

Additional Information

The following information forms part of the Budget Economic and Fiscal Update 2006 (*Budget Update*), released by the Treasury on 18 May 2006. This information provides users of the *Budget Update* with further detail and should be read in conjunction with the published document. The information contains:

- Detailed economic forecast information – these tables provide some more detailed breakdowns of the economic forecasts
- Additional fiscal indicators – explanations of additional indicators such as the OBERAC (including a history series back to 1997) and 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
- Tax tables – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts
- Contingent liabilities – write-ups of the nature of each item in the tables outlined in the *Budget Update* 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.

Detailed Economic Forecast Information

The following tables provide additional detail on the economic forecasts presented in the *Budget Update*.

Table 1: Real Gross Domestic Product

Chain-volume series expressed in 1995/96 prices

	Actual			Seasonally Adjusted	
	\$ million	Annual % change	Annual Average % change	\$million	Quarterly % change
2003Q1	28,945	4.3	4.7	29,126	0.2
2003Q2	28,349	2.8	4.3	29,175	0.2
2003Q3	29,246	3.4	3.9	29,663	1.7
2003Q4	31,468	3.2	3.4	30,010	1.2
2004Q1	30,329	4.8	3.6	30,517	1.7
2004Q2	29,833	5.2	4.1	30,707	0.6
2004Q3	30,461	4.2	4.3	30,886	0.6
2004Q4	32,497	3.3	4.3	31,001	0.4
2005Q1	31,006	2.2	3.7	31,188	0.6
2005Q2	30,641	2.7	3.1	31,549	1.2
2005Q3	31,153	2.3	2.6	31,579	0.1
2005Q4	33,061	1.7	2.2	31,549	-0.1
2006Q1	31,490	1.6	2.1	31,675	0.4
2006Q2	30,825	0.6	1.5	31,739	0.2
2006Q3	31,373	0.7	1.2	31,802	0.2
2006Q4	33,459	1.2	1.0	31,929	0.4
2007Q1	31,997	1.6	1.0	32,185	0.8
2007Q2	31,540	2.3	1.5	32,474	0.9
2007Q3	32,357	3.1	2.1	32,799	1.0
2007Q4	34,715	3.8	2.7	33,127	1.0
2008Q1	33,263	4.0	3.3	33,458	1.0
2008Q2	32,755	3.9	3.7	33,726	0.8
2008Q3	33,537	3.6	3.8	33,996	0.8
2008Q4	35,874	3.3	3.7	34,234	0.7
2009Q1	34,289	3.1	3.5	34,491	0.8
2009Q2	33,766	3.1	3.3	34,766	0.8
2009Q3	34,572	3.1	3.2	35,045	0.8
2009Q4	37,000	3.1	3.1	35,307	0.8
2010Q1	35,365	3.1	3.1	35,572	0.8
2010Q2	34,808	3.1	3.1	35,839	0.8

Source: Statistics New Zealand, The Treasury

Table 2: Consumer Price Index

Base: June 1999 quarter (=1000)

	Index	Quarterly % change	Annual % change
2003Q1	1098	0.4	2.5
2003Q2	1098	0.0	1.5
2003Q3	1103	0.5	1.5
2003Q4	1111	0.7	1.6
2004Q1	1115	0.4	1.5
2004Q2	1124	0.8	2.4
2004Q3	1131	0.6	2.5
2004Q4	1141	0.9	2.7
2005Q1	1146	0.4	2.8
2005Q2	1156	0.9	2.8
2005Q3	1169	1.1	3.4
2005Q4	1177	0.7	3.2
2006Q1	1184	0.6	3.3
2006Q2	1195	0.9	3.3
2006Q3	1205	0.9	3.1
2006Q4	1215	0.8	3.2
2007Q1	1225	0.8	3.4
2007Q2	1233	0.7	3.2
2007Q3	1240	0.6	2.9
2007Q4	1248	0.6	2.7
2008Q1	1254	0.6	2.4
2008Q2	1261	0.5	2.3
2008Q3	1267	0.5	2.2
2008Q4	1273	0.5	2.1
2009Q1	1280	0.5	2.0
2009Q2	1286	0.5	2.0
2009Q3	1293	0.5	2.0
2009Q4	1299	0.5	2.0
2010Q1	1306	0.5	2.0
2010Q2	1312	0.5	2.0

Source: Statistics New Zealand, The Treasury

Table 3: Gross Domestic Expenditure and Income

March Year	2005			2006			2007			2008			2009			2010			Forecast			
	Actual	%vol	%pr	Estimate	%vol	%pr	Forecast	%vol	%pr	Forecast	%vol	%pr	Forecast	%vol	%pr	Forecast	%vol	%pr	Forecast	%vol	%pr	
	\$ mill			\$ mill			\$ mill			\$ mill			\$ mill			\$ mill			\$ mill			
Consumption:																						
- Private	87,532	3.8	1.6	92,350	0.7	2.8	95,641	0.8	2.5	98,828	1.9	2.1	102,724	2.3	2.2	107,344	2.3	2.2	110,734	2.3	2.2	
- Public	26,483	5.9	3.0	28,888	5.6	3.0	31,428	2.2	3.0	33,091	3.9	2.4	35,227	3.4	2.4	37,308	3.4	2.4	39,308	3.4	2.4	
Gross Fixed Capital Formation:																						
- Residential	10,322	-5.4	6.6	10,419	-10.4	4.5	9,754	-1.2	2.8	9,913	5.2	2.0	10,639	8.1	2.0	11,734	8.1	2.0	12,859	8.1	2.0	
- Market *	22,099	7.8	-0.8	23,642	-3.4	1.2	23,124	-0.4	0.1	23,066	4.8	-0.1	24,129	3.8	-0.3	24,969	3.8	-0.3	25,809	3.8	-0.3	
- Non-market **	2,505	23.8	3.5	3,206	-1.0	3.7	3,300	3.7	2.0	3,492	3.6	2.0	3,689	3.3	2.0	3,887	3.3	2.0	4,085	3.3	2.0	
- Total all sectors	34,923	6.0	0.7	37,263	-4.6	1.7	36,178	-0.2	1.0	36,470	4.8	0.6	38,458	4.6	0.9	40,589	4.6	0.9	42,727	4.6	0.9	
Change in Stocks	1,696			1,036			641			988			998			998			998			
Gross National Expenditure	150,634	4.3	1.6	159,538	-0.2	2.9	163,888	1.2	2.2	169,376	2.9	1.8	177,407	3.0	1.9	186,239	3.0	1.9	195,077	3.0	1.9	
Exports	43,142	0.1	1.3	43,774	1.0	13.0	49,985	5.6	4.2	54,978	5.0	1.1	58,342	3.8	-0.3	60,357	3.8	-0.3	62,367	3.8	-0.3	
Imports	44,734	5.1	1.8	47,872	-1.0	16.9	55,422	-0.9	5.0	57,698	3.4	0.1	59,745	3.7	-0.9	61,371	3.7	-0.9	63,017	3.7	-0.9	
Expenditure on GDP	149,042	2.0	2.2	155,440	1.1	0.8	158,450	3.5	1.6	166,656	3.4	2.1	176,003	3.1	2.1	185,225	3.1	2.1	194,397	3.1	2.1	
Statistical Discrepancy	-484			-486			-488			-491			-494			-498			-501			
Gross Domestic Product	148,558			154,953			157,962			166,165			175,509			184,727			193,896			
Compensation of employees	62,918		6.6	67,041		3.0	69,081		4.2	72,008		5.2	75,747		5.1	79,633		5.1	83,519		5.1	
Operating Surplus, net:																						
- Agriculture	4,258		-10.0	3,832		12.0	4,292		9.0	4,678		6.0	4,959		4.0	5,157		4.0	5,355		4.0	
- Other	43,153		0.0	43,152		-3.1	41,809		6.5	44,543		6.7	47,506		5.3	50,046		5.3	52,597		5.3	
- Total all sectors	47,411		-0.9	46,984		-1.9	46,101		6.8	49,221		6.6	52,465		5.2	55,203		5.2	58,143		5.2	
Consumption of fixed capital	20,074		5.3	21,138		5.0	22,195		5.6	23,438		5.6	24,750		5.6	26,136		5.6	27,442		5.6	
Indirect Taxes	19,170		5.8	20,275		3.9	21,071		4.3	21,984		4.8	23,031		5.2	24,240		5.2	25,490		5.2	
Less subsidies	485		0.0	485		0.0	485		0.0	485		0.0	485		0.0	485		0.0	485		0.0	
Gross Domestic Product	148,558		4.3	154,953		1.9	157,962		5.2	166,165		5.6	175,509		5.3	184,727		5.3	193,896		5.3	

* Includes Local Government and Non-profit Organisations

** Central Government (includes Crown Entities but not SOEs)

Source: Statistics New Zealand, The Treasury

Tables 4 & 5: Labour Market Indicators

Annual Average Percentage Change						
March Year	2005	2006	2007	2008	2009	2010
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
Real GDP (production basis)	3.7	2.1	1.0	3.3	3.5	3.1
Working Age Population	1.6	1.3	1.3	1.2	1.2	1.1
Labour Force	2.7	2.1	0.8	0.8	1.2	1.5
Employment - Full Time Equivalents*	3.6	2.4	-0.3	0.4	1.5	1.5
Labour Productivity*	0.1	-0.4	1.3	2.8	1.9	1.6
Labour Productivity **	0.3	-0.4	1.5	2.6	1.8	1.4
CPI (annual percentage change)	2.8	3.3	3.4	2.4	2.0	2.0
Average Ordinary Time Hourly Wages	3.3	4.6	4.0	3.5	3.5	3.4
Average Weekly Earnings	2.9	3.5	3.6	3.5	3.7	3.7
Real Wages	0.7	1.3	0.7	0.7	1.3	1.4
Compensation of Employees	6.8	6.7	3.0	4.2	5.2	5.1
Unit Labour Costs (Hours worked basis)	3.0	5.0	2.6	0.9	1.6	2.0
Real Unit Labour Costs	0.4	1.8	-0.7	-1.9	-0.5	0.0

* Full time equivalent basis

** Hours worked basis

Source: Statistics New Zealand, The Treasury

Number (000's)						
As at March Quarter	2005	2006	2007	2008	2009	2010
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
Total Population	4,093	4,131	4,166	4,203	4,239	4,274
Natural Increase	29	29	27	28	26	25
Net Migration	10	8	9	9	10	10
Annual Change	39	37	36	37	36	35
Working Age Population	3,160	3,199	3,237	3,276	3,313	3,352
Annual Change	45	39	38	39	37	39
Not in the labour force	1,016	1,023	1,046	1,063	1,071	1,074
Annual Change	-17	8	23	17	8	3
Labour Force	2,145	2,176	2,191	2,213	2,242	2,279
Annual Change	62	31	15	22	30	36
Total Employment	2,055	2,086	2,081	2,101	2,136	2,168
Annual Change	67	31	-5	21	35	32
Unemployment	90	90	110	111	106	111
Annual Change	-5	0	20	1	-5	5
Participation Rate (%sa)	67.6	67.8	67.4	67.3	67.4	67.7
Unemployment Rate (%sa)	3.9	3.8	4.7	4.7	4.4	4.5

Source: Statistics New Zealand, The Treasury

Table 6: Current Account

\$NZ Million Year ended March	2005		2006		2007		2008		2009		2010	
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Exports Goods	31,114	31,507	36,909	40,215	41,884	42,748						
<i>annual % Change</i>	7.1	1.3	17.1	9.0	4.1	2.1						
Imports Goods	33,517	36,081	42,357	44,470	46,081	47,231						
<i>annual % Change</i>	11.2	7.7	17.4	5.0	3.6	2.5						
Balance on Goods	-2,403	-4,574	-5,448	-4,255	-4,197	-4,483						
Exports Services	12,027	12,265	13,076	14,763	16,458	17,609						
<i>annual % change</i>	5.5	2.0	6.6	12.9	11.5	7.0						
Imports Services	11,217	11,790	13,066	13,228	13,664	14,141						
<i>annual % change</i>	11.8	5.1	10.8	1.2	3.3	3.5						
Balance on services	810	474	10	1,535	2,794	3,468						
Balance on goods & services	-1,593	-4,099	-5,437	-2,720	-1,404	-1,014						
Int'l investment income and transfers balance	-9,470	-10,365	-8,488	-9,468	-9,979	-10,021						
Current account balance	-11,062	-14,462	-13,925	-12,188	-11,383	-11,035						

Percent of Nominal GDP											
	2005	2006	2007	2008	2009	2010					
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast					
	-1.6	-2.9	-3.4	-2.6	-2.4	-2.4					
	0.5	0.3	0.0	0.9	1.6	1.9					
	-1.1	-2.6	-3.4	-1.6	-0.8	-0.5					
	-6.4	-6.7	-5.4	-5.7	-5.7	-5.4					
	-7.4	-9.3	-8.8	-7.3	-6.5	-6.0					

Source: Statistics New Zealand, The Treasury

Table 7: Exports - SNA Basis

March Years	Dairy Products			Meat and Meat Products			Wood and Wood Products			Non-commodity*		
	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn
2002	6.8	11.9	7466	1.1	13.2	4604	8.5	-9.9	3602	-3.6	1.3	10146
2003	21.5	-33.4	6,002	4.0	-7.8	4,403	8.5	-5.4	3,706	3.4	-6.0	9,845
2004	5.2	-7.8	5,835	7.9	-8.3	4,379	-5.6	-10.7	3,122	0.9	-6.0	9,340
2005	-9.3	8.8	5,783	3.5	6.9	4,873	3.4	0.7	3,253	8.5	-0.4	10,122
2006	-3.1	6.4	5,957	-0.2	-3.5	4,683	-0.6	-2.5	3,143	-1.2	2.5	10,263
2007	4.7	13.4	7,081	1.6	4.9	5,001	4.1	16.8	3,822	2.2	16.4	12,211
2008	7.0	3.0	7,799	2.3	2.9	5,266	7.1	5.9	4,336	3.6	5.3	13,321
2009	5.1	0.9	8,269	1.0	2.5	5,448	4.3	0.8	4,561	3.8	-0.6	13,744
2010	3.1	0.5	8,566	0.6	3.4	5,671	6.1	-1.0	4,789	3.7	-4.4	13,634
2010	2.1	-0.2	8,500	1.8	-1.3	5,977	4.2	-0.2	4,409	4.9	-4.4	11,549

March Years	Other Goods**			Total Goods			Services			Total Exports		
	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn
2002	3.7	-0.3	7048	2.3	3.2	32867	5.3	2.3	10827	3	3.2	43694
2003	0.8	-5.4	6,692	7.5	-13.3	30,648	8.9	-0.7	11,690	7.8	-10.0	42,338
2004	3.6	-8.5	6,376	2.7	-7.6	29,054	-1.5	-1.0	11,400	1.6	-6.0	40,455
2005	14.4	-3.3	7,081	4.1	2.8	31,114	3.5	1.9	12,027	3.9	2.5	43,142
2006	8.7	-2.1	7,495	0.3	1.0	31,507	0.2	1.7	12,265	0.1	1.3	43,774
2007	0.4	15.7	8,693	1.6	15.3	36,909	0.1	6.5	13,076	1.0	13.0	49,985
2008	2.2	5.7	9,408	4.3	4.4	40,215	9.6	3.1	14,763	5.6	4.2	54,978
2009	1.2	2.5	9,770	3.3	0.8	41,884	9.7	1.6	16,458	5.0	1.1	58,342
2010	1.1	1.1	9,996	3.1	-1.0	42,748	5.7	1.2	17,609	3.8	-0.3	60,357
2010	3.1	2.6	8,868	3.4	-0.7	39,420	6.9	1.7	16,584	4.4	-0.1	56,004

* Consists of 'Metal Products and Machinery Equipment', 'Chemicals, Rubber and Other Non-Metallic Goods' and 'Textile, Apparel and Leather'

** Consists of 'Agricultural and Fish Primary Products', 'Coal, Crude Petroleum', 'Ores, Minerals and Gases' and 'Other Food and Beverages'

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Source: Statistics New Zealand, The Treasury

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

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

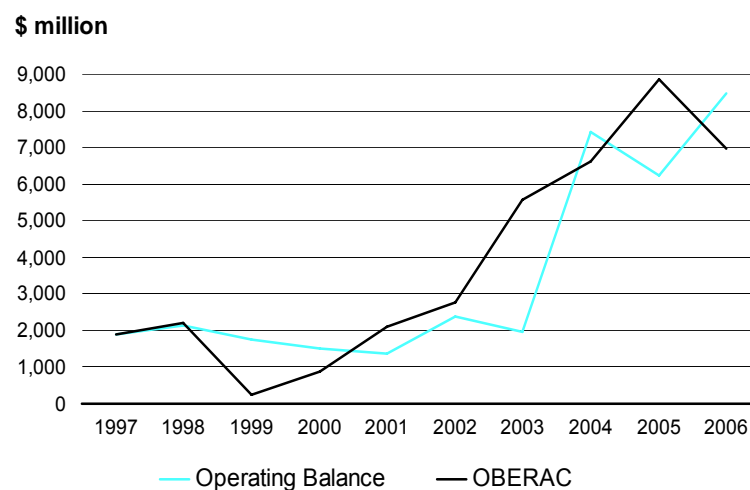
Revaluations have significantly affected the operating balance as it is a relatively small balancing item between two large numbers: total revenue and total expenses. Revaluation effects are not forecast beyond the current year as a matter of policy given their inherent uncertainty.

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

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

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

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



Source: The Treasury

Detail of OBERAC calculation

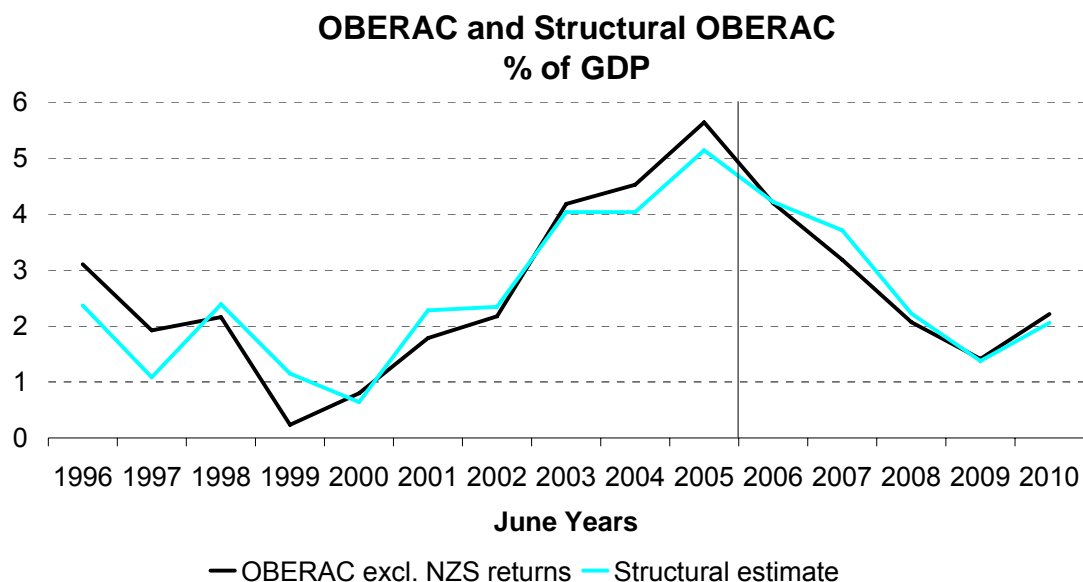
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating Balance	1,908	2,127	1,763	1,503	1,358	2,391	1,966	7,424	6,247	8,486
Adjustments										
Net GSF pension liability movts	(4)	(233)	429	(201)	164	436	1,752	(508)	1,264	159
ACC revaluation	-	-	-	(519)	420	43	1,347	(309)	1,432	572
NPF liability movement	-	-	-	-	253	-	197	-	53	-
Transpower valuation movts	-	407	14	(54)	59	(64)	-	-	-	-
Gain on sale of assets										
Contact	-	-	(1,421)	-	-	-	-	-	-	-
Airport companies	-	-	(204)	-	-	-	-	-	-	-
Hydro stations	-	-	(195)	-	-	-	-	-	-	(630)
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)	-	-	-	-	-
EQC asset valuation decreases	-	-	-	-	-	130	49	(105)	111	(423)
Maui gas receivable revaluation	-	-	-	-	-	(260)	-	-	-	-
Unrealised forest revaluations	-	-	-	-	-	-	-	-	-	-
NZSF unrealised gains	-	-	-	-	-	-	-	-	(161)	(949)
ACC unrealised gains	-	-	-	-	-	-	-	-	(126)	(693)
Revaluation losses	-	-	-	-	-	-	-	-	53	-
Student Loan FV change before po	-	-	-	-	-	-	-	-	-	455
Exchange rate movements	-	-	-	-	-	75	-	-	-	-
<i>Total adjustments</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>2,626</i>	<i>(1,509)</i>
OBERAC	1,904	2,191	246	884	2,115	2,751	5,580	6,629	8,873	6,977

Source: The Treasury

Estimates of the Structural Fiscal Balance and Fiscal Impulse

The structural (or cyclically-adjusted) fiscal balance adjusts the actual fiscal balance (in this case the OBERAC) for fluctuations of real GDP growth around its trend¹. The adjustment also incorporates estimates of the responsiveness of different revenue types and unemployment, to changes in real output. No adjustments are made for prices being above or below trend levels. 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.

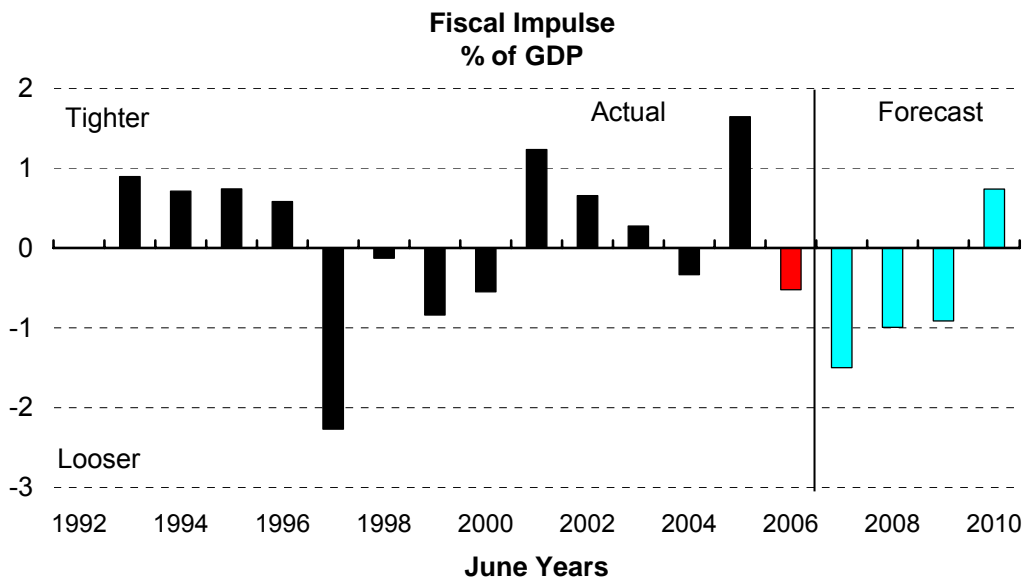
The graph shows that the structural balance has been a little below the actual OBERAC (excluding net NZSF returns) over the past few years. This pattern is expected to reverse over the forecast period as actual output is forecast to move below trend output during 2006/07.



Source: The Treasury

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.

¹ The trend was calculated using a HP filter. See *December Economic and Fiscal Update 2002* (page 38) for further discussion of measuring trend growth.



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 2002 and 2003 fiscal years, the fiscal impulse indicator suggested slightly contractionary fiscal policy. However, *overall* fiscal policy was much tighter (as illustrated by the increase in the OBERAC). 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 2007 to 2010 fiscal years, both approaches yield expansionary impacts on GDP, with impulses averaging around three-quarters a 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). The approaches used to calculate the structural balance and fiscal impulse will be reviewed over 2006/07.

Summary table

Year Ended June 30	Discretionary Fiscal Impulse	OBERAC (excl. NZSF net retained earnings)	Cyclically-adjusted OBERAC (excl. NZSF net retained income)
1996	0.6	3.1	2.4
1997	-2.3	1.9	1.1
1998	-0.1	2.2	2.4
1999	-0.8	0.2	1.2
2000	-0.5	0.8	0.6
2001	1.2	1.8	2.3
2002	0.7	2.2	2.3
2003	0.3	4.2	4.0
2004	-0.3	4.5	4.0
2005	1.6	5.6	5.1
2006	-0.5	4.2	4.2
2007	-1.5	3.2	3.7
2008	-1.0	2.1	2.2
2009	-0.9	1.4	1.4
2010	0.7	2.2	2.1

Source: The Treasury

Reconciliation of Operating Balance to Net Crown Debt

(\$ million)	2005 Actual	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast
Operating balance	6,247	8,486	5,768	4,343	3,561	5,412
Add/(less) valuation items	2,626	(1,509)	-	-	-	-
OBERAC	8,873	6,977	5,768	4,343	3,561	5,412
Less NZS Fund contributions	(2,107)	(2,337)	(2,049)	(2,239)	(2,465)	(2,651)
Less after-tax income of the NZS Fund	(680)	(174)	(675)	(848)	(1,044)	(1,265)
Available after NZS Fund requirements	6,086	4,466	3,044	1,256	52	1,496
Decrease/(increase in net debt)	4,433	1,755	(193)	(1,187)	(2,305)	(810)
Difference	(1,653)	(2,711)	(3,237)	(2,443)	(2,357)	(2,306)

This difference comprises:

Non-cash elements of the OBERAC:

SOE/CE retained surplus net of

dividends (excluding valuation issues) (1,833) (1,105) (1,832) (1,720) (1,806) (1,782)

Depreciation 980 1,100 1,177 1,261 1,298 1,329

Pension liabilities movement 1,410 250 (17) (57) (100) (132)

Amortisation of Goodwill 47 47 47 47 47 47

Student loan influences - (482) - - - -

Cash elements not in the OBERAC:

Issue of circulating currency 188 211 - - - -

Net purchase of physical assets including capital contingency provision (1,372) (1,988) (2,209) (1,656) (1,430) (1,661)

Net capital injections (583) (514) (441) (291) (146) (77)

Other movements (490) (230) 38 (27) (220) (30)

(1,653) (2,711) (3,237) (2,443) (2,357) (2,306)

Source: The Treasury

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

(\$ million)	2005 Actual	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast
Core Crown net cash flows from operations	8,560	8,069	4,688	3,209	1,918	3,801
<i>Items included in the operating balance but not in net cash flows from operations</i>						
Valuation changes						
(Increase)/decrease in pension liabilities	(1,410)	(409)	17	57	100	132
National Provident Fund guarantee	(53)	-	-	-	-	-
Revaluation losses on assets	-	-	-	-	-	-
Revaluation of commercial forests	(23)	-	-	-	-	-
Total valuation changes	(1,486)	(409)	17	57	100	132
Property, plant & equipment asset movements						
Depreciation	(980)	(1,100)	(1,177)	(1,261)	(1,298)	(1,329)
Total property, plant & equipment movements	(980)	(1,100)	(1,177)	(1,261)	(1,298)	(1,329)
Other non-cash items						
Student loans	(188)	(1,740)	(167)	(177)	(167)	(152)
Amortisation of goodwill	(47)	(47)	(47)	(47)	(47)	(47)
Accrued income on NZS Fund	492	1,123	675	848	1,044	1,265
Total other non-cash items	257	(664)	461	624	830	1,066
Total other investing and financing items	130	466	199	198	201	196
Movements in working capital						
Increase/(decrease) in receivables	(386)	(191)	(166)	(107)	(93)	(109)
Increase/(decrease) in inventories	5	35	3	23	38	3
(Increase)/decrease in payables	(269)	1	(89)	(120)	59	(130)
Total movements in working capital	(650)	(155)	(252)	(204)	4	(236)
Core Crown operating balance	5,831	6,207	3,936	2,623	1,755	3,630
SOE/CE surpluses	416	2,279	1,832	1,720	1,806	1,782
Total Crown Operating Balance	6,247	8,486	5,768	4,343	3,561	5,412

Source: The Treasury

Tax Revenue Tables

Table 1 – Treasury and Inland Revenue forecasts of tax revenue

(\$ million)	2004/05	2005/06		2006/07		2007/08		2008/09		2009/10	
	Actual	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct Tax											
Individuals											
Source deductions	18,324	19,817	19,885	20,534	20,910	21,513	22,110	22,513	23,390	23,804	24,870
Other persons tax	4,103	4,309	4,295	4,393	4,330	4,478	4,390	4,357	4,300	4,777	4,615
Refunds	(876)	(952)	(960)	(962)	(990)	(984)	(990)	(984)	(990)	(984)	(965)
Fringe benefit tax	441	453	446	425	431	444	444	468	461	492	484
Subtotal: Individuals	21,992	23,627	23,666	24,390	24,681	25,451	25,954	26,354	27,161	28,089	29,004
Company Tax (net)	8,114	8,664	8,718	8,579	8,757	8,463	9,496	8,490	9,562	10,093	10,370
Withholding taxes on:											
Resident interest income	1,501	1,863	1,871	2,079	1,946	2,062	1,985	2,009	2,064	2,054	2,126
Non-resident income	927	1,003	1,007	874	932	943	995	996	1,057	1,042	1,112
Resident dividend income	59	65	73	56	76	58	81	61	86	63	91
Foreign-source dividends	188	191	210	220	217	225	223	230	238	235	250
Subtotal: Withholding Tax	2,675	3,122	3,161	3,229	3,171	3,288	3,284	3,296	3,445	3,394	3,579
Total Income Tax	32,781	35,413	35,545	36,198	36,609	37,202	38,734	38,140	40,168	41,576	42,953
Other: Estate and gift duties	2	2	2	2	2	2	2	2	2	2	2
Total Direct Tax	32,783	35,415	35,547	36,200	36,611	37,204	38,736	38,142	40,170	41,578	42,955
Indirect Tax											
GST											
GST (Customs)	4,592	5,045	5,011	5,670	5,645	5,928	5,924	6,123	6,116	6,270	6,276
GST (IRD)	8,838	8,962	8,912	8,799	8,791	9,173	9,102	9,837	9,694	10,554	10,368
Subtotal: GST	13,430	14,007	13,923	14,469	14,436	15,101	15,026	15,960	15,810	16,824	16,644
Excise duties on:											
Alcoholic drinks	491	513	526	537	544	562	557	581	568	599	580
Tobacco products ¹	842	853	820	145	138	150	142	154	144	157	146
Petroleum fuels	823	897	913	914	939	936	962	961	983	991	1,002
Subtotal: Excise Duties	2,156	2,263	2,259	1,596	1,621	1,648	1,661	1,696	1,695	1,747	1,728
Other Indirect Tax											
Customs duty	947	1,009	1,052	1,773	1,759	1,806	1,812	1,793	1,812	1,805	1,814
Carbon tax (net)	..	..	..	..	..	..	..	..	..	..	..
Road user charges	713	756	747	793	770	840	825	896	880	947	930
Motor vehicle fees	217	221	222	223	225	229	235	237	245	244	250
Stamp and cheque duties	65	83	80	74	73	68	69	68	65	68	66
Gaming duties	316	290	312	293	292	297	299	303	305	309	309
Energy resources levy	73	64	67	58	64	51	60	46	55	64	60
Subtotal: Other Indirect Tax	2,331	2,423	2,480	3,214	3,183	3,291	3,300	3,343	3,362	3,437	3,429
Total Indirect Tax	17,917	18,693	18,662	19,279	19,240	20,040	19,987	20,999	20,867	22,008	21,801
Total Tax	50,700	54,108	54,209	55,479	55,851	57,244	58,723	59,141	61,037	63,586	64,756
Tax-to-GDP	33.6%	34.6%	34.7%	34.7%	34.9%	33.9%	34.7%	33.2%	34.2%	33.9%	34.5%
Core Crown Eliminations	These are removed from Total Tax to derive Core Crown taxation.										
Core Crown income tax	356	362	362	256	256	309	309	370	370	437	437
GST on departmental outputs	1,047	1,060	1,060	1,094	1,094	1,121	1,121	1,124	1,124	1,118	1,118
GST on Crown expenses	2,185	2,584	2,584	2,861	2,861	3,093	3,093	3,333	3,333	3,601	3,601
Core Crown Taxation	47,112	50,102	50,203	51,268	51,640	52,721	54,200	54,314	56,210	58,430	59,600
Tax-to-GDP	31.2%	32.1%	32.1%	32.0%	32.3%	31.2%	32.1%	30.5%	31.5%	31.1%	31.8%
Total Crown Eliminations	These are removed from Core Crown taxation to derive Total Crown taxation.										
Income tax from SOEs and CEs	453	460	460	563	563	575	575	638	638	680	680

Sources: Inland Revenue, The Treasury

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

(\$ million)	2004/05	2005/06		2006/07		2007/08		2008/09		2009/10	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
		Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct Tax											
Individuals											
Source deductions	18,380	19,775	19,840	20,534	20,910	21,513	22,110	22,513	23,390	23,804	24,870
Other persons tax	4,640	4,933	4,885	5,189	5,060	5,417	5,240	5,295	5,150	5,715	5,460
Refunds	(1,365)	(1,565)	(1,550)	(1,780)	(1,720)	(1,912)	(1,840)	(1,922)	(1,840)	(1,922)	(1,810)
Fringe benefit tax	432	447	441	421	427	442	444	462	464	486	485
Subtotal: Individuals	22,087	23,590	23,616	24,364	24,677	25,460	25,954	26,348	27,164	28,083	29,005
Company Tax (net)	8,299	8,554	8,590	8,579	8,757	8,463	9,495	8,490	9,563	10,093	10,370
Withholding taxes on:											
Resident interest income	1,498	1,871	1,871	2,078	1,946	2,061	1,985	2,008	2,064	2,053	2,126
Non-resident income	949	996	1,007	874	932	943	995	996	1,057	1,042	1,112
Resident dividend income	60	65	73	56	76	58	81	61	86	63	91
Foreign-source dividends	185	191	210	220	217	225	223	230	238	235	250
Subtotal: Withholding Tax	2,692	3,123	3,161	3,228	3,171	3,287	3,284	3,295	3,445	3,393	3,579
Total Income Tax	33,078	35,267	35,367	36,171	36,605	37,210	38,733	38,133	40,172	41,569	42,954
Other: Estate and gift duties	2	2	2	2	2	2	2	2	2	2	2
Total Direct Tax	33,080	35,269	35,369	36,173	36,607	37,212	38,735	38,135	40,174	41,571	42,956
Indirect Tax											
GST											
GST (Customs)	4,602	5,051	5,011	5,668	5,645	5,926	5,924	6,121	6,116	6,268	6,276
GST (IRD)	8,640	8,944	8,912	8,801	8,791	9,175	9,102	9,839	9,694	10,556	10,368
Subtotal: GST	13,242	13,995	13,923	14,469	14,436	15,101	15,026	15,960	15,810	16,824	16,644
Excise duties on:											
Alcoholic drinks	483	513	526	537	544	562	557	581	568	599	580
Tobacco products	838	853	820	145	138	150	142	154	144	157	146
Petroleum fuels	812	897	913	914	939	936	962	961	983	991	1,002
Subtotal: Excise Duties	2,133	2,263	2,259	1,596	1,621	1,648	1,661	1,696	1,695	1,747	1,728
Other Indirect Tax											
Customs duty	968	1,009	1,052	1,773	1,759	1,806	1,812	1,793	1,812	1,805	1,814
Carbon tax (net)	..	..	..	..	..	..	..	..	..	..	..
Road user charges	714	756	747	793	770	840	825	896	880	947	930
Motor vehicle fees	205	226	222	223	225	229	235	237	245	244	250
Stamp and cheque duties	66	81	80	74	73	68	69	68	65	68	66
Gaming duties	321	302	312	293	292	297	299	303	305	309	309
Energy resources levy	73	67	67	58	64	52	60	47	55	63	60
Subtotal: Other Indirect Tax	2,347	2,441	2,480	3,214	3,183	3,292	3,300	3,344	3,362	3,436	3,429
Total Indirect Tax	17,722	18,699	18,662	19,279	19,240	20,041	19,987	21,000	20,867	22,007	21,801
Total Tax	50,802	53,968	54,031	55,452	55,847	57,253	58,722	59,135	61,041	63,578	64,757
Tax-to-GDP	33.7%	34.5%	34.6%	34.7%	34.9%	33.9%	34.7%	33.2%	34.2%	33.9%	34.5%
Core Crown Eliminations	These are removed from Total Tax to derive Core Crown taxation.										
Core Crown income tax	296	366	366	256	256	310	310	372	372	441	441
GST on departmental outputs	1,047	1,060	1,060	1,094	1,094	1,121	1,121	1,124	1,124	1,118	1,118
GST on Crown expenses	2,185	2,584	2,584	2,861	2,861	3,093	3,093	3,333	3,333	3,601	3,601
Core Crown Taxation	47,274	49,958	50,021	51,241	51,636	52,729	54,198	54,306	56,212	58,418	59,597
Tax-to-GDP	31.3%	32.0%	32.0%	32.0%	32.3%	31.2%	32.1%	30.5%	31.5%	31.1%	31.8%
Total Crown Eliminations	These are removed from Core Crown taxation to derive Total Crown taxation.										
Income tax from SOEs and CEs	373	462	462	467	467	498	498	557	557	595	595

Sources: Inland Revenue, The Treasury

Contingent Liabilities

The Specific Fiscal Risks chapter in the published 2006 *Budget Update* includes tables listing quantifiable and unquantified contingent liabilities as at 31 March 2006. 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.

\$17 million at 31 March 2006 (\$16 million at 31 December 2005).

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 2006 (\$10 million at 31 December 2005).

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.

\$87 million at 31 March 2006 (\$87 million at 31 December 2005).

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 2006 (\$10 million at 31 December 2005).

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 2006 (\$11 million at 31 December 2005).

Guarantees and indemnities of SOEs and Crown entities

\$16 million at 31 March 2006 (\$16 million at 31 December 2005).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled capital at 31 March 2006 \$m	Uncalled capital at 31 December 2005 \$m
Asian Development Bank	1,203	1,076
European Bank for Reconstruction and Development	14	12
International Bank for Reconstruction and Development	1,341	1,201

Legal proceedings and disputes

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

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

Health – legal claims

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

\$90 million at 31 March 2006 (\$88 million at 31 December 2005).

Tax in dispute

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

\$462 million at 31 March 2006 (\$461 million at 31 December 2005).

Other legal claims against SOEs and Crown entities

\$4 million at 31 March 2006 (\$5 million at 31 December 2005).

Other legal claims

\$96 million at 31 March 2006 (\$98 million at 31 December 2005).

Other quantifiable contingent liabilities*International finance organisations*

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

	31 March 2006 \$m	31 December 2005 \$m
IMF	1,716	1,440

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.

\$24 million at 31 March 2006 (\$24 million at 31 December 2005).

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.

\$65 million at 31 March 2006 (\$61 million at 31 December 2005).

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.

\$99 million at 31 March 2006 (\$99 million at 31 December 2005).

Other quantified contingent liabilities of SOEs and Crown entities

\$11 million at 31 March 2006 (\$14 million at 31 December 2005).

Other quantifiable contingent liabilities

\$31 million at 31 March 2006 (\$26 million at 31 December 2005).

Unquantifiable Contingent Liabilities

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

Guarantees and indemnities

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 Toll NZ 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.

Building Industry Authority

The Building Industry Authority (BIA) is a joint defendant in a number of claims before the courts and the Weathertight Homes Resolution Service relating to the BIA's previous role as regulator of the building industry. The BIA has been dis-established and absorbed into the Department of Building & Housing and, to prevent conflicts of interest, Treasury was given responsibility for managing weathertight claims against the BIA on behalf of the Crown from 1 July 2005.

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 Disputes Tribunal

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.

Earthquake Commission (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 the Crown is now longer liable to ECNZ in respect of those assets transferred to it from ECNZ. 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.

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.

Geothermal carbon tax indemnity

As part of the sale and purchase agreement between the Crown and Mighty River Power (MRP), the Crown has agreed to provide an indemnity for the payment of carbon taxes, should legislation be passed that does not allow for an automatic pass-through of the charges to end-users. The indemnity is time bound and contractually limited in the amount that can be claimed. The indemnity is not limited to MRP and will be available to any subsequent owner of the Crown’s Kawerau geothermal assets.

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 New Zealand 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 establishes a Crown indemnity to the Securities Commission, the Registrar and Deputy Registrar of Companies, and statutory managers, advisory committee members and investigators appointed under the Act, from liability relating to the exercise of powers under the Act unless bad faith is shown.

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)

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

The Crown has entered into an agreement to provide funding to the Reserve Bank in the event they undertake foreign exchange market interventions under section 16 of the Reserve Bank Act for the purpose of influencing the level of the exchange rate.

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 NZ Ltd against any liability arising from the assigned contracts, leases, etc after their assignment dates
- The Crown has indemnified Toll NZ Ltd against certain potential claims by employees
- The Crown has an option to purchase the Tranz Scenic Stations from Toll NZ Ltd 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 3 June 2005 the High Court overturned a decision by the District Court made in 2004 that had upheld an interpretation that a lump sum payment was required to be paid in respect of one claimant. Leave to appeal this decision to the Court of Appeal has been granted to the claimant.

If the Court of Appeal overturns the decision made in the High Court, ACC could be exposed 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.

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 departments managing significant Crown properties undertook exercises to establish the nature and quantity of any contaminated sites. These exercises continued 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.

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.

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.

Other contingencies

Foreshore and seabed

The Foreshore and Seabed Act 2004 (FSA):

- vests the full legal and beneficial ownership of the public foreshore and seabed in the Crown
- provides for the recognition and protection of ongoing customary rights with respect to the public foreshore and seabed
- enables applications to the High Court to investigate if previously held common law rights have been adversely impacted, and if so, providing for those affected either to participate in the administration of a foreshore and seabed reserve or else enter into formal discussions on redress, and
- provides for general rights of public access and recreation in, on, over, and across the public foreshore and seabed and general rights of navigation within the foreshore and seabed.

The public foreshore and seabed means the marine area that is bounded on the landward side by the line of mean high water spring; and on the seaward side by the outer limits of the territorial sea, but does not include land subject to a specified freehold interest (refer section 5 of the FSA).

The FSA codifies the nature of the Crown's ownership interest in the public foreshore and seabed on behalf of the public of New Zealand. Although full legal and beneficial ownership of the public foreshore and seabed has been vested in the Crown, there are significant limitations to the Crown's rights under the FSA. As well as recognising and protecting customary rights, the FSA significantly restricts the Crown's ability to alienate or dispose of any part of the public foreshore and seabed and significantly restricts the Crown's ability to exclude others from entering or engaging in recreational activities or navigating in, on or within the public foreshore and seabed. Because of the complex nature of the Crown's ownership interest in the public foreshore and seabed and because we are unable to obtain a reliable valuation of the Crown's interest, the public foreshore and seabed has not been recognised as an asset in these financial statements.

Accounting Policies and Forecast Assumptions

The forecast financial statements contained in the Generally Accepted Accounting Practice (GAAP) Series Table Chapter of the published *Budget Update* are prepared on the basis of the following accounting policies and forecast assumptions.

The forecast financial statements comply with GAAP. The measurement base applied is historical cost adjusted for revaluations of certain property, plant and equipment, state highways, commercial forests and marketable securities held for trading purposes. The accrual basis of accounting has been used unless otherwise stated.

Basis of combination

Ministers of the Crown, departments, the Reserve Bank of New Zealand, the GSF, the NZS Fund, SOEs (including Air New Zealand Limited) and Crown entities (excluding 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 Crown financial statements.

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

Page 59 of the 30 June 2005 Crown financial statement outlines in more detail why there is a difference in the accounting treatment of TEIs from other Crown entities and why the Offices of Parliament are excluded.

Revenue

Revenue levied through the Crown's sovereign power

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.

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Residents' withholding tax ¹	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Provisional tax ²	Payment due date
Terminal tax ²	Assessment filed date
Goods and services tax	When the liability to the Crown is incurred
Excise duty	When goods are subject to duty

Revenue type	Revenue recognition point
Road user charges and motor vehicle fees	When payment for the fee or charge is made
Stamp, cheque and credit card duties	Assessment filed date
Other indirect taxes	When the debt to the Crown arises
Levies (eg, ACC levies)	When the obligation to pay the levy to the Crown is incurred
<p>¹ Corresponds to withholding taxes on residents' interest and dividend income in Note 1 to the financial statements.</p> <p>² Provisional and terminal taxes are paid by "other persons" and companies (refer to Note 1 to the financial statements).</p>	

Revenue earned through operations

If revenue has been earned by the Crown in exchange for the provision of outputs (products or services) to third parties, the Crown receives its revenue through operations. Such revenue is recognised when it is earned.

Investment income

Investment income is recognised in the period in which it is earned.

Premiums and discounts

Premiums arising on the issue of a debt instrument are treated as a reduction in the cost of borrowing. Discounts arising on the purchase of a monetary asset are treated as an increase in investment income.

Premiums and discounts are recognised in the Statement of Financial Position on issue, and are amortised over the period of the instrument on a yield-to-maturity basis.

For floating rate debt instruments, the amortisation is over the first interest period. Discounts on monetary assets deemed short-term securities are amortised on a straight-line basis.

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

Gains

Realised gains arising from sales of assets or the early repurchase of liabilities are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Unrealised foreign-exchange gains on monetary assets and liabilities, and unrealised gains on marketable securities held for trading purposes and listed equity investments, are recognised in the Statement of Financial Performance.

Forecasts of foreign-currency monetary assets and liabilities for the year ending 30 June 2006 and the other forecast periods use the exchange rates prevailing on 28 February 2006. As a consequence, no realised or unrealised exchange gains are forecast for the entire forecast period

Unrealised and realised gains related to hedging activity are recognised in the Statement of Financial Performance in the same period in which losses on the underlying hedged position are recognised.

Unrealised gains arising from changes in the value of property, plant and equipment (including state highways) are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the Statement of Financial Performance, the gain is credited to the Statement of Financial Performance. Otherwise, gains are credited to an asset revaluation reserve for that class of asset.

The 30 June 2006 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 2005 and any additional valuations that have occurred up to 31 March 2006.

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 2006 forecasts. As a consequence, no realised or unrealised gains are forecast for the entire forecast period.

Unrealised gains arising from changes in the value of commercial forests are credited to the Statement of Financial Performance.

Unrealised gains (excluding foreign-exchange gains) arising from changes in the value of investments and marketable securities held for investment and unlisted equity investments are recognised as at balance date only to the extent that they reverse a loss previously charged to the Statement of Financial Performance. Gains effecting such a reversal are credited to the Statement of Financial Performance.

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

Expenses are recognised in the period to which they relate.

Welfare benefits

Welfare benefits are recognised in the period when an application for a benefit has been received and the eligibility criteria met.

Grants and subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

There is a multi-year appropriation (MYA) established for the payment of claims associated with Treaty of Waitangi settlements. The actual amount expended 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 and premiums

Discounts arising on the issue of a debt instrument are treated as an increase in the cost of borrowing. Premiums arising on the purchase of a monetary asset are treated as a reduction in investment income.

Discounts and premiums are recognised in the Statement of Financial Position on issue, and are amortised over the period of the instrument on a yield-to-maturity basis.

For floating rate debt instruments, the amortisation is over the first interest period. Premiums on monetary assets deemed short-term securities are amortised on a straight-line basis.

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

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

Realised losses arising from sales of assets or the early repurchase of liabilities are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Unrealised foreign-exchange losses on monetary assets and liabilities, and unrealised losses on marketable securities held for trading purposes and listed equity investments, are recognised in the Statement of Financial Performance.

The 30 June 2006 forecasts for foreign-currency monetary assets and liabilities use the exchange rates prevailing on 28 February 2006.

Forecasts of foreign-currency monetary assets and liabilities for the other forecast periods are based on the exchange rates used for the 30 June 2006 forecast. As a consequence, no realised or unrealised exchange losses are forecast for these years.

Unrealised and realised losses related to hedging activity are recognised in the Statement of Financial Performance in the same period in which gains on the underlying hedged position are recognised.

Unrealised losses (excluding foreign-exchange losses) arising from changes in the value of property, plant and equipment (including state highways), and investments and marketable securities held for investment and unlisted equity investments are recognised at balance date. Unrealised losses are first applied against any revaluation reserve for that class of asset. The balance, if any, is charged to the Statement of Financial Performance.

The 30 June 2006 forecasts for the value of property, plant and equipment use valuations as recorded in the Crown Financial Statements for the year ended 30 June 2005, and any additional actual valuations that have occurred up to 31 March 2006.

The value of property plant and equipment for the other forecast periods is forecast using the same valuation used for the 30 June 2006 forecasts. As a consequence, no realised or unrealised losses are forecast beyond the current year.

Unrealised losses arising from changes in the value of commercial forests are charged to the Statement of Financial Performance.

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

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 rate on the date of the transaction. Exchange differences arising on settlement of these transactions are recognised in the Statement of Financial Performance.

Outstanding foreign-exchange contracts are translated at the closing exchange rate. Exchange gains and losses are included in the Statement of Financial Performance in the period in which they arise.

Outstanding foreign-exchange contracts are translated using the exchange rate prevailing on 28 February 2006.

For forecasting purposes, the exchange rates prevailing on 28 February 2006 are assumed to prevail throughout the other forecast periods.

Depreciation

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

Freehold buildings	25 to 60 years
Specialist military equipment	5 to 25 years
Other plant and equipment	3 to 25 years
State highways:	
Pavement (surfacing)	7 years
Pavement (other)	36 years
Bridges	90 to 100 years
Aircraft (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

Where short-term foreign monetary assets are subject to forward exchange contracts, they are translated into New Zealand dollars at the contract rate. Otherwise, foreign monetary assets are translated at the closing exchange rate.

Exchange gains and losses are included in the Statement of Financial Performance in the period in which they arise.

Receivables and advances

Student Loans are presented at their forecast fair value with changes in fair value flowing through the Statement of Financial Performance. Other receivables and advances are recorded at the amounts expected to be ultimately collected in cash.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Where inventories acquired are recorded at cost, the weighted average cost method is used. Appropriate allowance has been made for obsolescence.

Investments

Marketable securities held for trading purposes

Marketable securities held for trading purposes are recorded at fair value.

Equity investments

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

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

Other investments and marketable securities held for investment purposes

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

Investments held for hedging purposes are recorded on the same basis as the item being hedged.

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

Items of property, plant and equipment are initially recorded at cost.

Revaluations are carried out for most classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset.

Revaluation is based on the fair value of the asset. Where an asset is recorded using 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 assets that are revalued, are revalued at least every five years.

Classes of property, plant and equipment assets that are revalued are regularly reviewed to ensure the carrying value is not materially different from fair value.

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

Land and buildings

Land and buildings are recorded at fair value less accumulated depreciation on buildings. In cases where valuations conducted in accordance with the 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.

Valuations are assumed to remain constant over the forecast period.

Specialist military equipment

Specialist military equipment 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 these valuations 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

State highways are recorded at depreciated replacement cost based on the estimated present cost of constructing the existing asset by the most appropriate method of construction. Land associated with the state highways is valued using an opportunity cost based on adjacent use, as an approximation of fair value.

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

Aircraft (excluding specialist military equipment)

Aircraft (excluding SME) are recorded at fair value less any accumulated depreciation.

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

Electricity distribution network

Electricity distribution network assets are recorded at cost less accumulated depreciation.

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

Electricity generation assets

Electricity generation assets are recorded at fair value less any accumulated depreciation.

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

Other items of property, plant and equipment – at cost

Other property, plant and equipment, which include motor vehicles and office equipment, are 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

Such physical assets (national parks, for example) are recorded at fair value less any accumulated depreciation.

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

Commercial forests

Commercial forests are recorded at fair value less estimated point-of-sale costs. This takes into account age, quality of timber and the forest management plan.

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

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 evidence of impairment in excess of annual amortisation.

Identifiable intangible assets which have been purchased are initially recorded at cost and thereafter either at cost less accumulated amortisation and any accumulated impairment losses or, where in the rare case where an active market exists, at a revalued amount being fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

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

Liabilities

Borrowings

In the Statement of Financial Position, borrowings (including currency swaps) are recorded at nominal value adjusted for the unamortised portion of the premium or discount on issue.

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

Where short-term foreign monetary liabilities are subject to forward exchange contracts, they are translated into New Zealand dollars at the contract rate. Otherwise, foreign monetary liabilities are translated at the closing exchange rate.

Exchange gains and losses are recognised in the Statement of Financial Performance in the period in which they arise.

For forecasting purposes, the exchange rates prevailing on 28 February 2006 are assumed to prevail throughout the other forecast periods.

Pension liabilities

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.

ACC claims liabilities

The future cost of ACC claims liabilities is revalued annually based on the latest actuarial information. Movements of the liability are reflected in the Statement of Financial Performance.

Currency issued

Currency issued represents a liability in favour of the holder. Currency issued for circulation, including an amount to cover expected future redemption of demonetised currency, is recognised at face value.

Leases

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 leases are capitalised at the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

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

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

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

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised when they accrue to employees. The liability for employee entitlements is carried as the present value of the estimated future cash outflows.

Other liabilities

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

Commitments

The commitments reported in these forecast financial statements are **actual** commitments at 31 March 2006.

Existing commitments include those 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 in the Statement of Commitments.

Specific Fiscal Risks

The specific fiscal risks reported in these forecast financial statements are the **actual** risks **existing at 8 May 2006** and contingent liabilities and assets at 31 March 2006. They include existing contingent liabilities and contingent assets, which are recognised at the point at which the contingency is evident.

The Statement of Specific Fiscal Risks contained in the *Budget Update* has been prepared in accordance with sections 26Q(3)(b) of the Public Finance Act 1989.

Changes in Accounting Policies

There has been a change in the accounting policy for student loans to better reflect their value under the new no-interest policy. Further information on the nature of the change is disclosed in the Student Loan Policy box on page 39 of the *Half Year Update* and the impact of the change is reflected in Note 10 on page 173 of the *Budget Update*.

There have been no other changes in accounting policies and all other policies have been applied on a consistent basis during the forecast period.