

VOTE *Finance*

Finance

Overview

Departmental Appropriations

Departmental output expense appropriations for Vote Finance in 2006/07 total \$52.807 million. This sum is intended to be spent as follows:

- \$2.106 million (4% of departmental output expense appropriations in this Vote) on Budget management.
- \$4.255 million (8% of departmental output expense appropriations in this Vote) on debt and related financial asset management.
- \$6.170 million (12% of departmental output expense appropriations in this Vote) on economic and fiscal forecasting and reporting.
- \$6.300 million (12% of departmental output expense appropriations in this Vote) on management of claims against the Crown, contractual liabilities and Crown properties.
- \$3.031 million (6% of departmental output expense appropriations in this Vote) on purchasing advice on financial and public sector management systems.
- \$4.603 million (9% of departmental output expense appropriations in this Vote) on purchasing advice on general economic and fiscal strategies.
- \$2.783 million (5% of departmental output expense appropriations in this Vote) on purchasing advice on the ownership and performance of Crown companies and financial institutions.
- \$21.245 million (40% of departmental output expense appropriations in this Vote) on purchasing advice on regulation and Vote purchase, ownership and performance issues.
- \$2.314 million (4% of departmental output expense appropriations in this Vote) on purchasing advice on tax.

Multi-Year Non-Departmental Appropriations

From 2004/05 to 2007/08, Vote Finance includes a multi-year non-departmental expense appropriation of \$200 million (GST inclusive) for upgrading the national rail network.

From 2006/07 to 2009/10, Vote Finance includes a multi-year non-departmental expense appropriation of \$575 million (GST exclusive) for Auckland rail development.

Other Non-Departmental Appropriations

Other non-departmental appropriations sought for Vote Finance in 2006/07 total \$5,897.713 million. This is intended to be spent as follows:

- \$10.019 million on non-departmental output expenses.
- \$862.985 million on benefits and other unrequited expenses.
- \$2,538 million on borrowing expenses.
- \$120.403 million on other expenses to be incurred by the Crown.
- \$2,366.306 million on capital expenditure.

Crown Revenue and Receipts

- \$2,922.796 million of current revenue from interest, dividends and other revenue.
- \$250.808 million of capital revenue from capital withdrawals and loan repayments by Crown entities.

Details of how the appropriations are to be applied appear in Parts B and C of this Vote. Details of Crown revenue appear in Part F.

Terms and Definitions Used

CEL	Contact Energy Ltd
CRI	Crown research institute
EQC	Earthquake Commission
GAAP	generally accepted accounting practice
GSF	Government Superannuation Fund
GSF Schemes	The Government Service Superannuation Scheme, the New Government Service Superannuation Scheme, Superannuation of Members of the Armed Forces, Judges' and Solicitor-General Scheme, and the Masters', Parliamentary, Police and Prison Service Schemes, all constituted under the Government Superannuation Fund Act 1956 and the Superannuation Schemes Act 1989
GSFA	GSF Authority (a Crown entity formed to manage the GSF)
HNZC	Housing New Zealand Corporation
IMF	International Monetary Fund
MFAT	Ministry of Foreign Affairs and Trade
NPF	National Provident Fund
NZRC	New Zealand Railways Corporation (now known as ONTRACK)
NZSF	New Zealand Superannuation Fund
PLA	Permanently legislated authority
SOE	state-owned enterprise

Footnotes

Note 1	In prior years, expenses were incurred pursuant to sections 61(1), 65E(1), 65H(2), and 65J(1) of the Public Finance Act 1989
Note 2	Expenses incurred pursuant to sections 15, 74, 81, 88 and 95 of the GSF Act 1956, and section 33 of the Superannuation Schemes Act 1989
Note 3	Expenses incurred pursuant to sections 60(1) and 61(1), 65D(1), 65E and 65H of the Public Finance Act 1989
Note 4	Expenses incurred pursuant to section 74(5) of the Public Finance Act 1989
Note 5	Expenses incurred pursuant to section 5 of the International Finance Agreements Act 1961

Minister Portfolio Table

31	Minister of Finance
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Finance

VOTE MINISTER: Minister of Finance

ADMINISTERING DEPARTMENT: The Treasury

The Minister of Finance is the Responsible Minister for the Treasury

Part A - Statement of Objectives and Trends

Part A1 - Objectives for Vote

Related Government Outcomes

The appropriations in Vote Finance will contribute to the key Government themes that guide the public sector. They will fund advice and services aimed primarily at facilitating the Government's theme of *economic transformation*. This theme focuses on working to progress our economic transformation to a high income, knowledge based market economy, which is both innovative and creative and provides a unique quality of life to all New Zealanders.

They will fund analysis and advice contributing to the Government's other themes of *families - young and old* and *national identity*.

The appropriations also fund advice and services that contribute to the following outcomes:

- improving New Zealand's overall economic performance
- a stable and sustainable macroeconomic environment
- efficient and effective use of state resources and regulatory powers, including improved decision-making and performance management systems
- efficient management of the Crown's assets and liabilities.

For 2006/07 particular emphasis will be placed on:

- better understanding the factors that impact on growth and developing policy options that offer the best prospects for growth
- improving public sector performance by further improving state sector systems and processes to ensure they achieve maximum efficiency and effectiveness.

Output Expenses

To achieve these objectives, the appropriations are intended to fund a wide range of activities, including policy advice and/or other services relating to:

- budget management
- debt and related financial asset management
- economic and fiscal forecasting and reporting
- management of claims against the Crown, contractual liabilities and Crown properties
- financial and public sector management systems
- general economic and fiscal strategies

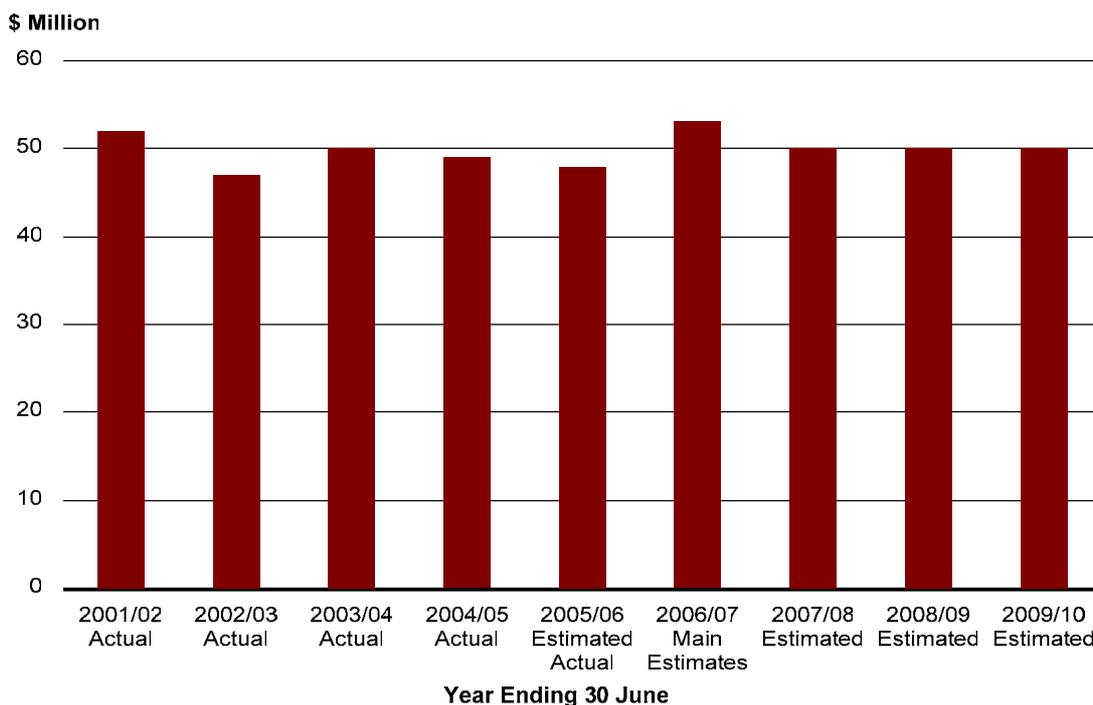
- ownership and performance of Crown companies and financial institutions
- regulation and Vote purchase, ownership and performance issues
- tax.

Part A2 - Trends in Vote

Departmental Output Trends

The chart below shows the trend in total departmental output expense appropriations over time.

Figure 1 - Trends in departmental output expenses



Source: The Treasury

The increased 2006/07 baseline includes \$3.3 million of additional funding for Building Industry Authority Litigation Management, transferred to The Treasury from the Department of Building and Housing. During 2005/06, baseline savings of \$632,000 were made and returned as surplus funds to the Crown. In addition in 2005/06 and 2006/07 baseline reductions have been made of \$1.4 million and \$800,000 respectively, to repay previous baseline increases for the Treasury accommodation project.

2004/05 baselines were increased for the accommodation project and various expense transfers from 2003/04, which were partly offset by a baseline reduction of \$1.6 million to return surplus funds to the Crown.

Additional funding was provided in 2003/04 for the national rail project and the Treasury’s accommodation fitout, which was partly offset by expense transfers to 2004/05 and baseline savings.

At the request of the Minister, the Treasury reduced its departmental baseline by \$1 million in 2000/01 and the outyears. However, during 2001/02 new funding was provided for work on advising and supporting the Crown’s negotiations regarding the development of a rescue package for Air New Zealand, the New Zealand Superannuation Fund (NZSF) public information campaign, supporting the Crown’s negotiations regarding the Auckland rail lease and infrastructure assets, and the Export Credit Office. The new funding provided for the Air New Zealand, NZSF public information campaign and Auckland rail outputs was for 2001/02 only and therefore the total cost of outputs was lower in 2002/03.

Non-Departmental Expenditure and Revenue Trends

Marked variations in non-departmental expenses tend to reflect one-off rather than ongoing transactions.

Non-departmental output expenses

From 2002/03, a non-departmental output expense funded the Guardians of New Zealand Superannuation.

In 2003/04 and part of 2004/05, a non-departmental output expense funded the management of the Auckland rail corridor infrastructure. Responsibility for this expenditure transferred to the New Zealand Railways Corporation (now ONTRACK) on 1 September 2004, and the appropriation ceased.

Benefits and other unrequited expenses

This item provides appropriations to fund Government Superannuation Fund (GSF) benefits. The major change between years has been the movement in the GSF unfunded liability. Because revaluations of existing liabilities do not need to be appropriated, the revaluation movement ceased to be appropriated in 2004/05.

Borrowing expenses

Debt servicing costs have remained relatively stable over the past few years and continue largely unchanged across the forecast period.

Other Crown expenses

The largest items in this category are the amortisation of goodwill in Air New Zealand, and the cost of purchasing Maui gas (revenue from the sale of the gas is reported in Part F). Other significant items are the operating costs of the Crown's overseas properties, the custodial and investment management expenses of the GSF, and various one-off costs.

One-off costs have included:

- in 2002/03: the cost of maintaining a guaranteed minimum earnings rate on certain National Provident Fund (NPF) schemes
- in 2003/04 and 2004/05: costs arising from the establishment of the entity to manage the national rail corridor on behalf of the Crown; and the costs of deferred maintenance work on Wellington Railway Station.

From 2005/06, the Public Finance Amendment Act 2004 requires that all expenses other than re-measurements be appropriated. This resulted in changes to appropriations as follows:

- A new appropriation was created for the amortisation of goodwill in Air New Zealand.
- The cost of Maui prepaid gas sold was added to the appropriation "Maui Gas Contracts".
- Depreciation was added to the appropriation "Crown Overseas Properties".
- Depreciation was added to the appropriation "Wellington Railway Station Expenses".

Capital expenditure

This comprises purchases of debt and equity by the Crown in various Crown entities, and capital additions to the Crown's physical assets.

Significant transactions since 2001/02 include:

- in 2001/02, the transfer of the Crown's equity in Housing New Zealand to a new entity, Housing New Zealand Corporation (HNZC), and an equity injection into New Zealand Post
- debt and equity financing to HNZC. These appropriations transferred to Vote Housing from 2003/04
- in 2001/02 and 2004/05, equity injections into Air New Zealand
- in 2002/03 and 2003/04, equity injections into the University of Auckland to assist in funding a proposed business school
- in 2002/03 and 2003/04, appropriations to re-capitalise Television New Zealand as a Crown company under its own legislation, and subsequently to capitalise its subsidiary company Transmission Holdings Ltd as a stand-alone state-owned enterprise (SOE)
- contributions to international financial institutions, primarily the International Monetary Fund (IMF)
- the Government's annual contribution to the NZSF
- from 2003/04, equity investment in ONTRACK
- in 2004/05, a capital injection into the Reserve Bank
- from 2004/05, debt funding to ONTRACK, Taitokerau Forests, and the Auckland and Wellington regional councils
- up to 2004/05, additions to the Crown's geothermal steam generating assets
- additions to the Crown's overseas property portfolio (this item transferred to the Ministry of Foreign Affairs and Trade (MFAT) on 1 July 2005)
- purchase of, and additions to, the national rail corridor infrastructure
- in 2003/04, purchase of Westhaven and Hobson West Marinas in Auckland.

Repayment of debt

These items cover the net repayment of foreign-currency debt and New Zealand-dollar debt.

The Public Finance Amendment Act 2004 cancelled the requirement for these items to be appropriated, and the appropriations ceased from 2005/06.

Crown revenue and capital receipts

The level of current revenue varies with movements in interest rates and the level of Crown investments (for interest receipts), and the profitability of SOEs and Crown entities (for dividends).

From 2002/03, following full line-by-line consolidation, SOE and Crown entity net surpluses are reported directly into the Crown accounts by the individual companies, rather than through Vote Finance.

From 2003/04, dividends paid by HNZC, together with interest paid by HNZC on Crown debt, are reported in Vote Housing.

Capital revenue arises from net borrowing by the Crown, the sale of Crown assets, the repayment of Crown loans, capital withdrawals from Crown companies, and from transactions arising from the corporatisation of Crown entities.

One-off items are the main reasons for changes between years, but from 2005/06, because of the changes to the Public Finance Act 1989 mentioned above, net borrowing receipts are no longer recorded.

New Policy Initiatives by Appropriation

Initiative	Appropriation as shown in Part B	\$'000 Increase/(Decrease)				
		2005/06	2006/07	2007/08	2008/09	2009/10
Atihau-Whanganui Incorporation	Other Expenses of the Crown: Grant to Atihau-Whanganui Incorporation for Buying Back Leased Land Before the Leases Expire	3,000	-	-	-	-
Crown contribution to the costs of staging the 2011 Rugby World Cup	Other Expenses of the Crown: Rugby World Cup	44,000	-	-	-	-
	Capital Expenditure: Rugby World Cup	20,000				
Funding to ONTRACK for costs not recoverable through the National Rail Access Agreement	Other Expenses of the Crown: ONTRACK Operating and Maintenance Costs	12,900	-	-	-	-
Funding to ONTRACK for Auckland rail development	Other Expenses of the Crown: Auckland Rail Development (annual appropriation)	25,000				
	Other Expenses of the Crown: Auckland Rail Development (multi-year appropriation)		150,000	150,000	150,000	125,000
Funding to ONTRACK for commercial projects and renewals on the rail network, for the purchase of released land from Toll NZ Ltd, and for the purchase of Wellington Railway Station from the Crown	Capital Expenditure: Equity injection to ONTRACK	-	10,600	20,000	-	-
	Capital Expenditure: Loans to ONTRACK	(14,000)	102,655	-	-	-
Transfer of accounting responsibility for land under the national rail corridor from Treasury to New Zealand Railways Corporation	Capital Expenditure: New Zealand Railways Corporation – Transfer of Assets	98,892	-	-	-	-
Invercargill Airport	Capital Expenditure: Suspensory Loan to Invercargill Airport	1,500	-	-	-	-

Part B – Statement of Appropriations

Summary of Financial Activity

	2001/02	2002/03	2003/04	2004/05	2005/06		2006/07 Appropriations to be Used				2007/08	2008/09	2009/10	
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Estimated Actual \$000	By the Department Administering the Vote		For Non-Departmental Transactions		Total \$000	Estimated \$000	Estimated \$000	Estimated \$000
							Annual \$000	Other \$000	Annual \$000	Other \$000				
Appropriations														
Output Expenses	55,901	54,888	60,819	58,357	58,326	57,826	52,807	-	10,019	-	62,826	60,316	60,343	60,374
Benefits and Other Unrequited Expenses	1,151,574	2,479,379	242,561	827,384	1,030,347	1,030,347	N/A	N/A	-	862,985	862,985	895,609	925,556	942,495
Borrowing Expenses	2,488,549	2,616,011	2,549,901	2,588,917	2,608,000	2,608,000	N/A	N/A	-	2,538,000	2,538,000	2,650,000	2,579,000	2,510,000
Other Expenses	322,424	317,802	229,166	196,745	299,229	281,182	-	-	113,542	6,861	120,403	99,903	92,859	71,303
Capital Expenditure	4,647,183	807,321	4,143,642	3,322,259	2,735,026	2,522,106	N/A	N/A	2,166,306	200,000	2,366,306	2,460,089	2,665,000	2,851,000
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
Total Appropriations	8,665,631	6,275,401	7,226,089	6,993,662	6,730,928	6,499,461	52,807	-	2,289,867	3,607,846	5,950,520	6,165,917	6,322,758	6,435,172
Crown Revenue and Receipts														
Tax Revenue	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Non-Tax Revenue	3,009,664	2,539,488	2,561,499	2,731,373	2,925,605	2,936,130	N/A	N/A	N/A	N/A	2,922,796	2,842,390	2,868,763	2,858,662
Capital Receipts	1,149,018	1,894,283	446,462	292,684	405,502	405,502	N/A	N/A	N/A	N/A	250,808	251,183	223,374	200,500
Total Crown Revenue and Receipts	4,158,682	4,433,771	3,007,961	3,024,057	3,331,107	3,341,632	N/A	N/A	N/A	N/A	3,173,604	3,093,573	3,092,137	3,059,162

Part B1 – Details of Appropriations

	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Appropriations							
Departmental Output Expenses (General)							
Budget Management (M31)	2,303	-	2,303	-	2,106	-	- Development of the Budget strategy and the operational activities of the Budget process. Reason for Change: The decrease reflects changes in operating costs between years.
Debt and Related Financial Asset Management (M31)	1,088	2,703	1,088	2,703	4,255	-	- Operational management of the Crown's sovereign-issued debt portfolio, associated financial investments (including departmental cash management), and lending and derivatives transactions with government-related entities. Reason for Change: Some DMO activities do not have Permanent Legislative Authority (PLA), requiring the appropriation to be classified as an annual appropriation. The prior year Other appropriation reflects expenses incurred under PLA (see Note 1). The overall increase largely reflects one-off savings in 2005/06 due to capitalisation of internally developed software costs and other overhead savings.
Economic and Fiscal Forecasting and Reporting (M31)	5,972	-	5,972	-	6,170	-	- Preparation of macroeconomic and fiscal forecasts, and monitoring and reporting on economic and fiscal conditions. Advice on the application and development of generally accepted accounting practice (GAAP) as it applies to the Crown, and the adequacy of departmental financial management controls. Reason for Change: The increase largely reflects additional costs in implementing New Zealand international accounting standards.
Management of Claims Against the Crown, Contractual Liabilities and Crown Properties (M31)	2,806	-	2,806	-	6,300	-	- Management of commercial, contractual or Treaty of Waitangi-related claims against the Crown; and the management of New Zealand House, London. Reason for Change: The increase is largely due to the Building Industry Authority expense transfer from 2005/06 to 2006/07.
Policy Advice - Financial and Public Sector Management Systems (M31)	2,444	-	2,444	-	3,031	-	- Policy advice to maintain and develop financial and performance management systems in use across the Crown. Reason for Change: The increase largely reflects one-off savings made in 2005/06 due to staff vacancies.
Policy Advice - General Economic and Fiscal Strategies (M31)	4,650	-	4,650	-	4,603	-	- Policy advice on the Government's broad economic strategy and macroeconomic policy settings, and their effect on the welfare of New Zealanders. Reason for Change: The movement reflects minor budget changes.

	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Departmental Output Expenses (General) - cont'd							
Policy Advice - Ownership and Performance of Crown Companies and Financial Institutions (M31)	2,685	-	2,685	-	2,783	-	- Policy advice on the Crown's financial position and the ownership interest in SOEs, Crown research institutes (CRIs) and other Crown entities; and on the Crown's ownership, guarantee and indemnity obligations in respect of Crown financial institutions. Reason for Change: The increase largely reflects forecast increases in output demand for advice and monitoring in relation to Crown financial institutions.
Policy Advice - Regulation and Vote Purchase, Ownership and Performance Issues (M31)	20,714	-	20,714	-	21,245	-	- Policy advice on the cost, quality and quantity of outputs sought by the Government, and the financial performance and capability of departments and Crown entities; monitoring of payments for outputs and advice on the non-departmental revenue and expenditure administered by departments and Crown entities; and identification and assessment of opportunities for the Government to achieve its goals. Reason for Change: The increase largely reflects the one-off savings in 2005/06 from staff vacancies and other operating costs.
Policy Advice - Tax (M31)	2,966	-	2,966	-	2,314	-	- Policy advice on tax policy with Inland Revenue and other relevant collection agencies and advice on purchase, ownership and performance issues for Votes Revenue and Customs. Reason for Change: The decrease largely reflects forecast changes in operating costs.
Total Departmental Output Expenses (General)	45,628	2,703	45,628	2,703	52,807	-	
Non-Departmental Output Expenses							
GSF Authority (M31)	4,133	-	4,133	-	4,157	-	- The Crown's share of expenses incurred by the GSFA in managing the GSF assets and administering the GSF Schemes. Reason for Change: The Government Actuary determined that the Crown's share should be increased in 2006/07.
Guardians of New Zealand Superannuation (M31)	4,711	-	4,711	-	4,711	-	- Costs of managing the NZSF on behalf of the Crown.
Management of Crown Overseas Properties (M31)	1,000	-	500	-	1,000	-	- Property management costs for New Zealand House, London.
Management of Residual Geothermal Liabilities (M31)	151	-	151	-	151	-	- Fees payable for managing the Crown's residual geothermal liabilities. This appropriation was previously known as "Management of Geothermal Trading".
Total Non-Departmental Output Expenses	9,995	-	9,495	-	10,019	-	

	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Benefits and Other Unrequited Expenses							
GSFA - Subsidies to GSF Schemes (M31)	- 1,030,347		- 1,030,347		- 862,985		Payment of the shortfall in benefits (including withholding tax) paid to beneficiaries of the GSF Schemes (see Note 2). Reason for Change: The higher level of payments in 2005/06 reflects Police members transferring their funds to a new dedicated Police superannuation scheme.
Total Benefits and Other Unrequited Expenses	- 1,030,347		- 1,030,347		- 862,985		
Borrowing Expenses							
Debt Servicing (M31)	- 2,608,000		- 2,608,000		- 2,538,000		Payment of interest and other finance costs relating to the Crown's New Zealand-dollar and foreign-currency debt (see Note 3). Reason for Change: The amount varies with interest rates and the amount of debt outstanding.
Total Borrowing Expenses	- 2,608,000		- 2,608,000		- 2,538,000		
Other Expenses to be Incurred by the Crown							
Amortisation of Goodwill in Air New Zealand (M31)	46,900	-	46,900	-	46,900	-	Amortisation of goodwill in Air New Zealand.
Auckland Rail Development (M31)	25,000	-	25,000	-	-	-	Funding to ONTRACK for renewals and upgrades of the Auckland rail network 'below track' infrastructure. Reason for Change: This item was replaced by a multi-year appropriation in 2006/07 (see Section B2).
Crown Overseas Properties (M31)	16,000	-	14,000	-	16,200	-	Operational costs of New Zealand House, London. Reason for Change: The change between years reflects revised forecasts.
Crown Residual Liabilities (M31)	852	-	852	-	230	-	Residual obligations arising from administration of the Crown's sale and purchase agreements with SOEs and Crown entities and from the sale of Crown investments, and for the settlement of claims against the Crown arising from exposure to asbestos. Reason for Change: The amount required is reducing over time.
Geothermal Liabilities (M31)	500	-	100	-	500	-	Costs arising from managing the Crown's residual geothermal liabilities. The appropriation was previously known as "Geothermal Trading".
Government Superannuation Appeals Board (M31)	50	-	5	-	50	-	Expenses and fees of members of the Government Superannuation Appeals Board, and expenses associated with hearing appeals.
Grant to Atihau-Whanganui Incorporation for Buying Back Leased Land Before the Leases Expire (M31)	3,000	-	3,000	-	-	-	This appropriation allowed a one-off grant to Atihau-Whanganui Incorporation for buying back land leased under the Māori Vested Lands Administration Act 1954 before the leases expire.

	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Other Expenses to be Incurred by the Crown - cont'd							
GSF - Crown Share of Custodial and Investment Management Expenses (M31)	-	6,361	-	6,361	-	6,361	This appropriation provides for reimbursement to the GSF of the Crown's share of custodial and investment management expenses (see Note 2). Reason for Change: The amount required varies with the size of the Fund.
Maui Gas Contracts (M31)	141,900	-	130,300	-	48,500	-	- Payments made in relation to the Crown's participation in the Maui gas field and related contracts (revenue from the on-sale of gas is recorded in Part F). Reason for Change: Gas purchases are forecast to reduce as the field starts to run down.
ONTRACK Operating and Maintenance Costs (M31)	12,900	-	9,998	-	-	-	- Operating and maintenance costs of ONTRACK (previously known as New Zealand Railways Corporation) not recoverable through the National Rail Access Agreement. Reason for Change: No appropriation is sought in 2006/07.
Overseas Investment Commission Honoraria (M31)	4	-	4	-	-	-	- Honoraria and expenses paid to the Crown-appointed members of the Overseas Investment Commission. Reason for Change: Responsibility for this was transferred to Land Information New Zealand in September 2005, and the appropriation ceased.
Rugby World Cup (M31)	44,000	-	44,000	-	-	-	- In 2005/06, provision was made for the Crown's share of forecast losses from the 2011 Rugby World Cup.
Unclaimed Money (M31)	-	500	-	100	-	500	Provision for repayment of unclaimed money deposited with the Crown (see Note 4).
Wellington Railway Station Expenses (M31)	1,262	-	562	-	1,162	-	- Deferred maintenance costs and depreciation expense for Wellington Railway Station. The appropriation was previously known as "Track Co - Relocation and Maintenance Costs, Wellington Railway Station". Reason for Change: The change between years reflects a re-forecast of the expected expense.
Total Other Expenses to be Incurred by the Crown	292,368	6,861	274,721	6,461	113,542	6,861	
Capital Expenditure							
Equity Injection to ONTRACK (M31)	3,000	-	3,000	-	10,600	-	- Provision of working capital to ONTRACK (previously known as New Zealand Railways Corporation). Reason for Change: The funding in 2006/07 will cover the cost of land acquired from Toll NZ Ltd.
Guardians of New Zealand Superannuation (M31)	200	-	200	-	-	-	- Provision of working capital to the Guardians of New Zealand Superannuation. Reason for Change: This was a one-off item in 2005/06.

	2005/06				2006/07		
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	Scope of 2006/07 Appropriations
International Financial Institutions (M31)	-	200,000	-	-	-	200,000	Capital payments in respect of New Zealand's membership of the IMF, the Asian Development Bank, the World Bank, the International Finance Corporation, and the Multilateral Investment Guarantee Agency (see Note 5).
Loans to ONTRACK (M31)	56,000	-	56,000	-	102,655	-	- This appropriation provides for a loan facility to ONTRACK (previously known as New Zealand Railways Corporation) to fund a range of rail infrastructure capital projects. Reason for Change: The change between years reflects the forecast timing of projects.
New Zealand Railways Corporation - Transfer of Assets (M31)	98,892	-	98,892	-	-	-	- This appropriation allowed for the transfer of accounting responsibility for land under the national rail corridor from Treasury to NZRC. Reason for Change: No appropriation is required in 2006/07.
NZ Superannuation Fund - Contributions (M31)	2,337,000	-	2,337,000	-	2,049,000	-	- Capital contributions by the Crown to the NZSF. Reason for Change: The amount varies according to a formula in the New Zealand Superannuation Act 2001.
Rugby World Cup (M31)	20,000	-	20,000	-	-	-	- Capital component of the Crown's contribution to the 2011 Rugby World Cup Tournament Management Vehicle. Reason for Change: This was a one-off item in 2005/06.
Suspensory Loan to Invercargill Airport (M31)	1,500	-	1,500	-	-	-	- This appropriation provided a loan facility in 2005/06 to Invercargill Airport to fund border security equipment. Reason for Change: No appropriation is required in 2006/07.
Taitokerau Forests (M31)	700	-	700	-	871	-	- Advances to Taitokerau Forests Ltd to meet the company's ongoing forest management and development costs. Reason for Change: The change between years reflects the drawdown profile of the loans.
Wellington Railway Station Upgrade (M31)	10,314	-	4,814	-	-	-	- Costs of upgrading Wellington Railway Station. In 2005/06, this appropriation was called "Track Co - Purchase of Wellington Railway Station". Reason for Change: No appropriation is sought in 2006/07.
Wellington Regional Council Loan (M31)	7,420	-	-	-	3,180	-	- This appropriation provides a loan facility to the Wellington Regional Council to assist in the purchase and upgrade of passenger rail carriages. Reason for Change: The change between years reflects the forecast drawdown profile of the loans.
Total Capital Expenditure	2,535,026	200,000	2,522,106	-	2,166,306	200,000	
Total Appropriations	2,883,017	3,847,911	2,851,950	3,647,511	2,342,674	3,607,846	

Part B2 - Details of Multi-Year Appropriations

Appropriations	Current Appropriation \$000	Scope of Appropriations
Other Expenses to be Incurred by the Crown		
Upgrade of Rail Network (M31)		This appropriation provides a total of \$200 million to be spent on upgrading the national rail network, in accordance with a commitment made when the Crown purchased the network in June 2004.
Original Appropriation	200,000	
Commences	1 July 2004	This appropriation was made in the Appropriation (2004/05 Supplementary Estimates) Act 2005, and operates on a GST-inclusive basis. The figures here include GST.
Expires	30 June 2008	
Adjustments 2005/06	-	
Appropriation	200,000	
Estimated Actual to 2005/06 Year End	123,421	
Estimated Actual to 2006/07 Year End	168,421	
Auckland Rail Development (M31)		This appropriation provides a total of \$575 million (GST exclusive) to provide funding to ONTRACK for renewals and upgrades of the Auckland rail network 'below track' infrastructure. It replaces an annual appropriation for the same purpose in 2005/06.
Original Appropriation	575,000	
Commences	1 July 2006	
Expires	30 June 2010	
Adjustments 2005/06	-	
Appropriation	575,000	
Estimated Actual to 2005/06 Year End	-	
Estimated Actual to 2006/07 Year End	150,000	

Part C - Explanation of Appropriations for Output Expenses

Part C1 - Departmental Output Expenses

Budget Management

This class of outputs covers the development of Budget strategy, and the management and delivery of the Budget process. These outputs contribute to an efficient, effective and innovative state sector by providing credible public sector management and decision-making systems that encourage value for money.

In addition to managing the annual Budget, outputs include the provision of advice to identify and implement further improvements in the design of the Budget process. The focus is on improving linkages between the allocation of resources and achieving desired results.

Debt and Related Financial Asset Management

This class of outputs contributes to achieving an optimal Crown balance sheet and concerns the operational management of the Crown's portfolio of sovereign-issued debt and associated financial assets.

Specific activities include:

- developing and maintaining an appropriate framework for efficiently managing the portfolio and the risks associated with it
- issuing domestic-currency debt to meet the Government's funding requirements
- disbursing cash to departments and facilitating departmental cash management
- advancing funds to government entities in accordance with Government policy
- providing capital market services and derivative transactions for departments and government entities
- funding the Reserve Bank's foreign-exchange reserves
- managing foreign-currency assets required to meet net foreign-currency interest and principal payments
- maintaining hedges of foreign-currency debt that cannot be bought back from investors.

Economic and Fiscal Forecasting and Reporting

This class of outputs involves the preparation of macroeconomic and fiscal forecasts, and the monitoring of economic and fiscal conditions.

Economic and fiscal updates are published in the middle of the financial year (typically in December) and at the time of the Budget (typically in May). Monitoring outputs includes reports on major economic data releases and preparation of the annual and monthly financial statements of the Crown. In addition, the Minister is provided with regular assessments of how current events are affecting the economic and fiscal outlooks since the last update, as an aid to Budget decision-making.

The outputs also include advice on the application and development of GAAP as it applies to the Crown. It also includes assessments of the adequacy of departmental management controls to detect or prevent errors in the financial information submitted to the Treasury.

These outputs contribute to the understanding by Ministers, Parliament and the public of the expected and actual fiscal consequences of government decisions, by entity and in the aggregate.

Management of Claims Against the Crown, Contractual Liabilities and Crown Properties

This class of outputs involves managing a range of commercial, contractual, legal and Treaty of Waitangi-related claims against the Crown. Outputs contribute to minimising Crown financial risk within the bounds of Government objectives. Specific outputs include:

- management of commercial and contractual risks associated with the 1973 Maui Gas Contract, including the operation of the gas notification system with downstream gas users
- management of contractual and commercial issues arising from completed asset sales and wind-up of the Crown's previous ownership interests in SOEs, Crown companies and other entities
- advice on the management of historical claims under the Treaty of Waitangi and assistance with the Crown's negotiation of specific settlements
- provision of legal title to land sold to SOEs and other Crown companies as a part of their sale and purchase agreements with the Crown
- management of litigation against the former Building Industry Authority relating to weather-tight homes
- management of New Zealand House, London
- management of the export credit guarantee policy and scheme.

Specific outputs often depend on the actions of third parties.

Policy Advice - Financial and Public Sector Management Systems

This class of outputs involves policy advice on financial and public sector management systems in use across the Crown and contributes to:

- improved decision-making and performance management systems that facilitate the effective and efficient use of state resources and regulatory powers
- efficient management of the Crown's assets and liabilities.

It covers the development and design of specific public sector management regimes applicable to departments and Crown entities. It also includes the development of financial policy that takes into account the Crown's overall pattern of expenditure, revenue, assets, liabilities and risks, in order to minimise the economic costs through time arising from financing a given profile of government expenditure.

Outputs will specifically include advice on:

- the governance, incentives, operating framework and reporting systems for departments and Crown entities to ensure effective performance and accountability relationships between entities and their stakeholders
- the range and nature of financial risks to which the Crown is exposed and the degree to which these can be managed more efficiently when considered as part of an integrated set of risks, assets and liabilities across the Crown.

Policy Advice - General Economic and Fiscal Strategies

This class of outputs involves policy advice on the Government's broad economic strategy and macroeconomic policy settings, and their effect on living standards for New Zealanders.

This includes advice for the Government on the macroeconomic policy framework and its operation, with particular emphasis on the fiscal policy framework.

General economic and fiscal strategy requires empirical and analytical research to support and inform policy advice. Outputs include research and policy advice with a medium-term perspective, taking account of the characteristics of the New Zealand economy and developments in global capital and product markets. This research and policy advice will focus on how to improve New Zealand's economic performance, looking at growth, productivity and macro stability issues.

Policy Advice - Ownership and Performance of Crown Companies and Financial Institutions

This class of outputs involves the provision of policy advice on the Crown's financial position and the Crown's ownership interest in Air New Zealand, Crown companies (including SOEs) and Crown financial institutions. This contributes towards enhancing and protecting the value of the Crown's interest in these institutions.

The outputs include:

- advice to the Minister of Finance as shareholder in SOEs, CRIs and other Crown companies, on issues impacting on the Crown's ownership strategies, business plans and statements of intent, capital structure, dividends, diversification and expansion proposals, and divestments. This also includes advice on Air New Zealand, rail infrastructure and certain other entities where the Crown has an ownership interest
- advice on significant company restructurings, on establishing commercially related activities in an appropriate institutional form and on Crown negotiations in relation to changes in asset structure and form
- advice on the Crown's ownership interests and guarantee and indemnity obligations in relation to the GSF, NPF, the Public Trust, the Earthquake Commission (EQC) and the NZSF, especially in relation to Crown financing, financial performance, management of risk (as owner or guarantor), unfunded Crown liabilities, and any residual implementation issues in relation to the NZSF.

Policy Advice - Regulation and Vote Purchase, Ownership and Performance Issues

This class of outputs contributes primarily to ensuring that the state's resources and regulatory powers are used effectively and efficiently to achieve the Government's desired outcomes, including a stable and sustainable macroeconomic environment.

The outputs include:

- advice on cost, quality and quantity of output sought by the Government, the financial performance of departments and Crown entities, and the capability of departments and Crown entities
- monitoring of appropriations to ensure expenditure is within parliamentary authority, and advice on the non-departmental revenue and expenditure administered by departments and Crown entities
- identification and assessment of opportunities for the Government to achieve its goals relating to improving economic performance, inclusive society, environmental management and an efficient and effective state sector
- empirical and analytical research into issues with a medium-term perspective.

Areas covered are:

- empirical and analytical research
- health
- education
- welfare (including housing and social services)
- justice
- labour market (including employment, immigration and ACC)
- population agencies
- external linkages, defence and national security
- research, science and technology
- economic development (regional and industry development and firm performance)
- the regulatory environment (for example, business law and competition policy)
- infrastructure (including energy, telecommunications, water and transport)
- environment
- primary sector
- government services (for example, Internal Affairs, State Services Commission and local government)
- parliamentary agencies.

Policy Advice - Tax

This class of outputs involves the provision of advice on tax policy and contributes to raising required tax revenue at least cost to the economy, in line with fiscal strategy.

The Treasury, jointly with the Policy Advice Division of Inland Revenue, will provide advice on:

- tax strategy (overall objectives of the tax system, including choice of tax bases and the mix of taxation)
- international taxation (including taxation agreements with other countries; tax on New Zealanders' foreign-source income and the taxation of income earned by New Zealanders overseas)
- personal taxation (that is, direct taxes imposed on individuals)
- indirect taxes (including GST and taxes on specific goods and services, like excises)
- corporate taxation (that is, direct taxes imposed on companies, trusts and other forms of legal entity; and taxes imposed on individuals through such business organisations)
- tax systems and compliance (including withholding taxes, tax penalties, taxation administration rules, taxpayer rights and obligations and taxpayer compliance costs).

The Government purchases tax policy advice from both the Treasury and Inland Revenue to ensure that its tax policies are based on all relevant economic, legal and administrative factors.

The Treasury will also provide advice, in cooperation with the collection agencies, on excises that are not collected by Inland Revenue.

In respect of Votes Revenue and Customs, the Treasury will provide:

- advice on cost, quality and quantity of output sought by the Government, the financial performance of the departments, and the capability of the departments
- monitoring of payments for outputs against appropriations and advice on the non-departmental revenue and expenditure administered by the departments.

Part C2 - Non-Departmental Output Expenses

GSF Authority

The outputs purchased from the GSF Authority (GSFA) cover activities that fall into the following broad categories:

- Management of the GSF assets.
- Management of the GSF Schemes, including the administration contract currently with AXA New Zealand.
- Interpretation of the provisions in the GSF Act 1956 and exercising discretionary powers.

Performance measures

The Minister will expect outputs to be delivered according to the management contract with the GSFA.

Cost

This output will be provided within the appropriated sum of \$4.157 million.

	2005/06 \$000	2006/07 \$000
Total output class expenses	4,133	4,157
Total output class revenues	-	-

Provider

GSFA.

Guardians of New Zealand Superannuation

Legislation was passed in 2001 setting up both the NZSF and a Crown entity, "The Guardians of New Zealand Superannuation", which is responsible for managing the Fund on behalf of the Crown. The Guardians commenced activities in 2002/03, and took responsibility for managing the Fund in September 2003.

This output covers the cost of managing the NZSF on behalf of the Crown.

Performance measures

The Minister will expect outputs to be delivered according to the New Zealand Superannuation Act 2001. The Act requires the Guardians to produce a statement of intent and a statement of investment policies, standards and procedures. These documents include performance measures.

Cost

This output will be provided within the appropriated sum of \$4.711 million.

	2005/06 \$000	2006/07 \$000
Total output class expenses	4,711	4,711
Total output class revenues	-	-

Provider

The Guardians of New Zealand Superannuation.

Management of Crown Overseas Properties

This output covers the cost of purchasing management services from a professional property manager in respect of New Zealand House in London.

The range of services includes:

- professional management of tenancies, including rent collection, reviews and arbitrations, lease renewals and new lettings
- building management, including maintenance
- strategic advice, including identification of immediate and medium-term management options and financial risk inherent in the London commercial real estate market.

Performance measures

The Minister will expect outputs to be delivered according to the management contract with the property manager. In particular:

- management and marketing issues will be reported by the property manager on a monthly basis
- management of tenancies in New Zealand House will optimise revenue and occupancy for the Crown
- the property manager will provide effective delivery of tenancy management, maintenance, budgetary and related requirements as specified in the manager's contract with the Crown.

Cost

This output will be provided within the appropriated sum of \$1.000 million. The cost of this output is fully funded from third-party revenue.

	2005/06 \$000	2006/07 \$000
Total output class expenses	1,000	1,000
Total output class revenues	1,000	1,000

Provider

King Sturge International Property Consultants, London.

Management of Geothermal Liabilities

This output covers the cost of purchasing management services for the Crown's residual geothermal liabilities.

The range of services includes:

- maintenance of remaining geothermal wells and associated structures
- closure of non-producing wells.

Performance measures

The Minister will expect outputs to be delivered according to the management contract. In particular:

- management and contract issues will be reported by the manager on a quarterly basis
- the manager will provide effective delivery of well management, maintenance, budgetary and related requirements as specified in the manager's contract with the Crown.

Cost

This output will be provided within the appropriated sum of \$151,000.

	2005/06 \$000	2006/07 \$000
Total output class expenses	151	151
Total output class revenues	-	-

Provider

Connell Wagner Ltd.

Part E - Explanation of Capital Flows

Part E1 - Explanation of Movements in Departmental Net Asset Schedules

Details of Net Asset Schedule for The Treasury	Estimated Actual 2005/06 \$000	Projected 2006/07 \$000	Explanation of Projected Movements in 2006/07
Opening Balance	8,927	8,527	
Capital Injections	-	-	
Capital Withdrawals	(400)	(600)	Repayment of surplus capital following completion of the Treasury accommodation project.
Surplus to be Retained (Deficit Incurred)	-	-	
Other Movements	-	-	
Closing Balance	8,527	7,927	

Part E2 - Statement of Estimated and Forecast Net Worth of Entities Owned

The Minister of Finance is a shareholder in SOEs, CRIs and certain Crown entities. The estimated net worth (total assets less total liabilities) of these bodies is listed in the Votes of the Responsible Ministers for those entities.

The Minister of Finance is the Responsible Minister for the EQC, the GSFA and the Guardians of New Zealand Superannuation.

Changes in net worth result from the net effects of profit (after tax), dividends paid and capital injections or withdrawals. Data for these organisations comes from forecasts provided for inclusion in the 2006 Budget.

	Balance Date	Estimated Net Worth 2006 \$000	Forecast Net Worth 2007 \$000
Crown Entities:			
Earthquake Commission	30 June	4,878,095	5,235,755
Government Superannuation Fund Authority	30 June	6	6
Guardians of New Zealand Superannuation	30 June	500	500

Part E3 - Explanation of Appropriations for Capital Expenditure

International Financial Institutions

This appropriation provides for capital contributions to the IMF, the Asian Development Bank, and the World Bank and its subsidiaries, as required by the rules of the respective organisations. In particular, New Zealand contributes funds towards the IMF's lending programme by way of providing additional capital. Over time, the capital is repaid as loans are repaid by borrower countries, and is reported in Part F, "Crown revenue and capital receipts".

Loans to ONTRACK

This appropriation provides for a loan facility to ONTRACK to fund a range of infrastructure projects. The cost of these projects is recovered from users. The revenue earned is used to repay the loans, plus interest, over the life of each project.

ONTRACK equity injections

This appropriation provides for equity injections to ONTRACK to fund the reconfiguration costs of land released by Toll NZ Ltd.

New Zealand Superannuation Fund contributions

This appropriation provides for an annual contribution to the NZSF, as required by the New Zealand Superannuation Act 2001. The amount is calculated according to a formula contained within the Act.

Rugby World Cup

This appropriation provides for a Crown contribution to the 2011 Rugby World Cup Tournament Management Vehicle.

Taitokerau Forests Ltd

This appropriation provides a loan facility to Taitokerau Forests Ltd to meet forest management and development costs prior to the forests coming into production and generating revenue.

Wellington Railway Station upgrade

This appropriation provides for the upgrade of Wellington Railway Station, following its purchase by the Crown in 2003, to comply with fire and earthquake standards and to realise further commercial benefits by expanding retail development. Once complete, the station will be transferred to ONTRACK.

Wellington Regional Council loan

This appropriation provides for a loan facility to the Wellington Regional Council to assist in the purchase and upgrade of passenger rail transport. The facility extends for three years to 2007/08 and is part of a wider package of measures to improve public transport for the Wellington region.

Part F - Crown Revenue and Receipts

Part F1 - Current and Capital Revenue and Capital Receipts

	2005/06		2006/07	Description of 2006/07 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
Non-Tax Revenue				
Capital Charge - Departments	1,312,757	1,312,757	1,311,094	A charge on the Crown's investment in government departments and some Crown entities. Reason for Change: The decrease reflects a reduction in the capital charge rate for 2006/07, offset by increased investment in departments.
Contact Energy Ltd Crown Margin	2,198	2,198	5,792	Income from the Maui take-or-pay agreement with Contact Energy Ltd (CEL) for the supply of gas. Reason for Change: The change between years reflects revised forecasting assumptions.
Dividends - Other	2,848	2,848	2,525	Dividends from regional airport companies and other investments. Reason for Change: The amount varies with company profitability.
Dividends from Crown Entities	10,452	10,452	17,160	Dividends from Crown entities. Reason for Change: The amount varies with company profitability.
Dividends from SOEs	325,204	349,157	457,246	Dividends from SOEs. Reason for Change: The amount varies with company profitability.
Earthquake Commission Guarantee Fee	10,000	10,000	10,000	Guarantee fee paid by the EQC to the Crown.
Employers' Superannuation Contributions	61,783	61,783	58,694	The subsidy payable by employers on the superable salary of staff who are members of the GSF. Reason for Change: The change between years reflects revised actuarial forecasting assumptions.
Export Credit Office	150	150	117	Premium revenue from export credit insurance policies written by the Export Credit Office. Reason for Change: The change between years reflects revised forecasting assumptions.
Interest from Securities and Deposits	883,000	883,000	684,000	Interest earned on the Crown's official overseas reserves, bank accounts and domestic bond assets. Reason for Change: The change between years reflects revised forecasting assumptions.
Maui Gas Contracts	128,000	117,000	44,000	Revenue received from the sale of Maui gas (the cost of purchasing the gas is included in Part B). Reason for Change: Sales of gas are expected to fall as the field starts to run down.
Other Current Revenue	979	1,251	600	Miscellaneous revenue. Reason for Change: The change between years reflects revised forecasting assumptions.

	2005/06		2006/07	Description of 2006/07 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
Other Interest	7,350	7,350	7,800	Miscellaneous interest receipts. Reason for Change: The change results from revised forecasting assumptions.
Rentals from Crown Overseas Properties	16,400	15,400	16,900	Revenue from New Zealand House, London. Reason for Change: The change between years reflects revised forecasting assumptions.
Reserve Bank Surplus	139,284	139,284	298,168	Surplus funds transferred to the Crown under the Reserve Bank Act 1989. Reason for Change: The change between years reflects the Bank's forecasts.
Sale of Goods and Services	24,700	23,000	8,200	Revenue from the sale of prepaid Maui gas. Reason for Change: The change between years reflects the forecast profile of sales.
Unclaimed Money	500	500	500	Unclaimed money deposited with the Crown.
Total Non-Tax Revenue	2,925,605	2,936,130	2,922,796	
Capital Receipts				
Contact Energy Limited Crown Margin	55,802	55,802	50,308	Capital portion of the revenue from the Maui take-or-pay agreement with CEL for the supply of gas. Reason for Change: The change between years reflects the forecast profile of sales.
Loan Repayments by ONTRACK	-	-	500	Loan repayments by NZRC. Reason for Change: Repayments commence in 2006/07.
Return of Capital by the IMF	313,000	313,000	200,000	New Zealand contributes to the IMF's medium-term lending programme (see Part B1, Capital Expenditure) by increasing its capital investment in the IMF. When the loans are repaid, the funds are returned to contributing countries. Reason for Change: The timing of repayments is highly variable.
Sale of Physical Assets	36,700	36,700	-	Revenue from the sale of physical assets. Reason for Change: This item is not forecast. In 2005/06, various rail assets were transferred to NZRC.
Total Capital Receipts	405,502	405,502	250,808	
Total Crown Revenue and Receipts	3,331,107	3,341,632	3,173,604	