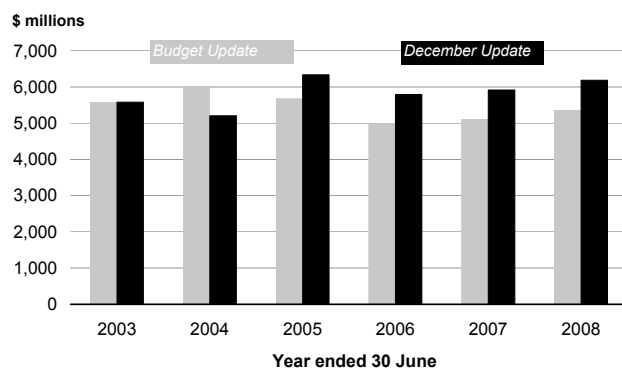
Operating balance comparison



Sources: The Treasury

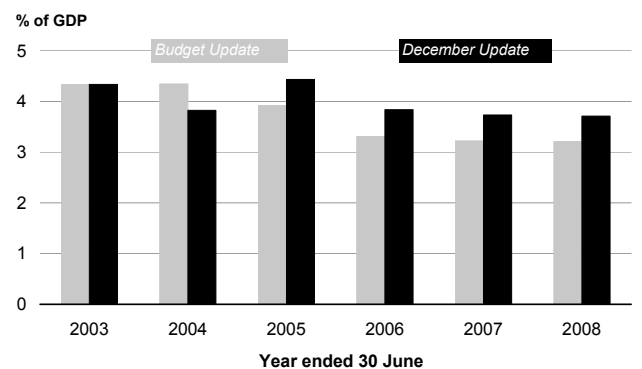
OBERAC

OBERAC comparison



Source: The Treasury

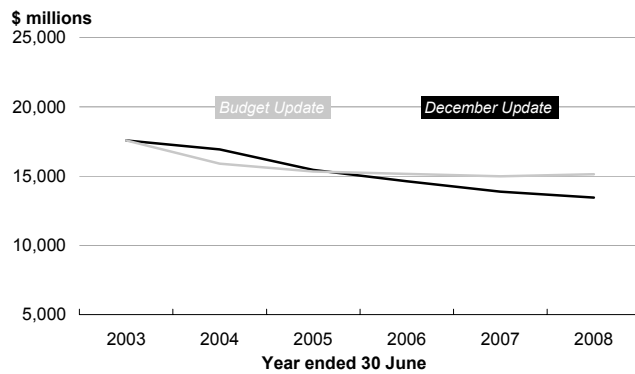
OBERAC comparison



Source: The Treasury

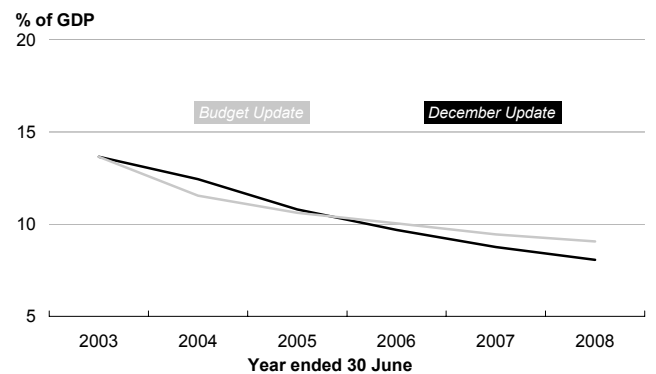
Net Core Crown Debt

Net core Crown debt comparison



Source: The Treasury

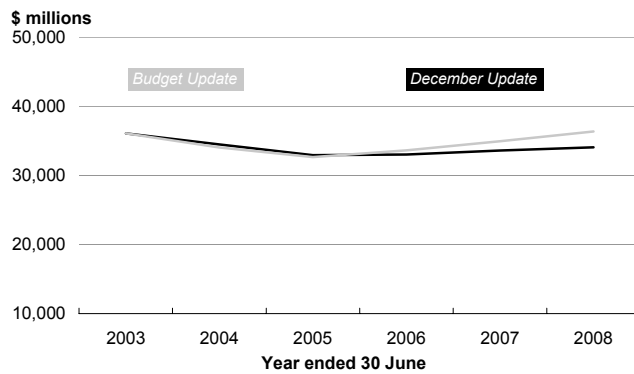
Net core Crown debt comparison



Source: The Treasury

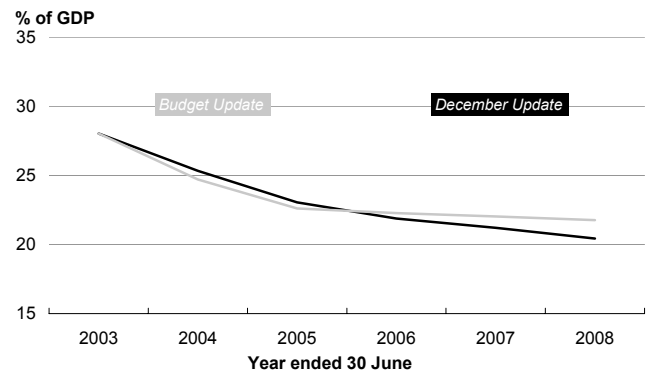
Gross Debt

Gross debt comparison



Source: The Treasury

Gross debt comparison



Source: The Treasury

Key Fiscal Indicators Comparison to 2003 December Update

Fiscal Indicators (\$ million)	2004			2005			2006			2007			2008			
	2003 Actual	Budget 2004 Forecast	DEFU 2004 Forecast	Variance	Budget 2005 Forecast	DEFU 2005 Forecast	Variance	Budget 2006 Forecast	DEFU 2006 Forecast	Variance	Budget 2007 Forecast	DEFU 2007 Forecast	Variance	Budget 2008 Forecast	DEFU 2008 Forecast	Variance
Revenue																
Total revenue	57,027	60,194	59,522	672	62,525	63,160	(635)	65,374	66,223	(849)	68,565	69,077	(512)	72,000	72,128	(128)
Total core Crown revenue	43,624	46,621	46,330	291	48,910	48,718	192	51,027	51,173	(146)	53,586	53,539	47	56,499	56,180	319
Expenses																
Total expenses	55,224	54,470	53,508	962	57,005	56,900	105	60,531	60,508	23	63,605	63,240	365	66,786	66,022	764
Total core Crown expenses	41,749	42,211	41,868	343	44,474	43,877	597	47,526	47,054	472	50,062	49,385	677	52,749	51,865	884
Operating balance	1,966	5,875	6,092	(217)	5,671	6,338	(667)	4,994	5,795	(801)	5,111	5,918	(807)	5,365	6,187	(822)
OBERAC	5,580	5,986	5,207	779	5,671	6,338	(667)	4,994	5,795	(801)	5,111	5,918	(807)	5,365	6,187	(822)
Debt Indicators																
Gross sovereign-issued debt	36,086	34,031	34,469	(438)	32,663	32,940	(277)	33,622	33,019	603	34,946	33,604	1,342	36,344	34,057	2,287
Net core Crown debt	17,577	15,901	16,935	(1,034)	15,336	15,442	(106)	15,162	14,619	543	14,985	13,878	1,107	15,136	13,439	1,697
Net worth	23,781	29,732	29,920	(188)	35,403	36,258	(855)	40,397	42,053	(1,656)	45,508	47,971	(2,463)	50,873	54,158	(3,285)
Nominal GDP	128,730	137,763	136,112	1,651	144,441	142,932	1,509	150,947	150,944	3	158,626	158,512	114	167,051	166,744	307
Fiscal Indicators as a % of GDP																
Revenue																
Total Crown revenue	44.3%	43.7%	43.7%	0.0%	43.3%	44.2%	-0.9%	43.3%	43.9%	-0.6%	43.2%	43.6%	-0.4%	43.1%	43.3%	-0.2%
Total core Crown revenue	33.9%	33.8%	34.0%	-0.2%	33.9%	34.1%	-0.2%	33.8%	33.9%	-0.1%	33.8%	33.8%	0.0%	33.8%	33.7%	0.1%
Expenses																
Total Crown expenses	42.9%	39.5%	39.3%	0.2%	39.5%	39.8%	-0.3%	40.1%	40.1%	0.0%	40.1%	39.9%	0.2%	40.0%	39.6%	0.4%
Total core Crown expenses	32.4%	30.6%	30.8%	-0.1%	30.8%	30.7%	0.1%	31.5%	31.2%	0.3%	31.6%	31.2%	0.4%	31.6%	31.1%	0.5%
Operating balance	1.5%	4.3%	4.5%	-0.2%	3.9%	4.4%	-0.5%	3.3%	3.8%	-0.5%	3.2%	3.7%	-0.5%	3.2%	3.7%	-0.5%
OBERAC	4.3%	4.3%	3.8%	0.5%	3.9%	4.4%	-0.5%	3.3%	3.8%	-0.5%	3.2%	3.7%	-0.5%	3.2%	3.7%	-0.5%
Debt Indicators																
Gross sovereign-issued debt	28.0%	24.7%	25.3%	-0.6%	22.6%	23.0%	-0.4%	22.3%	21.9%	0.4%	22.0%	21.2%	0.8%	21.8%	20.4%	1.3%
Net core Crown debt	13.7%	11.5%	12.4%	-0.9%	10.6%	10.8%	-0.2%	10.0%	9.7%	0.4%	9.4%	8.8%	0.7%	9.1%	8.1%	1.0%
Net worth	18.5%	21.6%	22.0%	-0.4%	24.5%	25.4%	-0.9%	26.8%	27.9%	-1.1%	28.7%	30.3%	-1.6%	30.5%	32.5%	-2.0%

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

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

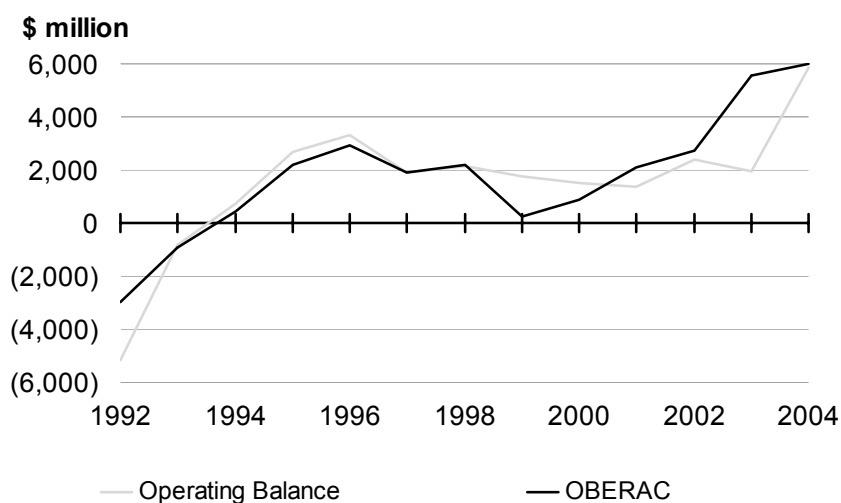
Revaluations have significantly affected the operating balance as it is a relatively small balancing item between two large numbers: total revenue and total expenses. Revaluation effects are not forecast beyond the current year as a matter of policy given their inherent uncertainty.

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

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

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

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



Source: The Treasury

Detail of OBERAC calculation

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Operating Balance	(5,149)	(819)	755	2,695	3,314	1,908	2,127	1,763	1,503	1,358	2,391	1,966	5,875
Adjustments													
Net GSF pension liability movts	420	664	111	155	226	(4)	(233)	429	(201)	164	436	1,752	218
ACC revaluation	-	-	-	-	-	-	-	-	(519)	420	43	1,347	(107)
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)	-	(283)	(129)	-	-	-	-	(140)	-	-	-	-	-
Write-downs (eg, Defence)	-	-	301	-	-	-	-	-	155	103	-	269	-
(Gains)/losses on marketable securities and deposits	-	-	-	(114)	-	-	(110)	-	-	(102)	-	-	-
EQC asset valuation decreases	-	-	-	-	-	-	-	-	-	-	130	49	-
Maui gas receivable revaluation	-	-	-	-	-	-	-	-	-	-	(260)	-	-
Unrealised forest revaluations	-	(766)	292	-	-	-	-	-	-	-	-	-	-
Exchange rate movements	1,764	296	(898)	(551)	(603)	-	-	-	-	-	75	-	-
<i>Total adjustments</i>	<i>2,184</i>	<i>(89)</i>	<i>(323)</i>	<i>(510)</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>111</i>
OBERAC	(2,965)	(908)	432	2,185	2,937	1,904	2,191	246	884	2,115	2,751	5,580	5,986

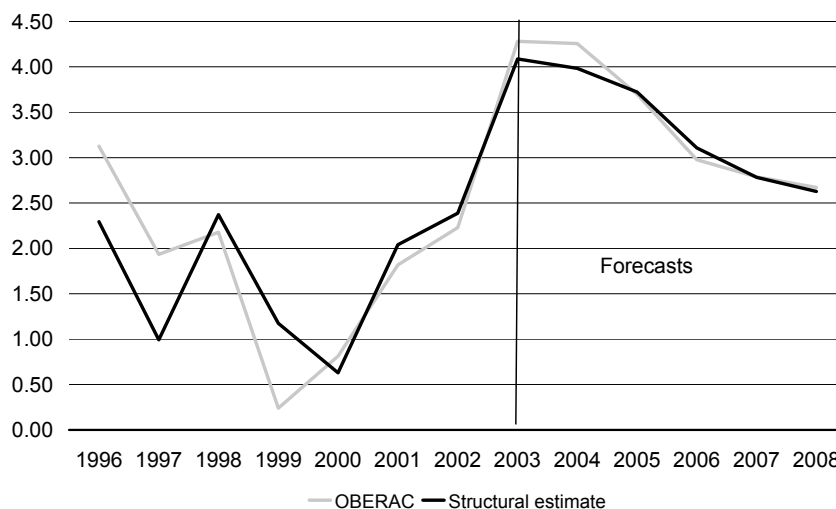
Source: The Treasury

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)

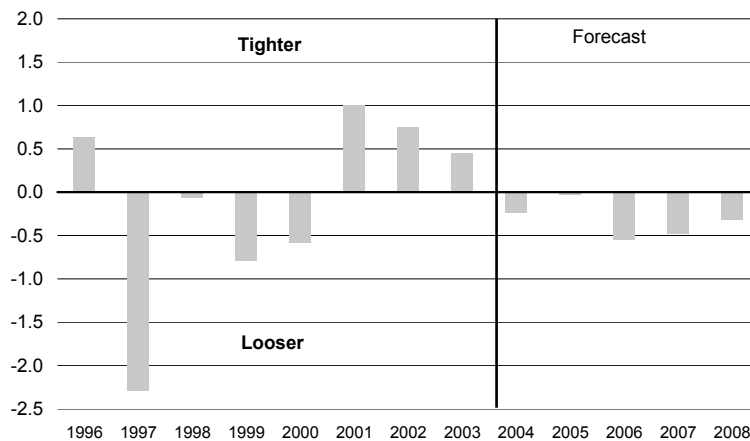


Source: The Treasury

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 (e.g., 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 (i.e., 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. Retaining the cycle and net interest component gives a sense of overall impact in that it includes the effect of automatic fiscal stabilisers. For example, in the year ended June 2003 fiscal policy was slightly more contractionary than indicated by the fiscal impulse. The economy was moving above trend and the actual fiscal balance was strengthening faster than the structural position. For the 2005 forecast year the opposite occurs. Across the years 2005 to 2008, both approaches yield average expansionary impulses of under ½ 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
-2.86	0.35	0.48	1.77	2.29	0.99	2.37	1.17	0.63	2.04	2.39	4.09	3.98	3.72	3.11	2.78	2.63

Fiscal impulse

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	0.49	0.53	0.72	0.64	-2.29	-0.06	-0.79	-0.58	1.00	0.75	0.45	-0.23	-0.03	-0.54	-0.48	-0.32

Source: The Treasury

Reconciliation of Operating Balance to Net Crown Debt

(\$ million)	2003 Actual	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
Operating balance	1,966	5,875	5,671	4,994	5,111	5,365
Less/(plus) valuation items	3,614	111	-	-	-	-
OBERAC	5,580	5,986	5,671	4,994	5,111	5,365
Less NZS Fund contributions	(1,200)	(1,879)	(2,107)	(2,219)	(2,342)	(2,504)
Less after-tax income of the NZS Fund	(69)	(122)	(331)	(502)	(690)	(901)
Available after NZS Fund requirements	4,311	3,985	3,233	2,273	2,079	1,960
Decrease/(increase in net debt)	1,673	1,676	565	174	177	(151)
Difference	(2,638)	(2,309)	(2,668)	(2,099)	(1,902)	(2,111)
This difference comprises:						
Non-cash elements of the OBERAC						
SOE/CE retained surplus net of						
dividends (excluding valuation issues)	(2,175)	(1,465)	(1,235)	(1,493)	(1,587)	(1,615)
Depreciation	955	935	1,017	1,026	1,041	1,073
(Gain)/loss on sale of assets	14	-	-	-	-	-
Commercial forests and net FX movements	(24)	-	-	-	-	-
Student loan influences	(79)	(15)	(5)	18	47	76
Cash elements not in the OBERAC						
Circulating currency	147	177	-	-	-	-
Net purchase of physical assets						
including capital contingency provision	(1,059)	(1,593)	(1,505)	(1,079)	(949)	(1,142)
Asset sale receipts	-	-	-	-	-	-
Net capital injections	(484)	(283)	(800)	(328)	(287)	(175)
Other working capital movements	67	(65)	(140)	(243)	(167)	(328)
Difference	(2,638)	(2,309)	(2,668)	(2,099)	(1,902)	(2,111)

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

(\$ million)	2003 Actuals	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
Core Crown Net Cash Flows from Operations	4,856	5,720	4,961	3,844	3,719	3,671
<i>Items included in the operating balance but not in net cash flows from operations</i>						
Valuation changes						
(Increase)/decrease in pension liabilities	(1,647)	(214)	57	97	116	145
National Provident Fund guarantee	(197)	-	-	-	-	-
Revaluation of commercial forests	(20)	-	-	-	-	-
Total valuation changes	(1,864)	(214)	57	97	116	145
Property, plant & equipment asset movements						
Depreciation	(876)	(935)	(1,017)	(1,026)	(1,041)	(1,073)
Total property, plant & equipment movements	(876)	(935)	(1,017)	(1,026)	(1,041)	(1,073)
Other Non-cash Items						
Student loans	(79)	(15)	(5)	19	47	76
Amortisation of goodwill	(47)	(47)	(47)	(47)	(47)	(47)
Accrued income on NZS Fund	-	122	331	502	690	901
Total Other Non-cash Items	(126)	60	279	474	690	930
Total other investing and financing items	82	222	224	225	229	232
Movements in Working Capital						
(Decrease)/increase in receivables	1,539	(340)	98	150	42	97
Increase/(decrease) in inventories	(56)	3	(13)	(19)	(13)	(3)
Decrease/(increase) in payables	(1,680)	(106)	(153)	(244)	(218)	(249)
Total movements in working capital	(197)	(443)	(68)	(113)	(189)	(155)
Core Crown Operating Balance	1,875	4,410	4,436	3,501	3,524	3,750
SOE/CE surpluses	91	1,465	1,235	1,493	1,587	1,615
Total Crown Operating Balance	1,966	5,875	5,671	4,994	5,111	5,365

Tax Revenue Tables

Table 1 – Treasury and Inland Revenue forecasts of tax revenue

(\$ million)	2002/03	2003/04		2004/05		2005/06		2006/07		2007/08	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
		Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct Tax											
Individuals											
Source deductions	15,933	16,855	16,800	17,701	17,650	18,613	18,570	19,634	19,605	20,665	20,650
Other persons tax	4,195	3,997	4,000	3,995	4,040	4,143	4,230	4,421	4,535	4,717	4,840
Refunds	(834)	(874)	(880)	(876)	(880)	(876)	(890)	(876)	(905)	(876)	(910)
Fringe benefit tax	375	412	408	432	426	450	443	471	465	491	483
Subtotal: Individuals	19,669	20,390	20,328	21,252	21,236	22,330	22,353	23,650	23,700	24,997	25,063
Company Tax (net)	5,526	6,476	6,525	6,954	6,952	7,122	7,130	7,295	7,337	7,753	7,660
Withholding taxes on:											
Resident interest income	1,111	1,189	1,210	1,282	1,300	1,337	1,340	1,381	1,380	1,426	1,420
Non-resident income	732	803	831	803	816	819	832	847	857	899	887
Resident dividend income	57	58	51	58	55	59	55	60	55	63	55
Foreign-source dividends	154	140	125	130	135	130	135	130	135	130	135
Subtotal: Withholding Tax	2,054	2,190	2,217	2,273	2,306	2,345	2,362	2,418	2,427	2,518	2,497
Total Income Tax	27,249	29,056	29,070	30,479	30,494	31,797	31,845	33,363	33,464	35,268	35,220
Other: Estate and gift duties	1	2	2	2	2	2	2	2	2	2	2
Total Direct Tax	27,250	29,058	29,072	30,481	30,496	31,799	31,847	33,365	33,466	35,270	35,222
Indirect Tax											
GST											
GST (Customs)	4,132	4,236	4,244	4,584	4,575	4,904	4,878	5,234	5,150	5,400	5,350
GST (IRD)	7,394	8,418	8,400	8,760	8,745	8,884	8,869	9,286	9,311	9,927	9,907
Subtotal: GST	11,526	12,654	12,644	13,344	13,320	13,788	13,747	14,500	14,461	15,327	15,257
Excise duties on:											
Alcoholic drinks	465	473	476	482	489	498	502	514	515	530	527
Tobacco products	850	826	828	831	836	839	843	847	849	853	853
Petroleum fuels	995	950	950	802	800	903	911	924	923	944	934
Subtotal: Excise Duties	2,310	2,249	2,254	2,115	2,125	2,240	2,256	2,285	2,287	2,327	2,314
Other Indirect Tax											
Customs duty	750	725	730	958	953	1,051	1,063	1,085	1,107	1,100	1,135
Road user charges	621	658	666	686	692	754	756	795	794	839	840
Motor vehicle fees	197	203	208	211	220	215	223	219	227	223	230
Stamp and cheque duties	49	54	54	55	54	55	54	55	55	55	55
Gaming duties	277	298	298	330	318	345	340	363	359	382	377
Energy resources levy	94	82	75	77	80	76	80	74	75	67	70
Other	--	--	1	--	1	--	--	--	--	--	--
Subtotal: Other Indirect Tax	1,988	2,020	2,032	2,317	2,318	2,496	2,516	2,591	2,617	2,666	2,707
Total Indirect Tax	15,824	16,923	16,930	17,776	17,763	18,524	18,519	19,376	19,365	20,320	20,278
Total Tax	43,074	45,981	46,002	48,257	48,259	50,323	50,366	52,741	52,831	55,590	55,500
Tax-to-GDP	33.5%	33.4%	33.4%	33.4%	33.4%	33.3%	33.4%	33.2%	33.3%	33.3%	33.2%
Core Crown Eliminations											
Core Crown income tax	119	159	159	258	258	340	340	430	430	534	534
GST on departmental outputs	823	890	890	936	936	936	936	916	916	942	942
GST on Crown expenses	1,951	2,192	2,192	2,372	2,372	2,572	2,572	2,783	2,783	3,002	3,002
Core Crown Taxation	40,181	42,740	42,761	44,691	44,693	46,475	46,518	48,612	48,702	51,112	51,022
Tax-to-GDP	31.2%	31.0%	31.0%	30.9%	30.9%	30.8%	30.8%	30.6%	30.7%	30.6%	30.5%
Total Crown Eliminations											
Income tax from SOEs and CEs	354	357	357	467	467	527	527	529	529	543	543
Lottery duty	30	30	30	31	31	33	33	35	35	37	37
Total Crown Taxation	39,797	42,353	42,374	44,193	44,195	45,915	45,958	48,048	48,138	50,632	50,442
Tax-to-GDP	30.9%	30.7%	30.8%	30.6%	30.6%	30.4%	30.4%	30.3%	30.3%	30.2%	30.2%
GDP	128,730	137,763	137,763	144,441	144,441	150,947	150,947	158,626	158,626	167,051	167,051

Sources: Inland Revenue, The Treasury

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

(\$ million)	2002/03	2003/04		2004/05		2005/06		2006/07		2007/08	
	Actual	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct Tax											
Individuals											
Source deductions	15,623	16,855	16,800	17,701	17,650	18,613	18,570	19,634	19,605	20,665	20,650
Other persons tax	4,500	4,376	4,350	4,414	4,500	4,637	4,760	4,995	5,140	5,321	5,480
Refunds	(1,287)	(1,388)	(1,425)	(1,300)	(1,340)	(1,370)	(1,420)	(1,450)	(1,510)	(1,480)	(1,550)
Fringe benefit tax	374	409	412	428	431	446	447	466	470	486	488
Subtotal: Individuals	19,210	20,252	20,137	21,243	21,241	22,326	22,357	23,645	23,705	24,992	25,068
Company Tax (net)	5,542	6,406	6,476	6,837	6,900	7,131	7,076	7,295	7,282	7,753	7,602
Withholding taxes on:											
Resident interest income	1,103	1,199	1,210	1,282	1,300	1,337	1,340	1,381	1,380	1,426	1,420
Non-resident income	741	806	830	794	814	819	830	847	855	899	885
Resident dividend income	56	58	51	58	55	59	55	60	55	63	55
Foreign-source dividends	160	137	125	130	135	130	135	130	135	130	135
Subtotal: Withholding Tax	2,060	2,200	2,216	2,264	2,304	2,345	2,360	2,418	2,425	2,518	2,495
Total Income Tax	26,812	28,858	28,829	30,344	30,445	31,802	31,793	33,358	33,412	35,263	35,165
Other: Estate and gift duties	1	2	2	2	2	2	2	2	2	2	2
Total Direct Tax	26,813	28,860	28,831	30,346	30,447	31,804	31,795	33,360	33,414	35,265	35,167
Indirect Tax											
GST											
GST (Customs)	4,092	4,236	4,244	4,584	4,575	4,904	4,878	5,234	5,150	5,400	5,350
GST (IRD)	7,466	8,418	8,400	8,760	8,745	8,884	8,869	9,266	9,311	9,927	9,907
Subtotal: GST	11,558	12,654	12,644	13,344	13,320	13,788	13,747	14,500	14,461	15,327	15,257
Excise duties on:											
Alcoholic drinks	461	473	476	482	489	498	502	514	515	530	527
Tobacco products	867	826	828	831	836	839	843	847	849	853	853
Petroleum fuels	971	950	950	802	800	903	911	924	923	944	934
Subtotal: Excise Duties	2,299	2,249	2,254	2,115	2,125	2,240	2,256	2,285	2,287	2,327	2,314
Other Indirect Tax											
Customs duty	712	740	740	958	953	1,051	1,063	1,085	1,107	1,100	1,135
Road user charges	620	656	666	686	692	754	756	795	794	839	840
Motor vehicle fees	201	203	208	211	220	220	223	219	227	223	230
Stamp and cheque duties	51	54	54	55	54	55	54	55	55	55	55
Gaming duties	275	298	298	330	318	345	340	363	369	382	377
Energy resources levy	97	83	75	78	80	77	80	74	75	68	70
Other	2	1	1	1	1	1	1	1	1	1	1
Subtotal: Other Indirect Tax	1,958	2,035	2,042	2,319	2,318	2,503	2,516	2,592	2,617	2,668	2,707
Total Indirect Tax	15,815	16,938	16,940	17,778	17,763	18,531	18,519	19,377	19,365	20,322	20,278
Total Tax	42,628	45,798	45,771	48,124	48,210	50,335	50,314	52,737	52,779	55,587	55,445
Tax-to-GDP	33.1%	33.2%	33.2%	33.3%	33.4%	33.3%	33.3%	33.2%	33.3%	33.3%	33.2%
Core Crown Eliminations											
	These are removed from Total Tax to arrive at Core Crown taxation.										
Core Crown income tax	123	159	159	258	258	340	340	430	430	534	534
GST on departmental outputs	823	890	890	936	936	936	936	916	916	942	942
GST on Crown expenses	1,951	2,192	2,192	2,372	2,372	2,572	2,572	2,783	2,783	3,002	3,002
Core Crown Taxation	39,731	42,557	42,530	44,558	44,644	46,487	46,466	48,608	48,650	51,109	50,967
Tax-to-GDP	30.9%	30.9%	30.9%	30.8%	30.9%	30.8%	30.8%	30.6%	30.7%	30.6%	30.5%
Total Crown Eliminations											
	These are removed from Core Crown taxation to arrive at Total Crown taxation.										
Income tax from SOEs and CEs	219	328	328	535	535	602	602	608	608	628	628
Lottery duty	30	30	30	31	31	33	33	35	35	37	37
Total Crown Taxation	39,482	42,199	42,172	43,992	44,078	45,852	45,831	47,965	48,007	50,444	50,302
Tax-to-GDP	30.7%	30.6%	30.6%	30.5%	30.5%	30.4%	30.4%	30.2%	30.3%	30.2%	30.1%
GDP	128,730	137,763	137,763	144,441	144,441	150,947	150,947	158,626	158,626	167,051	167,051

Sources: Inland Revenue, The Treasury

Annex A: Expense Tables

Table A.1 – Core Crown expenses by category

(\$ million)	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Social security and welfare	12,889	12,883	13,207	13,485	13,907	14,205	14,787	15,819	16,720	17,599
GSF	1,372	736	1,112	1,409	2,625	1,201	985	987	1,000	995
Health	5,875	6,146	6,660	7,032	7,501	8,123	8,827	9,349	9,870	9,919
Education	5,337	5,712	6,136	6,473	7,016	7,589	7,969	8,184	8,392	8,602
Core government services	1,634	1,642	1,798	1,540	1,780	1,731	1,818	1,877	1,808	1,806
Law and order	1,482	1,509	1,541	1,733	1,734	1,862	1,960	2,008	2,014	2,004
Defence	1,022	1,163	1,242	1,162	1,199	1,266	1,275	1,245	1,244	1,240
Transport and communications	923	929	905	989	1,408	1,454	1,498	1,701	1,817	1,891
Economic and industrial services	813	881	1,037	1,013	1,054	1,246	1,392	1,388	1,363	1,339
Primary services	322	256	279	304	355	373	409	384	376	373
Heritage, culture and recreation	304	427	400	434	515	671	723	713	718	719
Housing and community	40	63	50	93	102	140	155	127	123	121
Other	34	46	75	110	75	56	123	117	117	117
Finance costs	2,367	2,205	2,304	2,118	2,360	2,273	2,112	2,182	2,133	2,196
Net foreign exchange (gains)/losses	(47)	(62)	(47)	75	118	21	..	..	..	..
New operating spending for the 2004 Budget	..	..	..	..	..	..	441	467	463	461
Forecast new operating spending	..	..	..	..	..	..	..	978	1,904	3,367
Core Crown Expenses	34,367	34,536	36,699	37,970	41,749	42,211	44,474	47,526	50,062	52,749

Source: The Treasury

Table A.2 – Social security and welfare

(\$ million)	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Welfare benefits	12,006	12,072	12,385	12,614	12,884	13,168	13,599	14,651	15,558	16,448
Social rehabilitation & compensation	91	70	62	91	152	123	123	123	125	128
Departmental expenses	654	634	618	657	666	730	822	808	787	776
Other non-departmental expenses	155	120	151	125	205	184	243	237	250	247
	12,906	12,896	13,216	13,487	13,907	14,205	14,787	15,819	16,720	17,599
Less GST on Crown Spending	17	13	9	2	..	..	..	..	..	..
Core Crown Social Security and Welfare	12,889	12,883	13,207	13,485	13,907	14,205	14,787	15,819	16,720	17,599

Source: The Treasury

Table A.3 – New Zealand superannuation and welfare benefits

(\$ million)	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
New Zealand Superannuation	5,071	5,068	5,273	5,450	5,642	5,889	6,086	6,411	6,799	7,191
Domestic Purposes Benefit	1,451	1,433	1,444	1,501	1,520	1,567	1,577	1,557	1,569	1,619
Unemployment Benefit	369	..	..	1,369	1,274	1,086	939	1,004	1,058	1,079
Community Wage	1,486	1,937	1,849	..	..	..	..	..	..	..
Accommodation Supplement	843	867	795	720	706	702	754	852	896	931
Invalids Benefit	630	677	745	832	914	977	1,044	1,115	1,183	1,259
Sickness Benefit	97	..	..	375	421	470	514	545	575	611
Disability Allowance	204	204	210	224	241	257	274	283	305	327
Transitional Retirement Benefit	116	125	127	97	47	11	..	..	..	..
Income Related Rents	..	..	161	274	296	341	366	383	405	430
Family Support	912	899	878	848	862	819	932	1,332	1,487	1,696
Child Tax Credit	164	167	161	157	143	152	150	196	311	341
Special Benefit	44	35	40	49	82	140	164	141	116	104
Benefits paid in Australia	146	147	171	159	121	103	91	80	70	58
Paid Parental Leave	..	..	..	..	56	63	74	87	94	97
Other benefits	473	513	531	559	559	591	634	665	690	705
Total Welfare Benefits	12,006	12,072	12,385	12,614	12,884	13,168	13,599	14,651	15,558	16,448

Source: The Treasury

Table A.4 – Beneficiary numbers

(Thousands)	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
New Zealand Superannuation	464	456	449	448	454	461	470	482	495	506
Domestic Purposes Benefit	113	111	110	110	110	111	112	113	114	115
Unemployment Benefit	..	..	..	140	126	105	90	94	97	96
Community Wage	204	200	189	..	..	..	..	..	..	..
Accommodation Supplement	320	324	297	270	261	251	245	253	260	265
Invalids Benefit	50	53	58	62	67	71	75	79	82	85
Sickness Benefit	..	..	..	35	38	43	46	48	49	51

Source: The Treasury

Table A.5 – GSF pension expense

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Pension expenses	703	679	691	973	978	987	1,042	1,084	1,116	1,140
Revaluation of Unfunded Liability	429	(201)	164	436	1,647	214	(57)	(97)	(116)	(145)
Core Crown GSF	1,132	478	855	1,409	2,625	1,201	985	987	1,000	995

Source: The Treasury

Table A.6 – Health

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Departmental outputs	58	59	116	136	148	160	149	139	136	135
Health service purchasing	6,107	6,401	6,807	6,979	7,509	8,215	8,876	9,481	10,077	10,113
Other non-departmental outputs	135	121	101	70	68	96	159	118	82	70
Health payments to ACC	237	264	291	484	482	408	435	471	496	526
Other expenses	36	29	27	44	29	36	50	44	45	44
	6,573	6,874	7,342	7,713	8,236	8,915	9,669	10,253	10,836	10,888
Less GST on Crown Spending	698	728	778	781	832	939	1,022	1,084	1,146	1,149
Plus Other Eliminations	..	..	96	100	97	147	180	180	180	180
Core Crown Health Expenses	5,875	6,146	6,660	7,032	7,501	8,123	8,827	9,349	9,870	9,919

Source: The Treasury

Table A.7 – Health service purchasing

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Personal health services:										
Northern	1,452	1,582	1,671	..	..	..	..	..	..	..
Midland	890	936	997	..	..	..	..	..	..	..
Central	1,047	1,104	1,174	..	..	..	..	..	..	..
Southern	1,004	1,015	1,097	..	..	..	..	..	..	..
Additional health purchases	70	..	..	..	..	..	..	..	..	..
Total Personal Health	4,463	4,637	4,939	..	..	..	..	..	..	..
Disability support services										
Northern	495	520	557	..	..	..	..	..	..	..
Midland	303	306	332	..	..	..	..	..	..	..
Central	383	411	428	..	..	..	..	..	..	..
Southern	355	410	426	..	..	..	..	..	..	..
Total Disability Support	1,536	1,647	1,743	..	..	..	..	..	..	..
Payments to District Health Boards	..	..	..	5,439	5,875	7,097	7,923	8,431	9,011	9,048
National Disability Support Services	..	..	..	1,315	1,416	878	667	776	792	792
Public Health Service Purchasing	108	117	125	225	218	240	286	274	274	273
Total Health Servicing Purchasing (GST inclusive)	6,107	6,401	6,807	6,979	7,509	8,215	8,876	9,481	10,077	10,113

Source: The Treasury

Table A.8 – Health-related payments to ACC

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Petrol excise	66	67	67	69	69	..	..	..	..	..
Medical treatment	171	197	224	415	413	408	435	471	496	526
Total Health related payments (GST inclusive)	237	264	291	484	482	408	435	471	496	526

Source: The Treasury

Table A.9 – Education

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Early childhood education	294	325	331	358	394	421	460	515	558	641
Primary and secondary schools	3,147	3,405	3,505	3,638	3,741	4,033	4,114	4,144	4,156	4,158
Tertiary funding	1,843	1,913	2,133	2,408	2,671	2,835	3,046	3,240	3,428	3,581
Departmental expenses	360	396	419	467	621	685	735	721	717	714
Other education expenses	255	271	302	253	288	375	405	381	372	369
	5,899	6,310	6,690	7,124	7,715	8,349	8,760	9,001	9,231	9,463
Less GST on Crown Spending	562	598	554	651	699	760	791	817	839	861
Core Crown Education	5,337	5,712	6,136	6,473	7,016	7,589	7,969	8,184	8,392	8,602

Source: The Treasury

Table A.10 – Primary and secondary education

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Primary	1,624	1,731	1,780	1,838	1,891	2,053	2,061	2,067	2,064	2,059
Secondary	1,155	1,312	1,333	1,311	1,366	1,485	1,535	1,560	1,569	1,575
School transport	93	100	106	109	116	120	122	124	126	127
Special needs support	275	262	286	281	254	256	264	268	271	271
Professional Development	..	..	..	14	97	103	114	108	109	109
Schooling Improvement	..	..	..	85	17	16	18	17	17	17
Total Schools Funding (GST inclusive)	3,147	3,405	3,505	3,638	3,741	4,033	4,114	4,144	4,156	4,158
Places (year)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Primary	466,500	465,863	463,000	465,000	469,000	468,000	469,000	467,000	465,000	462,000
Secondary	248,800	249,905	251,000	257,000	265,000	275,000	281,000	285,000	285,000	284,000

Sources: Ministry of Education, The Treasury

Table A.11 – Tertiary education

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Tuition	1,236	1,219	1,362	1,554	1,770	1,930	2,054	2,187	2,323	2,431
Other tertiary funding	128	161	153	180	222	250	273	291	309	316
Total Tertiary Education and Training	1,364	1,380	1,515	1,734	1,992	2,180	2,327	2,478	2,632	2,747
Tertiary student allowances	378	376	391	401	388	387	413	440	457	470
Student loan provision and write-offs	101	157	227	273	291	268	306	322	339	364
Total Tertiary Funding (GST inclusive)	1,843	1,913	2,133	2,408	2,671	2,835	3,046	3,240	3,428	3,581
Places (year)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EFT Students	169,469	175,706	193,660	219,893	245,602	256,976	268,217	275,807	285,746	296,254

Sources: Ministry of Education, The Treasury

Table A.12 – Core government services

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Official development assistance	204	219	226	223	230	250	259	259	259	259
Indemnity and guarantee expenses	(28)	10	253	..	197	..	..	..	..	..
Departmental expenses	892	867	901	907	1,025	1,022	1,133	1,196	1,135	1,124
Science expenses	405	424	247	244	292	299	322	338	343	338
Other expenses	232	190	190	228	84	208	134	110	97	111
	1,705	1,710	1,817	1,602	1,828	1,779	1,848	1,903	1,834	1,832
<i>Less GST on Crown Spending</i>	71	68	19	62	48	48	30	26	26	26
Total Core Crown Core Government Services	1,634	1,642	1,798	1,540	1,780	1,731	1,818	1,877	1,808	1,806

Source: The Treasury

Table A.13 – Law and order¹

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Departmental expenses:										
Police	708	762	724	755	800	849	883	904	902	901
Ministry of Justice	11	12	13	15	15	178	260	265	262	262
Department of Corrections	324	328	369	412	403	442	476	492	488	489
Department for Courts	206	174	181	189	211	53	..	..	..	..
Other departments	99	65	67	71	77	83	89	86	86	86
Total Departments	1,348	1,341	1,354	1,442	1,506	1,605	1,708	1,747	1,738	1,738
Non-departmental outputs	114	150	177	195	197	204	223	223	214	222
Other expenses	37	40	29	118	53	75	53	62	86	68
	1,499	1,531	1,560	1,755	1,756	1,884	1,984	2,032	2,038	2,028
<i>Less GST on Crown Spending</i>	17	22	19	22	22	22	24	24	24	24
Core Crown Law and Order	1,482	1,509	1,541	1,733	1,734	1,862	1,960	2,008	2,014	2,004

Source: The Treasury

Table A.14 – Defence

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
NZDF Core expenses	986	996	1,058	1,077	1,117	1,209	1,218	1,197	1,193	1,194
NZDF write-offs	5	77	104	..	..	..	..	..	..	..
NZDF East Timor deployment	..	22	22	20	20	..	..	..	..	..
MSD East Timor deployment	..	17	22	23	13	13	8	..	..	..
Other departments	31	51	36	43	48	44	49	48	51	46
GST on defence acquisitions	8	84	25	34	20	48	44	5	..	..
	1,030	1,247	1,267	1,197	1,218	1,314	1,319	1,250	1,244	1,240
<i>Less GST on Crown Spending</i>	8	84	25	35	19	48	44	5	..	..
Core Crown Defence	1,022	1,163	1,242	1,162	1,199	1,266	1,275	1,245	1,244	1,240

Source: The Treasury

¹ Courts merged with Justice on 1 October 2003.

Table A.15 – Transport and communications

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Transfund	880	903	890	941	1,271	1,379	1,447	1,679	1,809	1,889
Departmental outputs	71	70	75	78	80	87	94	92	91	91
Other non-departmental expenses	61	57	52	56	70	79	70	69	69	69
Goodwill amortisation	..	..	..	23	47	47	47	47	47	47
Auckland rail write-off	..	..	..	..	81	..	..	..	..	..
Other expenses	17	6	9	22	8	23	8	7	6	6
	1,029	1,036	1,026	1,120	1,557	1,615	1,666	1,894	2,022	2,102
<i>Less GST on Crown Spending</i>	106	107	121	131	149	161	168	193	205	211
Core Crown Transport	923	929	905	989	1,408	1,454	1,498	1,701	1,817	1,891

Source: The Treasury

Table A.16 – Economic and industrial

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Departmental outputs	450	374	422	414	424	488	540	533	515	513
Employment initiatives	166	209	204	209	217	237	254	268	270	267
Non-departmental outputs	176	198	423	420	422	531	573	588	585	585
Flood relief	..	..	..	..	..	20	16	..	..	..
Other expenses	66	163	92	114	144	139	196	191	188	172
	858	944	1,141	1,157	1,207	1,415	1,579	1,580	1,558	1,537
<i>Less GST on Crown Spending</i>	45	63	104	144	153	169	187	192	195	198
Core Crown Economic and Industrial Services	813	881	1,037	1,013	1,054	1,246	1,392	1,388	1,363	1,339

Source: The Treasury

Table A.17 – Employment initiatives

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Training benefit (including tax)	22	..	..	..	..	..	..	..	..	..
Training incentive allowance	30	35	36	36	37	43	46	43	44	43
Community employment projects	15	18	17	21	21	21	22	21	20	20
Subsidised work	77	103	95	92	95	107	112	112	114	109
Employment support for disabled	17	50	53	60	61	63	71	89	89	92
Other employment assistance schemes	5	3	3	..	3	3	3	3	3	3
Total Employment Initiative Expenses (GST inclusive)	166	209	204	209	217	237	254	268	270	267

Source: The Treasury

Table A.18 – Primary services

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Departmental expenses	233	182	194	220	265	277	290	282	275	275
Non-departmental outputs	68	63	69	86	92	95	107	100	108	104
Other expenses	33	20	24	9	10	14	28	15	6	6
	334	265	287	315	367	386	425	397	389	385
<i>Less GST on Crown Spending</i>	12	9	8	11	12	13	16	13	13	12
Core Crown Primary Services	322	256	279	304	355	373	409	384	376	373

Source: The Treasury

Table A.19 – Heritage, culture and recreation

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Community grants	20	18	18	6	6	6	7	7	7	7
Departmental outputs	208	199	206	212	253	275	314	306	306	310
Non-departmental outputs	70	158	181	160	236	347	351	351	348	348
Other expenses	18	81	19	96	49	77	87	85	94	91
	316	456	424	474	544	705	759	749	755	756
<i>Less GST on Crown Spending</i>	12	29	24	40	29	34	36	36	37	37
Core Crown Heritage, Culture and Recreation	304	427	400	434	515	671	723	713	718	719

Source: The Treasury

Table A.20 – Housing and community development

(\$ million)	1998/99 Actual	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Housing subsidies	1	1	..	22	25	29	35	28	29	29
Departmental outputs	29	27	35	51	57	82	87	68	67	67
Other non-departmental expenses	11	40	15	20	20	29	33	31	27	25
	41	68	50	93	102	140	155	127	123	121
<i>Less GST on Crown Spending</i>	1	5	..	..	..	..	..	..	..	..
Core Crown Housing and Community Development	40	63	50	93	102	140	155	127	123	121

Source: The Treasury

Contingent Liabilities

The Specific Fiscal Risks chapter in the published 2004 BEFU includes tables listing quantifiable and unquantified contingent liabilities as at 31 March 2004. 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 to the Cook Islands.

\$17 million at 31 March 2004 (\$17 million at 31 December 2003).

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 2004 (\$10 million at 31 December 2003).

Indemnification of touring exhibitions

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

\$51 million at 31 March 2004 (\$201 million at 31 December 2003).

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.

\$93 million at 31 March 2004 (\$35 million at 31 December 2003).

Mighty River Power Limited – guaranteed payment obligations

Mighty River Power Limited has guaranteed payment obligations under letters of credit in relation to bank borrowings under a Standby and Cash Advances Facility and Revolving Advances Facility.

\$50 million at 31 March 2004 (\$50 million at 31 December 2003).

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 2004 (\$10 million at 31 December 2003).

Post Office Bank (PostBank) – guaranteed deposits

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

\$12 million at 31 March 2004 (\$13 million at 31 December 2003).

Guarantees and indemnities of state-owned enterprises and Crown entities

\$4 million at 31 March 2004 (\$4 million at 31 December 2003).

Other guarantees and indemnities

\$2 million at 31 March 2004 (\$1 million at 31 December 2003).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled capital at 31 March 2004 \$ million	Uncalled capital at 31 December 2003 \$ million
Asian Development Bank	1,070	1,082
European Bank for Reconstruction and Development	13	13
International Bank for Reconstruction and Development	1,241	1,255

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 (the IRD) after 31 December 2003, covering the years ended 30 June 1989 to 30 June 2002. If the IRD's 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 2004 (nil at 31 December 2003).

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 2004 (\$104 million at 31 December 2003).

Tax in dispute

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

\$345 million at 31 March 2004 (\$228 million at 31 December 2003).

Legal claims against state-owned enterprises and Crown entities

\$9 million at 31 March 2004 (\$9 million at 31 December 2003).

Other legal claims

\$88 million at 31 March 2004 (\$90 million at 31 December 2003).

Other quantifiable contingent liabilities

International finance organisations

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

	31 March 2004 \$ million	31 December 2003 \$ million
International Monetary Fund	846	947

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 2004 (\$23 million at 31 December 2003).

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 orders for all applicants for the Special Benefit from December 2000 to date.

\$72 million at 31 March 2004 (\$70 million at 31 December 2003).

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 the stability and predictability of prices.

\$54 million at 31 March 2004 (\$54 million at 31 December 2003).

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

\$40 million at 31 March 2004 (\$40 million at 31 December 2003).

Other quantifiable contingent liabilities

\$41 million at 31 March 2004 (\$44 million at 31 December 2003).

Unquantifiable Contingent Liabilities

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

Institutional guarantees and indemnities

The following institutional guarantees have been provided through legislation.

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 Ltd

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 the breaches of the Sale and Purchase Agreement with the Crown relating to the purchase of the Auckland rail lease and infrastructure assets.

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.

Crown research institutes (CRIs)

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

District Court Judges, Justices of the Peace, Coroners and Dispute 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 Coroners Act 1988 the same privileges and immunities as District Court Judges under the Summary Proceedings Act 1957.

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

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

District health boards (DHBs)

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

Earthquake Commission

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

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy 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. As a result of the split of ECNZ in 1999, Ministers have transferred the same benefits to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited, and Genesis Power Limited.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that Contact Energy stands in place of ECNZ, for those assets transferred to Contact Energy from ECNZ.

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

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

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

Fletcher Challenge Limited (FCL)

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

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

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 2006 unless the contract with Commercial Fisheries Services is extended, in which case it will expire on 30 September 2009.

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 (NPF)

Under the NPF Restructuring Act 1990, the Crown guarantees:

- the benefits payable by all NPF schemes (section 60)
- investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (section 61)
- any deficiency in certain NPF defined contribution schemes when application of the 4% minimum earnings rate causes negative reserves to arise (section 72).

A provision has been made in these financial statements in respect of the actuarially assessed deficit in the DBP (Annuitants') Scheme (refer Note 14 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
- its role as the Crown's agent in respect of the purchase and upgrade of Wellington Railway Station.

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.

Public Trust

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

Purchasers of Crown operations

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

Reserve Bank of New Zealand (the Reserve Bank)

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

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

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.

Transpower New Zealand

The Crown has provided a temporary indemnity to Transpower against actions taken under tort by electricity market participants, which could arise from being system operator under the Electricity Governance Regulations 2003. The Crown is liable for expenses over \$200,000 per event and \$2 million per annum.

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*Environmental liabilities*

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

During 2002/03 and 2003/04 departments managing significant Crown properties undertook exercises to establish the nature and quantity of any contaminated sites. These exercises will continue into the 2004/05 year. 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 2004, the value of these provisions was \$37 million (\$31 million at 31 December 2003).

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.

Source Distribution Limited commenced proceedings against Genesis Power Limited in December 2002 for an alleged breach of agreement to acquire customers for Genesis.

New Zealand Educational Institute

The Ministry of Education is appealing a decision of the Employment Court in favour of the New Zealand Educational Institute regarding recognition of partial degree qualifications of primary teachers for salary purposes.

New Zealand Post Primary Teachers' Association

The New Zealand Post Primary Teachers' Association has filed legal proceedings against the Crown in respect of the Ministry of Education's application of the alternative disputes resolution panel's recommendations related to teachers who do not hold degrees or level 7 qualifications, or at least 360 credits.

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 Ngāi 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 Ngāi 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 Ngāi 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 2004 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 60 of the 30 June 2003 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:

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

Revenue earned through operations

Accounting policy

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

Investment income

Accounting policy

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

Premiums

Accounting policy

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

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

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

Forecast assumption

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

Gains

General

Accounting policy

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

Foreign-currency monetary assets and liabilities

Accounting policy

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

Forecast assumption

Forecasts of foreign-currency monetary assets and liabilities for the year ending 30 June 2004 and the other forecast periods use the exchange rates prevailing on 31 March 2004. 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 2004 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 2003 and any additional valuations that have occurred up to 31 March 2004.

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 2004 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 2004 forecasts for foreign-currency monetary assets and liabilities use the exchange rates prevailing on 31 March 2004.

Forecasts of foreign-currency monetary assets and liabilities for the other forecast periods are based on the exchange rates used for the 30 June 2004 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 2004 forecasts for the value of property, plant and equipment use valuations as recorded in the Crown Financial Statements for the year ended 30 June 2003, and any additional actual valuations that have occurred up to 31 March 2004.

The value of property plant and equipment for the other forecast periods is forecast using the same valuation used for the 30 June 2004 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 31 March 2004. 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 31 March 2004.

For forecasting purposes, the exchange rates prevailing on 31 March 2004 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 31 March 2004.

Forecast assumption

For forecasting purposes, the exchange rates on 31 March 2004 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 cost less accumulated depreciation.

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

Other plant and equipment

Accounting policy

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

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

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

Accounting policy

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

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

Forecast assumption

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

Commercial forests

Accounting policy

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

Forecast assumption

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

Goodwill and intangible assets

Accounting policy

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

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

Liabilities

Borrowings

Accounting policy

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

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

Forecast assumption

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

Foreign monetary liabilities

Accounting policy

Foreign monetary liabilities existing at the forecast finalisation date and subject to forward exchange contracts are translated at contract rates. Other foreign-currency monetary liabilities are translated at exchange rates prevailing on 31 March 2004.

Forecast assumption

For forecasting purposes, the exchange rates prevailing on 31 March 2004 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 2004.

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 7 May 2004** and contingent liabilities and assets as at 31 March 2004. 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 2004 BEFU has been prepared in accordance with sections 10(3)(b) and 11 of the Fiscal Responsibility Act 199