
Additional Fiscal Information

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

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

The following information forms part of the 2004 *December Economic and Fiscal Update* (DEFU), released by the Treasury on 14 December 2004. This information should be read in conjunction with the published 2004 DEFU. The information contains:

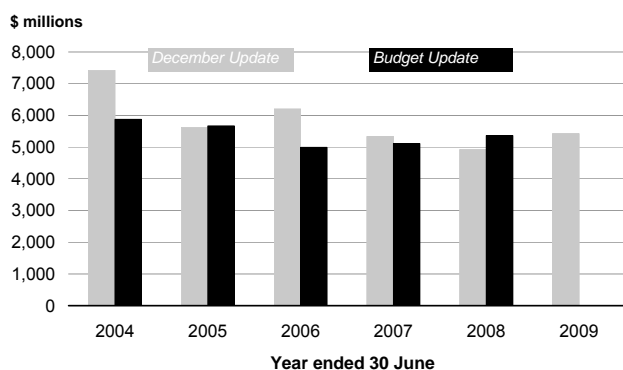
- **Tax tables** – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts.
- **Expense tables** – detailed expense tables of core Crown expenses from 1999/2000 to 2008/09.
- **Contingent liabilities** – write-ups of the nature of each item in the tables outlined in the 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 2004 Budget Update

The following series of graphs and tables provides a comparison of key fiscal indicators to those contained in the *2004 Budget Update*.

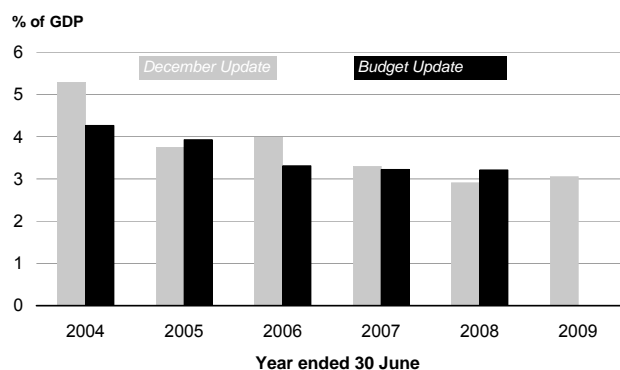
Operating Balance

Operating balance comparison



Sources: The Treasury

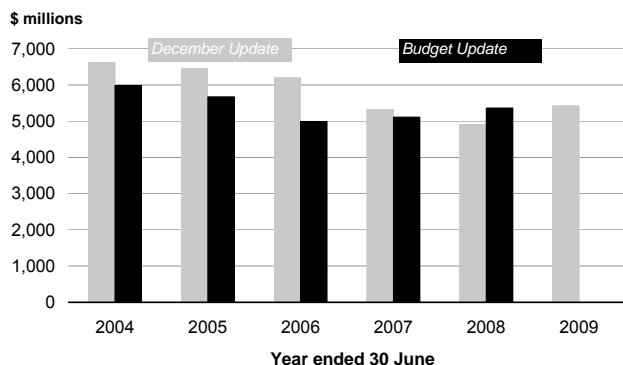
Operating balance comparison



Sources: The Treasury

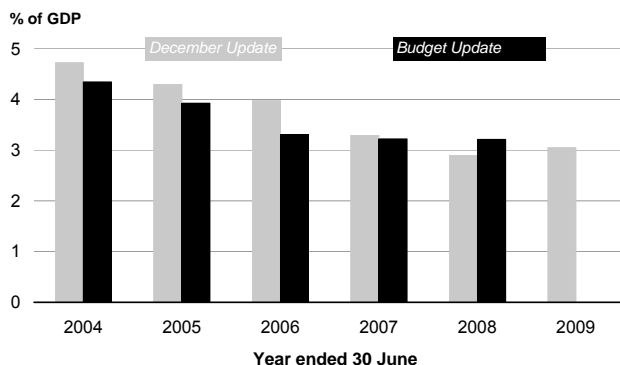
OBERAC

OBERAC comparison



Source: The Treasury

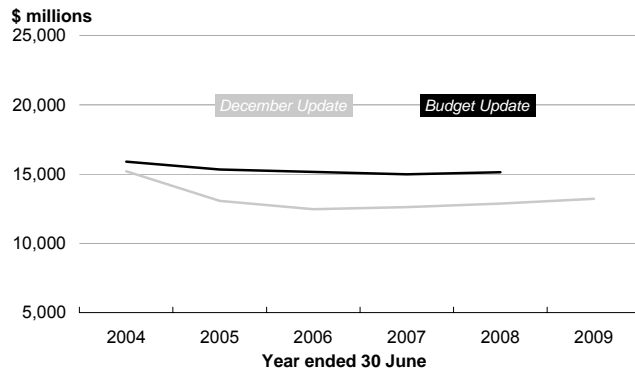
OBERAC comparison



Source: The Treasury

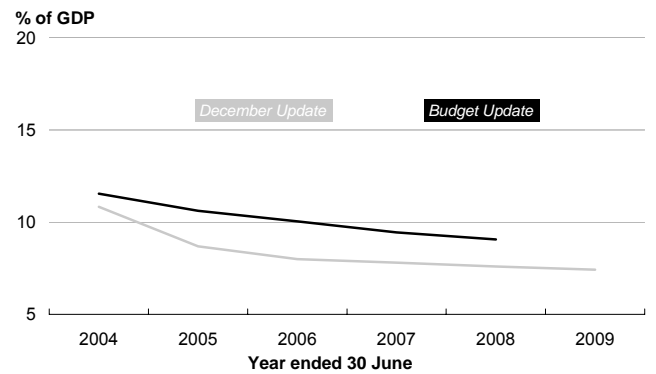
Net Core Crown Debt

Net core Crown debt comparison



Source: The Treasury

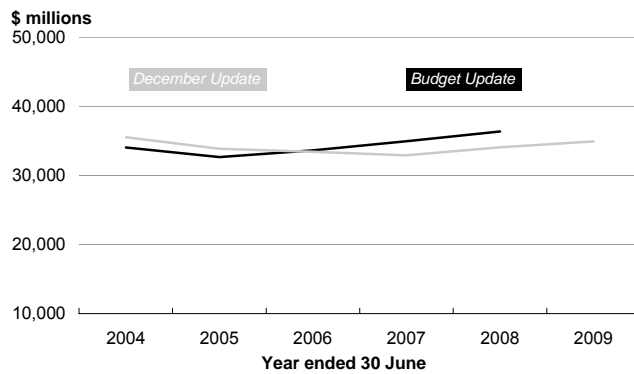
Net core Crown debt comparison



Source: The Treasury

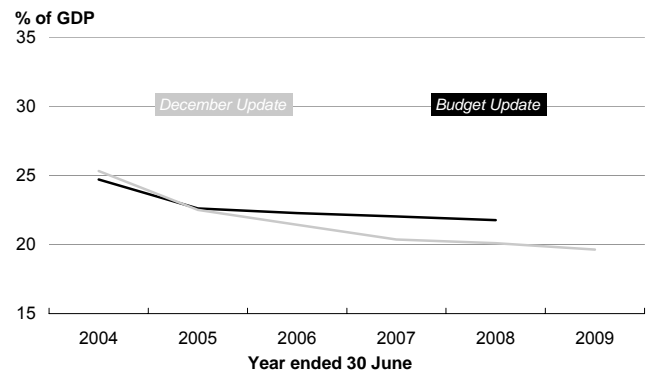
Gross Debt

Gross debt comparison



Source: The Treasury

Gross debt comparison



Source: The Treasury

Key Fiscal Indicators Comparison to 2004 Budget Update

Fiscal Indicators (\$ million)	2004	DEFU 2005	Budget 2005	Variance	DEFU 2006	Budget 2006	Variance	DEFU 2007	Budget 2007	Variance	DEFU 2008	Budget 2008	Variance	DEFU 2009	Budget 2009	Variance
	Actual	Forecast	Forecast		Forecast	Forecast		Forecast	Forecast		Forecast	Forecast		Forecast	Forecast		Forecast
Revenue																
Total revenue	60,387	64,643	62,525	2,118	68,071	65,374	2,697	71,020	68,565	2,455	74,406	72,000	2,406	78,305	-	78,305
Total core Crown revenue	46,932	50,581	48,910	1,671	52,818	51,027	1,791	54,983	53,586	1,397	57,812	56,499	1,313	61,116	-	61,116
Expenses																
Total expenses	53,057	59,155	57,005	2,150	62,009	60,531	1,478	65,825	63,605	2,220	69,622	66,786	2,836	73,016	-	73,016
Total core Crown expenses	41,608	45,751	44,474	1,277	48,092	47,526	566	51,225	50,062	1,163	54,521	52,749	1,772	57,423	-	57,423
Operating balance	7,424	5,627	5,671	(44)	6,201	4,994	1,207	5,334	5,111	223	4,923	5,365	(442)	5,428	-	5,428
OBERAC	6,629	6,467	5,671	796	6,201	4,994	1,207	5,334	5,111	223	4,923	5,365	(442)	5,428	-	5,428
Debt Indicators																
Gross sovereign-issued debt	35,527	33,846	32,663	1,183	33,409	33,622	(213)	32,905	34,946	(2,041)	34,056	36,344	(2,288)	34,931	-	34,931
Net core Crown debt	15,204	13,065	15,336	(2,271)	12,461	15,162	(2,701)	12,612	14,985	(2,373)	12,873	15,136	(2,263)	13,215	-	13,215
Net worth	35,463	41,109	35,403	5,706	47,310	40,397	6,913	52,644	45,508	7,136	57,567	50,873	6,694	62,995	-	62,995
Nominal GDP	140,336	150,400	144,441	5,959	155,871	150,947	4,924	161,625	158,626	2,999	169,487	167,051	2,436	178,029	-	178,029
Fiscal Indicators as a % of GDP																
Revenue																
Total Crown revenue	43.0%	43.0%	43.3%	-0.3%	43.7%	43.3%	0.4%	43.9%	43.2%	0.7%	43.9%	43.1%	0.8%	44.0%	-	44.0%
Total core Crown revenue	33.4%	33.6%	33.9%	-0.2%	33.9%	33.8%	0.1%	34.0%	33.8%	0.2%	34.1%	33.8%	0.3%	34.3%	-	34.3%
Expenses																
Total Crown expenses	37.8%	39.3%	39.5%	-0.1%	39.8%	40.1%	-0.3%	40.7%	40.1%	0.6%	41.1%	40.0%	1.1%	41.0%	-	41.0%
Total core Crown expenses	29.6%	30.4%	30.8%	-0.4%	30.9%	31.5%	-0.6%	31.7%	31.6%	0.1%	32.2%	31.6%	0.6%	32.3%	-	32.3%
Operating balance	5.3%	3.7%	3.9%	-0.2%	4.0%	3.3%	0.7%	3.3%	3.2%	0.1%	2.9%	3.2%	-0.3%	3.0%	-	3.0%
OBERAC	4.7%	4.3%	3.9%	0.4%	4.0%	3.3%	0.7%	3.3%	3.2%	0.1%	2.9%	3.2%	-0.3%	3.0%	-	3.0%
Debt Indicators																
Gross sovereign-issued debt	25.3%	22.5%	22.6%	-0.1%	21.4%	22.3%	-0.8%	20.4%	22.0%	-1.7%	20.1%	21.8%	-1.7%	19.6%	-	19.6%
Net core Crown debt	10.8%	8.7%	10.6%	-1.9%	8.0%	10.0%	-2.1%	7.8%	9.4%	-1.6%	7.6%	9.1%	-1.5%	7.4%	-	7.4%
Net worth	25.3%	27.3%	24.5%	2.8%	30.4%	26.8%	3.6%	32.6%	28.7%	3.9%	34.0%	30.5%	3.5%	35.4%	-	35.4%

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

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

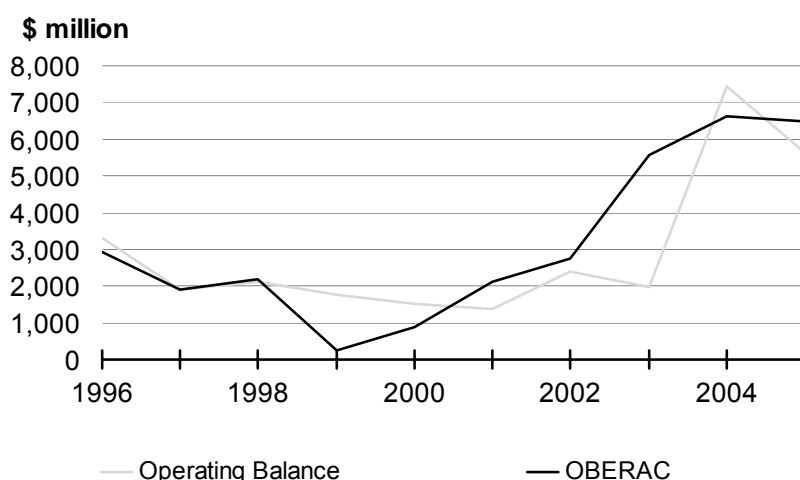
Revaluations have significantly affected the operating balance as it is a relatively small balancing item between two large numbers: total revenue and total expenses. Revaluation effects are not forecast beyond the current year as a matter of policy given their inherent uncertainty.

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

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

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

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



Source: The Treasury

Detail of OBERAC calculation

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Balance	3,314	1,908	2,127	1,763	1,503	1,358	2,391	1,966	7,424	5,627
Adjustments										
Net GSF pension liability movts	226	(4)	(233)	429	(201)	164	436	1,752	(508)	409
ACC revaluation	-	-	-	-	(519)	420	43	1,347	(309)	296
NPF liability movement	-	-	-	-	-	253	-	197	-	-
Transpower valuation movts	-	-	407	14	(54)	59	(64)	-	-	-
Gain on sale of assets										
Contact	-	-	-	(1,421)	-	-	-	-	-	-
Airport companies	-	-	-	(204)	-	-	-	-	-	-
Hydro stations	-	-	-	(195)	-	-	-	-	-	-
Spectrum licences	-	-	-	-	-	(140)	-	-	-	-
Other sales (BNZ, TVNZ shares, etc)	-	-	-	(140)	-	-	-	-	-	-
Write-downs (eg, Defence)	-	-	-	-	155	103	-	269	127	-
(Gains)/losses on marketable securities and deposits	-	-	(110)	-	-	(102)	-	-	-	135
EQC asset valuation decreases	-	-	-	-	-	-	130	49	(105)	-
Maui gas receivable revaluation	-	-	-	-	-	-	(260)	-	-	-
Unrealised forest revaluations	-	-	-	-	-	-	-	-	-	-
Exchange rate movements	(603)	-	-	-	-	-	75	-	-	-
<i>Total adjustments</i>	<i>(377)</i>	<i>(4)</i>	<i>64</i>	<i>(1,517)</i>	<i>(619)</i>	<i>757</i>	<i>360</i>	<i>3,614</i>	<i>(795)</i>	<i>840</i>
OBERAC	2,937	1,904	2,191	246	884	2,115	2,751	5,580	6,629	6,467

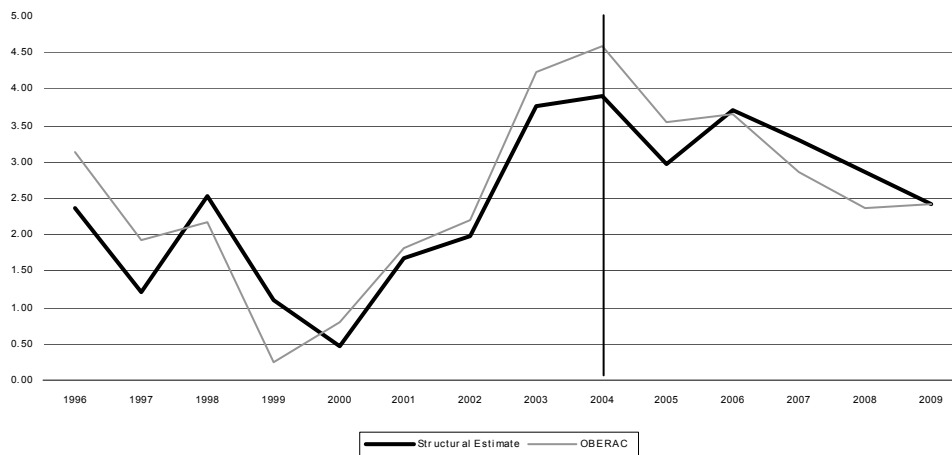
Source: The Treasury

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)

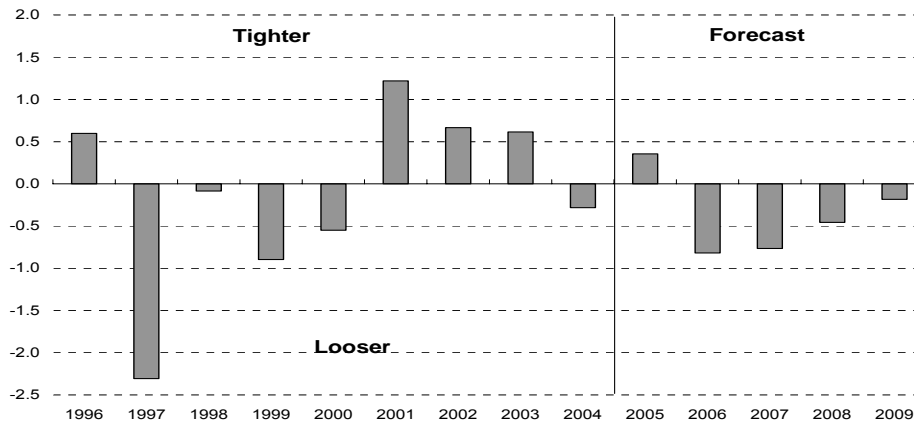


Source: The Treasury

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.

Furthermore, measures of fiscal impulse do not provide a complete account of the overall impact of fiscal policy. This is because they exclude the effect of automatic stabilisers and net interest payments. In short, the fiscal impulse estimates *discretionary* fiscal policy changes rather than the complete effect. For example, in the year ended 2004 the fiscal impulse suggests a slightly expansionary fiscal policy. However, *overall* fiscal policy is neutral in the sense that its effect on aggregate demand is neither expansionary nor contractionary. For the 2005 forecast year both the fiscal impulse and overall impact suggest a contractionary fiscal policy with the fiscal impulse being smaller than the overall effect. For 2006 to 2009 the opposite occurs and both approaches yield expansionary impacts on GDP with fiscal impulses across the years 2005 to 2009 yielding 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	2009
-2.96	-0.01	0.15	1.63	2.36	1.20	2.52	1.11	0.47	1.68	1.97	3.76	3.94	3.15	4.04	3.73	3.37	3.04

Fiscal impulse

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	0.60	0.56	0.73	0.60	-2.31	-0.08	-0.90	-0.55	1.22	0.67	0.62	-0.28	0.36	-0.82	-0.77	-0.46	-0.18

Source: The Treasury

Reconciliation of Operating Balance to Net Crown Debt

(\$ million)	2004 Actual	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast
Operating balance	7,424	5,627	6,201	5,334	4,923	5,428
Less/(plus) valuation items	(795)	840	-	-	-	-
OBERAC	6,629	6,467	6,201	5,334	4,923	5,428
Less NZS Fund contributions	(1,879)	(2,107)	(2,207)	(2,213)	(2,343)	(2,528)
Less after-tax income of the NZS Fund	(193)	(283)	(502)	(686)	(888)	(1,111)
Available after NZS Fund requirements	4,557	4,077	3,492	2,435	1,692	1,789
Decrease/(increase in net debt)	2,373	2,139	604	(151)	(261)	(342)
Difference	(2,184)	(1,938)	(2,888)	(2,586)	(1,953)	(2,131)

This difference comprises:

Non-cash elements of the OBERAC

SOE/CE retained surplus net of

dividends (excluding valuation issues)	(1,791)	(501)	(1,475)	(1,576)	(1,632)	(1,735)
Depreciation	920	1,038	1,054	1,071	1,106	1,129
(Gain)/loss on sale of assets	3	-	-	-	-	-
Commercial forests and net FX movements	(235)	-	-	-	-	-
Student loan influences	(80)	(68)	(70)	(73)	(74)	(121)
Cash elements not in the OBERAC						
Circulating currency	114	31	-	-	-	-
Net purchase of physical assets						
including capital contingency provision	(1,299)	(1,863)	(2,211)	(1,981)	(1,298)	(1,319)
Asset sale receipts	-	-	-	-	-	-
Net capital injections	(20)	(650)	(299)	(250)	(115)	(70)
Other working capital movements	204	75	113	223	60	(15)
	(2,184)	(1,938)	(2,888)	(2,586)	(1,953)	(2,131)

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

(\$ million)	2004 Actuals	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast
Core Crown Net Cash Flows from Operations	5,443	7,328	5,380	4,371	3,577	3,704
<i>Items included in the operating balance but not in net cash flows from operations</i>						
Valuation changes						
(Increase)/decrease in pension liabilities	315	(443)	26	71	101	135
National Provident Fund guarantee	(9)	-	-	-	-	-
Revaluation losses on assets	(100)	-	-	-	-	-
Revaluation of commercial forests	(40)	-	-	-	-	-
Total valuation changes	166	(443)	26	71	101	135
Property, plant & equipment asset movements						
Depreciation	(920)	(1,038)	(1,054)	(1,071)	(1,106)	(1,129)
Total property, plant & equipment movements	(920)	(1,038)	(1,054)	(1,071)	(1,106)	(1,129)
Other Non-cash Items						
Student loans	(80)	(68)	(70)	(73)	(74)	(121)
Amortisation of goodwill	(47)	(47)	(47)	(47)	(47)	(47)
Accrued income on NZS Fund	193	283	502	686	888	1,111
Total Other Non-cash Items	66	168	385	566	767	943
Total other investing and financing items	254	159	234	236	236	243
Movements in Working Capital						
(Decrease)/increase in receivables	609	(525)	(218)	(163)	(63)	(74)
Increase/(decrease) in inventories	3	2	(13)	2	8	50
Decrease/(increase) in payables	(297)	(821)	(14)	(254)	(229)	(179)
Total movements in working capital	315	(1,344)	(245)	(415)	(284)	(203)
Core Crown Operating Balance	5,324	4,830	4,726	3,758	3,291	3,693
SOE/CE surpluses	2,100	797	1,475	1,576	1,632	1,735
Total Crown Operating Balance	7,424	5,627	6,201	5,334	4,923	5,428

Tax Revenue Tables

Table 1 – Treasury and Inland Revenue forecasts of tax revenue

(\$ million)	2003/04	2004/05		2005/06		2006/07		2007/08		2008/09	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
		Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct Tax											
Individuals											
Source deductions	16,908	18,175	18,195	19,224	19,180	20,141	20,120	21,207	21,215	22,357	22,360
Other persons tax	4,027	4,014	4,010	4,210	4,220	4,471	4,440	4,721	4,720	4,958	4,990
Refunds	(860)	(871)	(830)	(869)	(850)	(869)	(860)	(869)	(890)	(869)	(920)
Fringe benefit tax	410	442	447	456	468	477	486	492	508	513	528
Subtotal: Individuals	20,485	21,760	21,822	23,021	23,018	24,220	24,186	25,551	25,553	26,959	26,958
Company Tax (net)	6,514	7,356	7,387	7,949	7,910	8,081	8,122	8,410	8,403	8,988	8,855
Withholding taxes on:											
Resident interest income	1,188	1,369	1,450	1,426	1,510	1,351	1,430	1,404	1,500	1,530	1,570
Non-resident income	800	893	923	768	853	766	855	795	876	838	915
Resident dividend income	49	61	57	61	60	62	60	63	60	66	60
Foreign-source dividends	139	133	134	133	145	133	145	133	145	133	145
Subtotal: Withholding Tax	2,176	2,456	2,564	2,388	2,568	2,312	2,490	2,395	2,581	2,567	2,690
Total Income Tax	29,175	31,572	31,773	33,358	33,496	34,613	34,798	36,356	36,537	38,514	38,503
Other: Estate and gift duties	2	2	2	2	2	2	2	2	2	2	2
Total Direct Tax	29,177	31,574	31,775	33,360	33,498	34,615	34,800	36,358	36,539	38,516	38,505
Indirect Tax											
GST											
GST (Customs)	4,308	4,550	4,542	4,973	4,954	5,418	5,403	5,666	5,639	5,912	5,885
GST (IRD)	8,467	9,142	9,026	8,995	9,159	9,222	9,316	9,825	9,796	10,481	10,375
Subtotal: GST	12,775	13,692	13,568	13,968	14,113	14,640	14,719	15,491	15,435	16,393	16,260
Excise duties on:											
Alcoholic drinks	476	484	484	502	502	520	520	537	537	554	554
Tobacco products	819	828	828	845	845	867	867	888	888	907	907
Petroleum fuels	947	790	791	900	900	930	930	958	958	988	988
Subtotal: Excise Duties	2,242	2,102	2,103	2,247	2,247	2,317	2,317	2,383	2,383	2,449	2,449
Other Indirect Tax											
Customs duty	720	974	974	1,047	1,047	1,082	1,082	1,093	1,093	1,061	1,061
Road user charges	667	720	710	781	775	825	810	872	855	929	905
Motor vehicle fees	211	216	215	223	220	228	225	235	235	244	240
Stamp and cheque duties	56	58	58	59	57	59	57	59	58	59	58
Gaming duties	295	314	314	323	322	331	330	339	337	347	343
Energy resources levy	75	65	65	68	68	68	68	68	68	68	68
Subtotal: Other Indirect Tax	2,024	2,347	2,336	2,501	2,489	2,593	2,572	2,666	2,646	2,708	2,675
Total Indirect Tax	17,041	18,141	18,007	18,716	18,849	19,550	19,608	20,540	20,464	21,550	21,384
Total Tax	46,218	49,715	49,782	52,076	52,347	54,165	54,408	56,898	57,003	60,066	59,889
Tax-to-GDP	32.9%	33.1%	33.1%	33.4%	33.6%	33.5%	33.7%	33.6%	33.6%	33.7%	33.6%
Core Crown Eliminations	These are removed from Total Tax to arrive at Core Crown taxation.										
Core Crown income tax	154	234	234	342	342	431	431	527	527	638	638
GST on departmental outputs	885	962	962	956	956	942	942	963	963	963	963
GST on Crown expenses	2,171	2,398	2,398	2,619	2,619	2,911	2,911	3,127	3,127	3,323	3,323
Core Crown Taxation	43,008	46,121	46,188	48,159	48,430	49,881	50,124	52,281	52,386	55,142	54,965
Tax-to-GDP	30.6%	30.7%	30.7%	30.9%	31.1%	30.9%	31.0%	30.8%	30.9%	31.0%	30.9%
Total Crown Eliminations	These are removed from Core Crown taxation to arrive at Total Crown taxation.										
Income tax from SOEs and CEs	441	416	416	490	490	504	504	522	522	553	553
Lottery duty	35	36	36	35	35	37	37	38	38	40	40
Total Crown Taxation	42,532	45,669	45,736	47,634	47,905	49,340	49,583	51,721	51,826	54,549	54,372
Tax-to-GDP	30.3%	30.4%	30.4%	30.6%	30.7%	30.5%	30.7%	30.5%	30.6%	30.6%	30.5%
GDP	140,336	150,400	150,400	155,871	155,871	161,625	161,625	169,487	169,487	178,029	178,029

Sources: Inland Revenue, The Treasury

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

(\$ million)	2003/04	2004/05		2005/06		2006/07		2007/08		2008/09	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
		Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct Tax											
Individuals											
Source deductions	17,012	18,175	18,195	19,224	19,180	20,141	20,120	21,207	21,215	22,357	22,360
Other persons tax	4,352	4,521	4,490	4,678	4,760	5,016	5,060	5,294	5,370	5,531	5,650
Refunds	(1,406)	(1,330)	(1,310)	(1,326)	(1,390)	(1,412)	(1,480)	(1,442)	(1,540)	(1,442)	(1,580)
Fringe benefit tax	410	435	440	453	458	471	478	490	502	510	524
Subtotal: Individuals	20,368	21,801	21,815	23,029	23,008	24,216	24,178	25,549	25,547	26,956	26,954
Company Tax (net)	6,581	7,432	7,439	7,944	8,039	8,068	8,056	8,410	8,452	8,988	8,953
Withholding taxes on:											
Resident interest income	1,217	1,359	1,450	1,426	1,510	1,351	1,430	1,404	1,500	1,530	1,570
Non-resident income	776	882	898	768	853	766	855	795	876	838	915
Resident dividend income	53	61	58	61	60	62	60	63	60	66	60
Foreign-source dividends	128	130	140	133	145	133	145	133	145	133	145
Subtotal: Withholding Tax	2,174	2,432	2,546	2,388	2,568	2,312	2,490	2,395	2,581	2,567	2,690
Total Income Tax	29,123	31,665	31,800	33,361	33,615	34,596	34,724	36,354	36,580	38,511	38,597
Other: Estate and gift duties	2	2	2	2	2	2	2	2	2	2	2
Total Direct Tax	29,125	31,667	31,802	33,363	33,617	34,598	34,726	36,356	36,582	38,513	38,599
Indirect Tax											
GST											
GST (Customs)	4,262	4,561	4,542	4,973	4,954	5,418	5,403	5,666	5,639	5,912	5,885
GST (IRD)	8,252	9,037	9,026	8,995	9,159	9,222	9,316	9,825	9,796	10,481	10,375
Subtotal: GST	12,514	13,598	13,568	13,968	14,113	14,640	14,719	15,491	15,435	16,393	16,260
Excise duties on:											
Alcoholic drinks	476	484	484	502	502	520	520	537	537	554	554
Tobacco products	800	828	828	845	845	867	867	888	888	907	907
Petroleum fuels	944	791	791	900	900	930	930	958	958	988	988
Subtotal: Excise Duties	2,220	2,103	2,103	2,247	2,247	2,317	2,317	2,383	2,383	2,449	2,449
Other Indirect Tax											
Customs duty	726	984	984	1,047	1,047	1,082	1,082	1,093	1,093	1,061	1,061
Road user charges	668	720	710	781	775	825	810	872	855	929	905
Motor vehicle fees	223	216	215	228	220	228	225	235	235	244	240
Stamp and cheque duties	56	58	58	59	57	59	57	59	58	59	58
Gaming duties	294	314	311	323	322	331	330	339	337	347	343
Energy resources levy	75	68	65	68	68	68	68	68	68	68	68
Other	..	1	1	1	1	1	1	1	1	1	1
Subtotal: Other Indirect Tax	2,042	2,361	2,344	2,507	2,490	2,594	2,573	2,667	2,647	2,709	2,676
Total Indirect Tax	16,776	18,062	18,015	18,722	18,850	19,551	19,609	20,541	20,465	21,551	21,385
Total Tax	45,901	49,729	49,817	52,085	52,467	54,149	54,335	56,897	57,047	60,064	59,984
Tax-to-GDP	32.7%	33.1%	33.1%	33.4%	33.7%	33.5%	33.6%	33.6%	33.7%	33.7%	33.7%
Core Crown Eliminations	These are removed from Total Tax to arrive at Core Crown taxation.										
Core Crown income tax	112	234	234	342	342	431	431	527	527	638	638
GST on departmental outputs	885	962	962	956	956	942	942	963	963	963	963
GST on Crown expenses	2,173	2,399	2,399	2,607	2,607	2,899	2,899	3,115	3,115	3,312	3,312
Core Crown Taxation	42,731	46,134	46,222	48,180	48,562	49,877	50,063	52,292	52,442	55,151	55,071
Tax-to-GDP	30.4%	30.7%	30.7%	30.9%	31.2%	30.9%	31.0%	30.9%	30.9%	31.0%	30.9%
Total Crown Eliminations	These are removed from Core Crown taxation to arrive at Total Crown taxation.										
Income tax from SOEs and CEs	389	408	408	505	505	475	475	499	499	519	519
Lottery duty	34	35	35	34	34	36	36	37	37	39	39
Total Crown Taxation	42,308	45,691	45,779	47,641	48,023	49,366	49,552	51,756	51,906	54,593	54,513
Tax-to-GDP	30.1%	30.4%	30.4%	30.6%	30.8%	30.5%	30.7%	30.5%	30.6%	30.7%	30.6%

Sources: Inland Revenue, The Treasury

Annex A: Expense Tables

Table A.1 – Core Crown expenses by category

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Social security and welfare	12,883	13,207	13,485	13,907	14,252	14,691	15,663	16,653	17,578	18,212
GSF	736	1,112	1,409	2,625	660	1,458	1,041	1,028	1,014	1,005
Health	6,146	6,660	7,032	7,501	8,111	8,819	9,330	9,828	9,854	9,867
Education	5,712	6,136	6,473	7,016	7,585	8,232	8,545	8,757	8,958	9,030
Core government services	1,642	1,798	1,540	1,780	1,741	1,977	1,910	1,862	1,884	1,887
Law and order	1,509	1,541	1,733	1,734	1,843	1,971	2,004	2,009	2,006	2,009
Defence	1,163	1,242	1,162	1,199	1,311	1,283	1,249	1,253	1,245	1,245
Transport and communications	929	905	989	1,408	1,461	1,620	1,772	1,891	1,972	2,025
Economic and industrial services	881	1,037	1,013	1,054	1,192	1,498	1,412	1,375	1,353	1,350
Primary services	256	279	304	355	368	441	398	390	391	387
Heritage, culture and recreation	427	400	434	515	634	762	725	724	723	725
Housing and community	63	50	93	102	139	173	150	144	139	139
Other	46	75	110	75	52	124	119	117	118	117
Finance costs	2,205	2,304	2,118	2,360	2,252	2,240	2,285	2,202	2,191	2,183
Net foreign exchange (gains)/losses	(62)	(47)	75	118	7	1	..	..	..	..
New operating spending for the 2005 Budget	..	..	..	..	..	461	1,489	1,654	1,821	1,922
Forecast new operating spending	..	..	..	..	..	..	..	1,338	3,274	5,320
Core Crown Expenses	34,536	36,699	37,970	41,749	41,608	45,751	48,092	51,225	54,521	57,423

Source: The Treasury

Table A.2 – Social security and welfare

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Welfare benefits	12,072	12,385	12,614	12,884	13,181	13,462	14,405	15,357	16,273	16,898
Social rehabilitation & compensation	70	62	91	152	123	146	139	141	143	147
Departmental expenses	634	618	657	666	705	799	781	760	750	751
Other non-departmental expenses	120	151	125	205	243	284	338	395	412	417
	12,896	13,216	13,487	13,907	14,252	14,691	15,663	16,653	17,578	18,213
Less GST on Crown Spending	13	9	2	..	..	..	..	..	..	..
Core Crown Social Security and Welfare	12,883	13,207	13,485	13,907	14,252	14,691	15,663	16,653	17,578	18,213

Source: The Treasury

Table A.3 – New Zealand superannuation and welfare benefits

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
New Zealand Superannuation	5,068	5,273	5,450	5,642	5,889	6,082	6,391	6,793	7,170	7,527
Domestic Purposes Benefit	1,433	1,444	1,501	1,520	1,569	1,564	1,535	1,553	1,594	1,626
Unemployment Benefit	..	..	1,369	1,274	1,084	851	839	953	1,025	1,052
Community Wage	1,937	1,849	..	..	..	..	..	..	..	..
Accommodation Supplement	867	795	720	706	702	756	836	879	921	955
Invalids Benefit	677	745	832	914	976	1,030	1,102	1,174	1,253	1,325
Sickness Benefit	..	..	375	421	470	511	539	573	615	655
Disability Allowance	204	210	224	241	257	270	278	301	325	346
Transitional Retirement Benefit	125	127	97	47	11	..	..	..	..	..
Income Related Rents	..	161	274	296	340	371	389	409	431	453
Family Support	899	878	848	862	833	911	1,311	1,456	1,667	1,670
Child Tax Credit	167	161	157	143	155	144	140	40	8	5
Special Benefit	35	40	49	82	140	172	144	63	32	20
In Work Payment	..	..	..	..	..	..	57	289	350	356
Benefits paid in Australia	147	171	159	121	103	91	80	70	57	50
Paid Parental Leave	..	..	..	56	63	80	95	105	110	115
Other benefits	513	531	559	559	589	629	669	699	715	743
Total Welfare Benefits	12,072	12,385	12,614	12,884	13,181	13,462	14,405	15,357	16,273	16,898

Source: The Treasury

Table A.4 – Beneficiary numbers

(Thousands)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
New Zealand Superannuation	456	449	448	454	461	469	480	493	504	514
Domestic Purposes Benefit	111	110	110	110	110	110	110	108	108	109
Unemployment Benefit	..	..	140	126	104	80	76	84	88	89
Community Wage	200	189	..	..	..	..	..	..	..	..
Accommodation Supplement	324	297	270	261	249	244	259	269	278	285
Invalids Benefit	53	58	62	67	70	74	77	80	84	87
Sickness Benefit	..	..	35	38	42	45	47	48	50	52

Source: The Treasury

Table A.5 – GSF pension expense

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Pension expenses	679	691	973	978	975	1,015	1,067	1,099	1,115	1,140
Revaluation of Unfunded Liability	(201)	164	436	1,647	(315)	443	(26)	(71)	(101)	(135)
Core Crown GSF	478	855	1,409	2,625	660	1,458	1,041	1,028	1,014	1,005
<i>Additional Pension Expenses (offset by revenue)</i>	258	257	..	..	..	..	..	..	..	..
Core Crown GSF	736	1,112	1,409	2,625	660	1,458	1,041	1,028	1,014	1,005

Source: The Treasury

Table A.6 – Health

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Departmental outputs	59	116	136	148	161	154	140	136	135	135
Health service purchasing	6,401	6,807	6,979	7,509	8,206	8,894	9,494	10,089	10,125	10,125
Other non-departmental outputs	121	101	70	68	81	166	119	81	72	72
Health payments to ACC	264	291	484	482	409	408	444	445	458	471
Other expenses	29	27	44	29	18	54	51	58	47	47
	6,874	7,342	7,713	8,236	8,875	9,676	10,248	10,809	10,837	10,850
<i>Less GST on Crown Spending</i>	728	778	781	832	930	1,023	1,084	1,147	1,149	1,149
<i>Other Eliminations</i>	..	96	100	97	166	166	166	166	166	166
Core Crown Health Expenses	6,146	6,660	7,032	7,501	8,111	8,819	9,330	9,828	9,854	9,867

Source: The Treasury

Table A.7 – Health service purchasing

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Personal health services:										
Northern	1,582	1,671	..	..	..	..	..	..	..	..
Midland	936	997	..	..	..	..	..	..	..	..
Central	1,104	1,174	..	..	..	..	..	..	..	..
Southern	1,015	1,097	..	..	..	..	..	..	..	..
Additional health purchases	..	..	..	..	..	..	..	..	..	..
Total Personal Health	4,637	4,939	..	..	..	..	..	..	..	..
Disability support services:										
Northern	520	557	..	..	..	..	..	..	..	..
Midland	306	332	..	..	..	..	..	..	..	..
Central	411	428	..	..	..	..	..	..	..	..
Southern	410	426	..	..	..	..	..	..	..	..
Total Disability Support	1,647	1,743	..	..	..	..	..	..	..	..
Payments to District Health Boards	..	..	5,439	5,875	7,071	7,940	8,550	9,146	9,182	9,182
National Disability Support Services	..	..	1,315	1,416	891	668	672	672	672	672
Public Health Service Purchasing	117	125	225	218	244	286	272	271	271	271
Total Health Servicing Purchasing (GST inclusive)	6,401	6,807	6,979	7,509	8,206	8,894	9,494	10,089	10,125	10,125

Source: The Treasury

Table A.8 – Health-related payments to ACC

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Petrol excise	67	67	69	69	..	..	..	..	..	..
Medical treatment	197	224	415	413	409	408	444	445	458	471
Total Health related payments (GST inclusive)	264	291	484	482	409	408	444	445	458	471

Source: The Treasury

Table A.9 – Education

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Early childhood education	325	331	358	394	420	474	533	572	661	681
Primary and secondary schools	3,405	3,505	3,638	3,741	4,004	4,297	4,369	4,436	4,448	4,388
Tertiary funding	1,913	2,133	2,408	2,671	2,859	3,047	3,260	3,438	3,586	3,646
Departmental expenses	396	419	467	621	679	760	743	735	732	733
Other education expenses	271	302	253	288	378	459	479	443	421	471
	6,310	6,690	7,124	7,715	8,340	9,037	9,384	9,624	9,848	9,919
Less GST on Crown Spending	598	554	651	699	755	805	839	867	890	889
Core Crown Education	5,712	6,136	6,473	7,016	7,585	8,232	8,545	8,757	8,958	9,030

Source: The Treasury

Table A.10 – Primary and secondary education

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Primary	1,731	1,780	1,838	1,891	2,044	2,180	2,166	2,168	2,165	2,136
Secondary	1,312	1,333	1,311	1,366	1,487	1,598	1,681	1,742	1,755	1,725
School transport	100	106	109	116	119	121	123	125	126	127
Special needs support	262	286	281	254	248	266	274	277	278	275
Professional Development	..	..	14	97	93	116	108	108	108	108
Schooling Improvement	..	..	85	17	13	16	17	16	16	17
Total Schools Funding (GST inclusive)	3,405	3,505	3,638	3,741	4,004	4,297	4,369	4,436	4,448	4,388

Places (year)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Primary	465,863	463,000	465,000	469,000	465,000	466,000	464,000	461,000	458,000	458,000
Secondary	249,905	251,000	257,000	265,000	274,000	282,000	285,000	285,000	285,000	282,000

Sources: Ministry of Education, The Treasury

Table A.11 – Tertiary education

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Tuition	1,219	1,362	1,554	1,770	1,929	2,063	2,225	2,349	2,452	2,482
Other tertiary funding	161	153	180	222	244	275	292	309	318	319
Total Tertiary Education and Training	1,380	1,515	1,734	1,992	2,173	2,338	2,517	2,658	2,770	2,801
Tertiary student allowances	376	391	401	388	380	389	408	422	434	445
Student loan provision and write-offs	157	227	273	291	306	320	335	358	382	400
Total Tertiary Funding (GST inclusive)	1,913	2,133	2,408	2,671	2,859	3,047	3,260	3,438	3,586	3,646

Places (year)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EFT Students	175,706	193,660	219,239	245,152	252,994	268,472	272,362	281,543	291,346	298,437

Sources: Ministry of Education, The Treasury

Table A.12 – Core government services

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Official development assistance	219	226	223	230	237	264	259	259	259	259
Indemnity and guarantee expenses	10	253	..	197	9	..	..	..	..	..
Departmental expenses	867	901	907	1,025	1,096	1,164	1,190	1,134	1,138	1,142
Science expenses	424	247	244	292	328	324	339	344	339	339
Other expenses	190	190	228	84	118	258	149	144	164	163
	1,710	1,817	1,602	1,828	1,788	2,010	1,937	1,881	1,900	1,903
<i>Less GST on Crown Spending</i>	68	19	62	48	47	33	27	19	16	16
Total Core Crown Core Government Services	1,642	1,798	1,540	1,780	1,741	1,977	1,910	1,862	1,884	1,887

Source: The Treasury

Table A.13 – Law and order¹

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Departmental expenses:										
Police	762	724	755	800	844	881	891	888	891	892
Ministry of Justice	12	13	15	15	178	264	270	266	266	268
Department of Corrections	328	369	412	403	439	476	490	486	487	488
Department for Courts	174	181	189	211	53	..	..	..	..	..
Other departments	65	67	71	77	81	89	86	94	87	87
Total Departments	1,341	1,354	1,442	1,506	1,595	1,710	1,737	1,734	1,731	1,735
Non-departmental outputs	150	177	195	197	197	225	225	217	224	220
Other expenses	40	29	118	53	73	61	67	82	75	78
	1,531	1,560	1,755	1,756	1,865	1,996	2,029	2,033	2,030	2,033
<i>Less GST on Crown Spending</i>	22	19	22	22	22	25	25	24	24	24
Core Crown Law and Order	1,509	1,541	1,733	1,734	1,843	1,971	2,004	2,009	2,006	2,009

Source: The Treasury

Table A.14 – Defence

(\$ million)	1999/2000 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
NZDF Core expenses	996	1,058	1,077	1,117	1,254	1,223	1,193	1,198	1,195	1,195
NZDF write-offs	77	104	..	..	..	..	..	..	..	..
NZDF East Timor deployment	22	22	20	20	..	..	..	..	..	..
MSD East Timor deployment	17	22	23	13	12	9	1	..	..	..
Other departments	51	36	43	48	45	51	55	55	50	50
GST on defence acquisitions	84	25	34	20	47	51	13	61	29	3
	1,247	1,267	1,197	1,218	1,358	1,334	1,262	1,314	1,274	1,248
<i>Less GST on Crown Spending</i>	84	25	35	19	47	51	13	61	29	3
Core Crown Defence	1,163	1,242	1,162	1,199	1,311	1,283	1,249	1,253	1,245	1,245

Source: The Treasury

¹ Courts merged with Justice on 1 October 2003.

Table A.15 – Transport and communications

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Transfund	903	890	941	1,271	1,371	1,482	1,710	1,846	1,939	2,043
Departmental outputs	70	75	78	80	83	101	100	98	98	98
Other non-departmental expenses	57	52	56	70	96	72	64	64	64	64
Goodwill amortisation	..	..	23	47	47	47	47	47	47	47
Auckland rail write-off	..	..	..	81	..	..	..	..	..	..
Other expenses	6	9	22	8	25	90	48	48	46	7
	1,036	1,026	1,120	1,557	1,622	1,792	1,969	2,103	2,194	2,259
<i>Less GST on Crown Spending</i>	107	121	131	149	161	172	197	212	222	234
Core Crown Transport	929	905	989	1,408	1,461	1,620	1,772	1,891	1,972	2,025

Source: The Treasury

Table A.16 – Economic and industrial

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Departmental outputs	374	422	414	424	478	546	531	512	510	510
Employment initiatives	209	204	209	217	222	258	267	270	267	267
Non-departmental outputs	198	423	420	422	603	759	730	720	705	707
Flood relief	..	..	..	..	15	42	1	..	..	..
Other expenses	163	92	114	144	35	84	74	63	61	58
	944	1,141	1,157	1,207	1,353	1,689	1,603	1,565	1,543	1,542
<i>Less GST on Crown Spending</i>	63	104	144	153	161	191	191	190	190	192
Core Crown Economic and Industrial Services	881	1,037	1,013	1,054	1,192	1,498	1,412	1,375	1,353	1,350

Source: The Treasury

Table A.17 – Employment initiatives

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Training incentive allowance	35	36	36	37	42	44	43	44	43	43
Community employment projects	18	17	21	21	16	21	21	20	20	20
Subsidised work	103	95	92	95	100	119	112	114	109	109
Employment support for disabled	50	53	60	61	61	70	88	89	90	90
Other employment assistance schemes	3	3	..	3	3	4	3	3	5	5
Total Employment Initiative Expenses (GST inclusive)	209	204	209	217	222	258	267	270	267	267

Source: The Treasury

Table A.18 – Primary services

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Departmental expenses	182	194	220	265	269	313	286	280	281	277
Non-departmental outputs	63	69	86	92	93	109	106	112	113	112
Other expenses	20	24	9	10	18	38	20	11	10	10
	265	287	315	367	380	460	412	403	404	399
<i>Less GST on Crown Spending</i>	9	8	11	12	12	19	14	13	13	12
Core Crown Primary Services	256	279	304	355	368	441	398	390	391	387

Source: The Treasury

Table A.19 – Heritage, culture and recreation

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Community grants	18	18	6	6	3	7	7	7	7	7
Departmental outputs	199	206	212	253	269	326	310	310	314	318
Non-departmental outputs	158	181	160	236	282	394	386	384	382	384
Other expenses	81	19	96	49	116	75	62	63	60	56
	456	424	474	544	670	802	765	764	763	765
<i>Less GST on Crown Spending</i>	29	24	40	29	36	40	40	40	40	40
Core Crown Heritage, Culture and Recreation	427	400	434	515	634	762	725	724	723	725

Source: The Treasury

Table A.20 – Housing and community development

(\$ million)	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Housing subsidies	1	..	22	25	27	35	28	29	29	29
Departmental outputs	27	35	51	57	77	102	88	87	85	85
Other non-departmental expenses	40	15	20	20	35	36	34	28	25	25
	68	50	93	102	139	173	150	144	139	139
<i>Less GST on Crown Spending</i>	5	..	..	..	..	..	..	..	..	..
Core Crown Housing and Community Development	63	50	93	102	139	173	150	144	139	139

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 October 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.

\$18 million at 31 October 2004 (\$18 million at 30 June 2004).

Indemnification of receivers and managers – Terralink Limited

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

\$10 million at 31 October 2004 (\$10 million at 30 June 2004).

Ministry of Justice – Treaty settlements, tax liabilities

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

\$75 million at 31 October 2004 (\$92 million at 30 June 2004).

Mighty River Power Limited – guaranteed payment obligations

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

\$30 million at 31 October 2004 (\$30 million at 30 June 2004).

Solid Energy New Zealand Limited

The Crown has indemnified Solid Energy New Zealand Limited for rehabilitation liabilities arising from coal mining operations carried out by the State Coal Mines prior to 1 April 1987.

\$42 million at 31 October 2004 (\$42 million at 30 June 2004).

Ministry of Transport – funding guarantee

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

\$10 million at 31 October 2004 (\$10 million at 30 June 2004).

New Zealand Railways Corporation (NZRC) – guaranteed borrowings

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

\$10 million at 31 October 2004 (nil at 30 June 2004).

Post Office Bank (PostBank) – guaranteed deposits

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

\$12 million at 31 October 2004 (\$12 million at 30 June 2004).

Other guarantees and indemnities of SOEs and Crown entities

\$3 million at 31 October 2004 (\$42 million at 30 June 2004).

Other guarantees and indemnities

\$17 million at 31 October 2004 (\$36 million at 30 June 2004).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled capital at 31 October 2004 \$million	Uncalled capital at 30 June 2004 \$ million
Asian Development Bank	1,086	1,181
European Bank for Reconstruction and Development	13	13
International Bank for Reconstruction and Development	1,204	1,308

Legal proceedings and disputes

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

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

Air New Zealand Limited – legal claim

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

\$107 million at 31 October 2004 (\$107 million at 30 June 2004).

Health – legal claims

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

\$104 million at 31 October 2004 (\$104 million at 30 June 2004).

Tax in dispute

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

\$471 million at 31 October 2004 (\$469 million at 30 June 2004).

Transpower New Zealand Limited

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

\$20 million at 31 October 2004 (\$20 million at 30 June 2004).

Other legal claims against SOEs and Crown entities

\$7 million at 31 October 2004 (\$7 million at 30 June 2004).

Other legal claims

\$89 million at 31 October 2004 (\$87 million at 30 June 2004).

Other quantifiable contingent liabilities

International finance organisations

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

	31 October 2004 \$ million	30 June 2004 \$ million
International Monetary Fund	1,210	1,213

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 October 2004 (\$23 million at 30 June 2004).

Social Development – claim for judicial review

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

\$48 million at 31 October 2004 (\$43 million at 30 June 2004).

Other quantified contingent liabilities of SOEs and Crown entities

\$70 million at 31 October 2004 (\$45 million at 30 June 2004).

Other quantifiable contingent liabilities

\$32 million at 31 October 2004 (\$47 million at 30 June 2004).

Unquantifiable Contingent Liabilities

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

Accident Compensation Corporation (ACC) litigations

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

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

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

Asure New Zealand Limited

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

At Work Insurance Limited

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

Auckland Rail Lease

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

Bona Vacantia property

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

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.

Ministry of Defence - Litigation

The Ministry of Defence was advised on 2 August 2004 that the Crown Law Office had been served with legal proceedings against the Ministry by Schelde Marinebouw BV.

Schelde, an unsuccessful respondent to the Project Protector request for proposal, is suing for damages arising out of its failure to secure the contract for the supply of the Project Protector ships for the Royal New Zealand Navy. An estimate of its financial effect is unable to be made.

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

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

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

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

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

District Health Boards (DHBs) – director indemnity

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.

District Health Boards (DHBs) – Auckland DHB

A class of employees has claimed that Auckland District health board (ADHB) has incorrectly interpreted a clause in the contract governing their employment. The hearing process is proceeding and the document exchanges are to be completed by 17 September 2004 with the Employment Relations Authority (ERA), which will rule on the interpretation of the contract. The view of the Board is that, depending on the ruling of the ERA, a settlement may be made with the employees.

There are a number of uncertainties that affect the possible exposure that ADHB faces. The uncertainties include the outcome, identifying the employees affected and the extent of any back-dating.

This issue may have impacts for other DHB's, but at this stage the impact can not be quantified.

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

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

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

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

Ministry of Fisheries – indemnity provided for delivery of registry services

The Crown has indemnified Commercial Fisheries Services Limited against claims made by third parties arising from Commercial Fisheries Services undertaking registry services under contract to the Chief Executive of the Ministry of Fisheries. This indemnity, provided under the Fisheries Acts 1983 and 1996, expires on 30 September 2009.

Fletcher Challenge Limited (FCL)

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

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

Genesis Power Ltd (Genesis Energy)

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

Housing New Zealand Corporation (HNZC)

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

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

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

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

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

Indemnities against acts of war and terrorism

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

Kyoto Protocol

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

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

The Government has announced that part of its climate change response strategy will include an emissions charge to be introduced no earlier than 2007, and capped at \$25 per tonne of carbon-dioxide. Negotiated greenhouse agreements are available for some liable firms deemed to be "competitiveness at risk" by the introduction of this charge. The proposed charge would include revenue recycling to return revenue from the charge to taxpayers. However, the net impact of the charge on the operating balance is at present unclear.

The position of each country for the first commitment period is calculated in an agreed manner. Countries may sell any surplus units to countries that need to purchase units to make up a deficit in meeting their Kyoto obligations through domestic action. Alternatively, they could choose to hold onto any surplus emission units to count against emission obligations in future commitment periods. At this stage there is no reliable measure of New Zealand's likely position over the first commitment period.

As the fiscal implications become clearer, particularly any implications beyond the 2012 period, further information and quantification will be provided.

Maui Partners

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

National Provident Fund

The National Provident Fund (NPF) has been indemnified for certain potential tax liabilities. Under the NPF Restructuring Act 1990, the Crown guarantees:

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

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

New Zealand Railways Corporation

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

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

Persons exercising investigating powers

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

Ports of Auckland

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

Public Trust

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

Purchasers of Crown operations

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

Reserve Bank of New Zealand (the Reserve Bank)

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

State Insurance and Rural Bank – Tax liabilities

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

Synfuels-Waitara Outfall Indemnity

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

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

Tainui Corporation

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

Toll NZ Ltd – purchase of rail network assets

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

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

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 departments managing significant Crown properties undertook exercises to establish the nature and quantity of any contaminated sites. These exercises continued into the 2003/04 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 October 2004, the value of these provisions was \$9.4 million.

Genesis Power Limited

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

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 proposed handling of the pay status of some secondary teachers who do not hold degrees within the terms of settlement of the Secondary Teachers' Collective Agreement.

Sale of Crown assets

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

Treaty of Waitangi claims

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

Settlement relativity payments

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

Accounting Policies and Forecast Assumptions

The Forecast Financial Statements contained in the Generally Accepted Accounting Practice (GAAP) Series Table Chapter of the published 2004 DEFU are prepared on the basis of the following accounting policies and forecast assumptions.

Basis of Combination

Accounting policy

Ministers of the Crown, departments, the Reserve Bank of New Zealand, the Government Superannuation Fund (GSF), state-owned enterprises (including Air New Zealand Limited) and Crown entities (excluding Tertiary education institutions (TEIs)) are combined using the purchase method of combination. Corresponding assets, liabilities, revenues and expenses are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Offices of Parliament are not included in the forecast financial statements.

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

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

Revenue

Revenue levied through the Crown's sovereign power

Accounting policy

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

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

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 2005 and the other forecast periods use the exchange rates prevailing on 30 September 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 2005 forecasts for the value of property, plant and equipment use the valuations as recorded in the Crown Financial Statements for the year ended 30 June 2004 and any additional valuations that have occurred up to 31 October 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 2005 forecasts. As a consequence, no realised or unrealised gains are forecast for the entire forecast period.

Investments and marketable securities & deposits

Forecast assumption

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

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

Expenses

General

Accounting policy

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

Welfare benefits

Accounting policy

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

Grants and subsidies

Accounting policy

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

Treaty of Waitangi settlements

Forecast assumption

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

Discounts

Accounting policy

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

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

Forecast assumption

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

Losses

General

Accounting policy

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

Foreign-currency monetary assets and liabilities

Accounting policy

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

Forecast assumption

The 30 June 2005 forecasts for foreign-currency monetary assets and liabilities use the exchange rates prevailing on 30 September 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 2005 forecast. As a consequence, no realised or unrealised exchange losses are forecast for these years.

Property, plant and equipment and liabilities

Accounting policy

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

Forecast assumption

The 30 June 2005 forecasts for the value of property, plant and equipment use valuations as recorded in the Crown Financial Statements for the year ended 30 June 2004, and any additional actual valuations that have occurred up to 31 October 2004.

The value of property plant and equipment for the other forecast periods is forecast using the same valuation used for the 30 June 2005 forecasts. As a consequence, no realised or unrealised losses are forecast beyond the current year.

Investments and marketable securities & deposits

Forecast assumption

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

Foreign-currency transactions

Accounting policy

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

Other transactions in foreign currencies are translated into New Zealand dollars using the exchange rates prevailing on 30 September 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 30 September 2004.

For forecasting purposes, the exchange rates prevailing on 30 September 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 30 September 2004.

Forecast assumption

For forecasting purposes, the exchange rates on 30 September 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 30 September 2004.

Forecast assumption

For forecasting purposes, the exchange rates prevailing on 30 September 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 October 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 2 December 2004** and contingent liabilities and assets as at 31 October 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 DEFU has been prepared in accordance with sections 10(3)(b) and 11 of the Fiscal Responsibility Act 1994.