

Additional Information

The following information forms part of the Half Year Economic and Fiscal Update 2006 (HYEFU), released by the Treasury on 19 December 2006. This information provides users of the *HYEFU* with further detail and should be read in conjunction with the published document. The information contains:

- Detailed economic forecast information – these tables provide some more detailed breakdowns of the economic forecasts
- Additional fiscal indicators – explanations of additional indicators such as the OBERAC (including a history series back to 1997) and estimates of the cyclically-adjusted fiscal balance and fiscal impulse
- Core Crown reconciliations – additional core Crown information including a reconciliation of the operating balance to net core Crown debt and core Crown net cash flows from operations to the operating balance
- Tax tables – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts
- Contingent liabilities – write-ups of the nature of each item in the tables outlined in the *HYEFU* Specific Fiscal Risks chapter
- Crown accounting policies – outline of the specific Crown accounting policies and forecast assumptions. The published GAAP tables only provide a summary.

Detailed Economic Forecast Information

The following tables provide additional detail on the economic forecasts presented in the *Half Year Economic and Fiscal Update*.

Table 1: Real Gross Domestic Product

Chain-volume series expressed in 1995/96 prices

	Actual			Seasonally Adjusted	
	\$ million	Annual % change	Annual Average % change	\$million	Quarterly % change
2004Q1	30,414	5.0	3.8	30,606	1.6
2004Q2	29,934	5.3	4.3	30,785	0.6
2004Q3	30,545	4.1	4.4	30,961	0.6
2004Q4	32,565	3.2	4.4	31,105	0.5
2005Q1	31,081	2.2	3.7	31,262	0.5
2005Q2	30,737	2.7	3.1	31,613	1.1
2005Q3	31,258	2.3	2.6	31,676	0.2
2005Q4	33,131	1.7	2.2	31,660	-0.1
2006Q1	31,720	2.1	2.2	31,898	0.8
2006Q2	31,162	1.4	1.9	32,047	0.5
2006Q3	31,814	1.8	1.7	32,239	0.6
2006Q4	33,872	2.2	1.9	32,368	0.4
2007Q1	32,343	2.0	1.8	32,524	0.5
2007Q2	31,766	1.9	2.0	32,668	0.4
2007Q3	32,470	2.1	2.1	32,904	0.7
2007Q4	34,684	2.4	2.1	33,144	0.7
2008Q1	33,228	2.7	2.3	33,415	0.8
2008Q2	32,766	3.1	2.6	33,697	0.8
2008Q3	33,517	3.2	2.9	33,965	0.8
2008Q4	35,809	3.2	3.1	34,219	0.7
2009Q1	34,290	3.2	3.2	34,483	0.8
2009Q2	33,787	3.1	3.2	34,747	0.8
2009Q3	34,554	3.1	3.2	35,016	0.8
2009Q4	36,926	3.1	3.1	35,287	0.8
2010Q1	35,358	3.1	3.1	35,556	0.8
2010Q2	34,834	3.1	3.1	35,823	0.8
2010Q3	35,610	3.1	3.1	36,086	0.7
2010Q4	38,037	3.0	3.1	36,348	0.7
2011Q1	36,402	3.0	3.0	36,607	0.7
2011Q2	35,845	2.9	3.0	36,863	0.7

Source: Statistics New Zealand, The Treasury

Table 2: Consumer Price Index

Base: June 1999 quarter (=1000)

	Index	Quarterly % change	Annual % change
2004Q1	928	0.4	1.5
2004Q2	935	0.8	2.4
2004Q3	941	0.6	2.5
2004Q4	949	0.9	2.7
2005Q1	953	0.4	2.8
2005Q2	962	0.9	2.8
2005Q3	973	1.1	3.4
2005Q4	979	0.7	3.2
2006Q1	985	0.6	3.3
2006Q2	1000	1.5	4.0
2006Q3	1007	0.7	3.5
2006Q4	1006	-0.1	2.7
2007Q1	1013	0.7	2.8
2007Q2	1019	0.6	1.9
2007Q3	1026	0.7	1.9
2007Q4	1034	0.8	2.8
2008Q1	1041	0.7	2.7
2008Q2	1046	0.5	2.7
2008Q3	1051	0.5	2.5
2008Q4	1056	0.5	2.2
2009Q1	1061	0.5	2.0
2009Q2	1067	0.5	1.9
2009Q3	1072	0.5	1.9
2009Q4	1077	0.5	1.9
2010Q1	1082	0.5	2.0
2010Q2	1088	0.5	2.0
2010Q3	1093	0.5	2.0
2010Q4	1099	0.5	2.0
2011Q1	1104	0.5	2.0
2011Q2	1110	0.5	2.0

Source: Statistics New Zealand, The Treasury

Table 3: Gross Domestic Expenditure and Income

March Year	2006			2007			2008			2009			2010			2011		
	Actual	%vol	%pr	Estimate	%vol	%pr	Forecast	%vol	%pr	Forecast	%vol	%pr	Forecast	%vol	%pr	Forecast		
	\$ mill			\$ mill			\$ mill			\$ mill			\$ mill			\$ mill		
Consumption:																		
- Private	93,218	1.6	2.6	97,157	1.6	2.4	101,089	1.0	2.4	104,523	1.3	2.0	107,995	1.5	2.0	111,890		
- Public	28,516	4.7	3.5	30,907	3.0	3.0	32,784	3.9	2.4	34,888	3.4	2.4	36,935	4.0	2.4	39,348		
Gross Fixed Capital Formation:																		
- Residential	10,399	-5.1	3.6	10,225	0.0	2.0	10,431	3.5	1.8	10,998	2.6	1.4	11,437	0.3	1.6	11,655		
- Market *	23,539	-6.4	0.5	22,135	-1.2	1.1	22,085	4.4	2.5	23,638	5.8	1.8	25,479	5.7	1.9	27,436		
- Non-market **	3,196	6.2	3.2	3,506	1.6	2.4	3,648	2.0	2.0	3,796	2.0	2.0	3,951	2.0	2.0	4,112		
- Total all sectors	37,136	-5.1	1.8	35,884	-0.7	1.6	36,184	4.0	2.2	38,451	4.8	1.4	40,886	4.3	1.4	43,222		
Change in Stocks	1,073			-108			410			633			764			1,001		
Gross National Expenditure	159,943	-0.8	2.8	163,167	-0.3	5.9	171,868	1.3	4.2	180,717	2.0	2.9	189,316	1.8	3.4	198,730		
Exports	43,290	3.6	6.6	47,763	1.4	5.2	50,939	4.1	4.8	55,561	4.6	3.7	60,265	4.0	3.0	64,589		
Imports	47,469	-2.6	9.6	50,705	0.9	4.7	53,619	2.1	3.8	56,857	3.2	3.5	60,775	3.4	3.2	64,842		
Expenditure on GDP	155,764	1.8	1.5	160,897	2.2	2.0	167,787	3.2	2.4	177,199	3.1	1.9	186,070	3.0	1.9	195,207		
Statistical Discrepancy	-532			-532			-532			-532			-532			-532		
Gross Domestic Product	155,232			160,365			167,255			176,667			185,538			194,675		
Compensation of employees	67,608		6.5	71,987		3.3	74,348		4.4	77,617		4.9	81,427		5.1	85,552		
Operating Surplus, net:																		
- Agriculture	4,354		14.0	4,964		7.0	5,311		9.0	5,789		8.0	6,252		4.0	6,502		
- Other	42,451		-4.4	40,599		5.3	42,754		8.2	46,278		5.1	48,648		4.8	50,997		
- Total all sectors	46,805		-2.7	45,563		5.5	48,065		8.3	52,067		5.4	54,900		4.7	57,500		
Consumption of fixed capital	20,838		5.0	21,880		5.0	22,974		5.2	24,169		5.4	25,474		5.5	26,875		
Indirect Taxes	20,481		4.7	21,435		4.4	22,367		4.2	23,313		4.0	24,237		4.2	25,248		
Less subsidies	500		0.0	500		0.0	500		0.0	500		0.0	500		0.0	500		
Gross Domestic Product	155,232		3.3	160,365		4.3	167,255		5.6	176,667		5.0	185,538		4.9	194,675		

* Includes Local Government and Non-profit Organisations

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

Source: Statistics New Zealand, The Treasury

Tables 4 & 5: Labour Market Indicators

Annual Average Percentage Change						
March Year	2006	2007	2008	2009	2010	2011
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
Real GDP (production basis)	2.2	1.8	2.3	3.2	3.1	3.0
Working Age Population	1.3	1.4	1.4	1.3	1.2	1.1
Labour Force	2.5	1.8	0.9	1.0	1.2	1.4
Employment - Full Time Equivalents*	2.7	1.9	-0.2	0.8	1.3	1.5
Labour Productivity*	0.1	-0.4	1.3	2.8	1.9	1.6
Labour Productivity**	0.1	1.3	2.6	2.5	1.7	1.4
CPI (annual percentage change)	3.3	2.8	2.7	2.0	2.0	2.0
Average Ordinary Time Hourly Wages	4.7	4.8	3.9	3.7	3.4	3.4
Average Weekly Earnings	3.7	4.7	3.2	3.4	3.5	3.5
Real Wages	1.4	1.5	1.5	1.4	1.5	1.3
Compensation of Employees	6.8	6.7	3.0	4.2	5.2	5.1
Unit Labour Costs (Hours worked basis)	4.6	3.5	1.2	1.1	1.7	2.0
Real Unit Labour Costs	1.4	0.2	-1.0	-1.2	-0.2	0.0

* Full time equivalent basis

** Hours worked basis

Source: Statistics New Zealand, The Treasury

Number (000's)						
As at March Quarter	2006	2007	2008	2009	2010	2011
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
Total Population	4,134	4,173	4,213	4,251	4,287	4,323
Natural Increase	31	26	28	27	27	26
Net Migration	10	14	12	11	10	10
Annual Change	41	39	40	38	37	36
Working Age Population	3,203	3,246	3,289	3,330	3,368	3,406
Annual Change	43	43	43	40	39	37
Not in the labour force	1,000	1,030	1,047	1,063	1,073	1,079
Annual Change	-16	31	17	16	10	6
Labour Force	2,203	2,216	2,242	2,267	2,296	2,327
Annual Change	59	12	26	25	29	31
Total Employment	2,108	2,118	2,126	2,152	2,185	2,217
Annual Change	53	10	8	26	33	32
Unemployment	95	98	118	116	112	111
Annual Change	6	3	20	-2	-4	-1
Participation Rate (%sa)	68.5	68	67.9	67.8	67.9	68.1
Unemployment Rate (%sa)	3.9	4.0	4.8	4.6	4.4	4.3

Source: Statistics New Zealand, The Treasury

Table 6: Current Account

\$NZ Million							Percent of Nominal GDP					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Year ended March	Actual	Estimate	Forecast	Forecast	Forecast	Forecast	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
Exports Goods	31,485	35,237	37,491	40,437	43,054	45,239						
<i>annual % Change</i>	1.2	11.9	6.4	7.9	6.5	5.1						
Imports Goods	35,737	38,674	40,753	42,935	45,650	48,534						
<i>annual % Change</i>	7.1	8.2	5.4	5.4	6.3	6.3						
Balance on Goods	-4,252	-3,437	-3,262	-2,499	-2,596	-3,296	-2.7	-2.1	-1.9	-1.4	-1.4	-1.7
Exports Services	11,806	12,559	13,480	15,185	17,285	19,426						
<i>annual % change</i>	-0.3	6.4	7.3	12.7	13.8	12.4						
Imports Services	11,732	12,034	12,865	13,920	15,125	16,308						
<i>annual % change</i>	5.1	2.6	6.9	8.2	8.7	7.8						
Balance on services	74	526	614	1,265	2,160	3,117	0.0	0.3	0.4	0.7	1.2	1.6
Balance on goods & services	-4,178	-2,911	-2,648	-1,234	-436	-178	-2.7	-1.8	-1.6	-0.7	-0.2	-0.1
Int'l investment income and transfers balance	-10,742	-12,065	-12,093	-10,794	-11,230	-12,084	-6.9	-7.5	-7.2	-6.1	-6.0	-6.2
Current account balance	-14,920	-14,976	-14,741	-12,028	-11,666	-12,262	-9.6	-9.3	-8.8	-6.8	-6.3	-6.3

Source: Statistics New Zealand, The Treasury

Table 7: Exports - SNA Basis

March Years	Dairy Products			Meat and Meat Products			Non-Commodity*		
	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn
2003	21.5	-33.5	6,002	4.0	-7.8	4,403	3.4	-6.0	9,845
2004	5.2	-7.7	5,835	7.9	-8.1	4,379	0.9	-6.0	9,340
2005	-9.3	8.9	5,783	3.5	6.8	4,873	8.5	-0.4	10,122
2006	-2.3	6.1	5,993	-2.2	-3.2	4,611	-1.4	2.4	10,235
2007	16.0	1.2	7,042	4.7	6.1	5,107	-1.5	15.2	11,609
2008	-5.1	3.7	6,938	0.5	2.0	5,251	3.8	5.8	12,749
2009	4.2	7.4	7,763	0.8	5.3	5,573	3.8	2.1	13,515
2010	3.1	6.2	8,489	0.6	6.3	5,959	3.9	0.1	14,056
2011	1.4	3.7	8,926	0.4	5.2	6,295	3.6	0.5	14,627

March Years	Total Goods**			Services			Total Exports		
	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn
2003	7.5	-13.3	30,648	8.9	-0.7	11,690	7.8	-10.0	42,338
2004	2.7	-7.6	29,055	-2.5	-1.0	11,292	1.4	-6.0	40,346
2005	4.1	2.8	31,114	2.9	1.9	11,847	3.8	2.5	42,960
2006	0.2	1.0	31,485	-1.3	1.0	11,806	-0.1	0.9	43,290
2007	4.1	7.4	35,237	1.4	4.8	12,559	3.6	6.6	47,763
2008	1.7	4.7	37,491	0.4	6.8	13,480	1.4	5.2	50,939
2009	3.1	4.5	40,437	7.3	5.0	15,185	4.1	4.8	55,561
2010	3.0	3.4	43,054	9.5	4.0	17,285	4.6	3.7	60,265
2011	2.5	2.5	45,239	8.3	3.8	19,426	4.0	3.0	64,589

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

** Note that Statistics NZ withheld data for some components of exports for confidentiality reasons. As a result we have not published the "Wood and Wood Products" and "Other Goods" components of exports that we have published previously.

Table 8: Imports - SNA Basis

March Years	Capital Goods (VFD)			Mineral Fuel* (VFD)			Intermediate Goods** (VFD)			Consumption Goods (VFD)		
	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn
2003	6.0	-12.8	5,669	3.7	-4.5	2,996	6.2	-7.2	13,646	13	-7.6	7621
2004	31.7	-16.6	6,198	0.1	-7.9	2,763	8.5	-9.4	13,412	10.6	-9.2	7649
2005	16.8	-8.9	6,626	13.7	21.6	3,811	10.0	-1.8	14,482	10.9	-4.2	8125
2006	18.4	-6.5	7,336	0.3	37.4	5,253	-1.1	0.6	14,383	8.3	-1.2	8701
2007	-5.9	-4.2	6,611	3.8	29.7	7,074	-6.5	11.8	15,068	4.1	4.7	9482
2008	-2.0	-6.4	6,061	3.2	7.5	7,850	2.5	4.8	16,194	1.9	5.4	10185
2009	4.2	1.9	6,434	2.2	3.9	8,338	2.2	3.3	17,098	2.4	3.2	10767
2010	4.9	2.6	6,926	3.1	3.3	8,878	3.1	2.8	18,124	3.3	2.8	11429
2011	4.8	2.8	7,456	3.1	1.8	9,314	3.1	3.1	19,266	3.6	3	12191

March Years	Total Goods (VFD)			Services			Total		
	%v	%p	\$ mn	%v	%p	\$ mn	%v	%p	\$ mn
2003	6.8	-8.1	29,982	8.5	-9.1	10,112	7.2	-8.3	40,094
2004	13.8	-11.2	30,246	11.4	-11.1	10,009	13.2	-11.2	40,255
2005	12.3	-1.9	33,363	14.1	-2.1	11,168	12.8	-2.0	44,531
2006	5.2	1.9	35,737	4.6	0.4	11,732	5.0	1.5	47,469
2007	-1.9	10.3	38,674	-4.5	7.4	12,034	-2.6	9.6	50,705
2008	0.9	4.4	40,753	0.9	6.0	12,865	0.9	4.7	53,619
2009	2.5	2.8	42,935	0.9	7.3	13,920	2.1	3.8	56,857
2010	3.6	2.6	45,650	1.8	6.7	15,125	3.2	3.5	60,775
2011	3.7	2.5	48,534	2.0	5.7	16,308	3.4	3.2	64,842

* Consists of 'Fuels and Lubricants' and 'Petrol and Aviation Gas'

** Consists of 'Intermediate Goods' excluding 'Fuels and Lubricants' and 'Passenger Cars'

*** Consists of 'Consumption Goods' and 'Passenger Motor Cars'

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

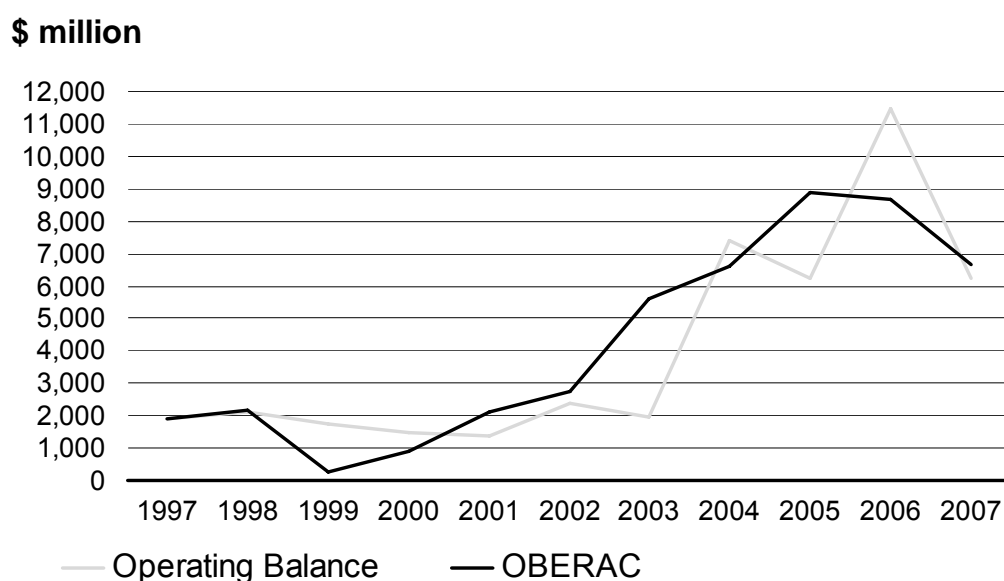
The OBERAC is an additional fiscal indicator that strips out revaluation movements and accounting policy changes (unless the impact is a result of a policy decision) from the operating balance and includes:

- Movement in net present value of liabilities such as the GSF pension liability, ACC outstanding claims liability
- Changes in financial assets and financial liabilities reported at fair value, such as the financial asset portfolio held by NZS Fund
- Revaluation losses on non-financial assets and gains/losses on sale of assets (selling an asset for greater/less than its book value is a terminal revaluation)
- Accounting policy changes that affect the operating balance such as decisions to initially recognise student loans at fair value.

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. These cyclical factors are taken into consideration via estimates of the cyclically-adjusted balance (see next section).

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



Source: The Treasury

Detail of OBERAC calculation

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating Balance	1,908	2,127	1,763	1,503	1,358	2,391	1,966	7,424	6,247	11,473	6,260
Adjustments											
Net GSF pension liability movts	(4)	(233)	429	(201)	164	436	1,752	(508)	1,264	7	131
ACC revaluation	-	-	-	(519)	420	43	1,347	(309)	1,432	706	109
NPF liability movement	-	-	-	-	253	-	197	-	53	54	-
Transpower valuation movts	-	407	14	(54)	59	(64)	-	-	-	-	-
Gain on sale of assets											
Contact	-	-	(1,421)	-	-	-	-	-	-	-	-
Airport companies	-	-	(204)	-	-	-	-	-	-	-	-
Hydro stations	-	-	(195)	-	-	-	-	-	-	(630)	-
Spectrum licences	-	-	-	-	(140)	-	-	-	-	-	-
Other sales (BNZ, TVNZ shares, etc)	-	-	(140)	-	-	-	-	-	-	-	-
Write-downs (eg, Defence)	-	-	-	155	103	-	269	127	-	-	-
(Gains)/losses on marketable securities and deposits	-	(110)	-	-	(102)	-	-	-	-	-	-
EQC asset valuation decreases	-	-	-	-	-	130	49	(105)	111	(373)	-
Maui gas receivable revaluation	-	-	-	-	-	(260)	-	-	-	-	-
Tax revenue accounting change	-	-	-	-	-	-	-	-	-	(1,809)	-
NZSF unrealised gains	-	-	-	-	-	-	-	-	(161)	(854)	(68)
ACC unrealised gains	-	-	-	-	-	-	-	-	(126)	(453)	-
Revaluation losses	-	-	-	-	-	-	-	-	53	(274)	-
Student Loan FV change before po	-	-	-	-	-	-	-	-	-	455	-
Kyoto movement	-	-	-	-	-	-	-	-	-	346	-
Exchange rate movements	-	-	-	-	-	75	-	-	-	-	224
Total adjustments	(4)	64	(1,517)	(619)	757	360	3,614	(795)	2,626	(2,825)	396
OBERAC	1,904	2,191	246	884	2,115	2,751	5,580	6,629	8,873	8,648	6,656

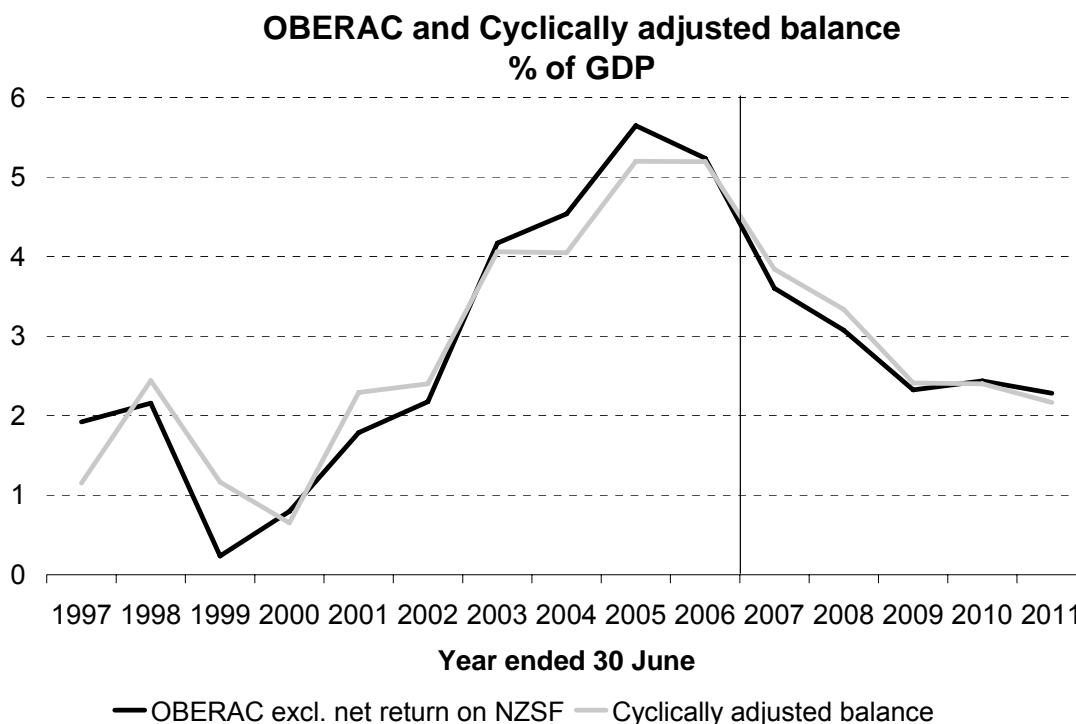
Source: The Treasury

Estimates of the Cyclically-Adjusted Balance and Fiscal Impulse

Cyclically-adjusted balance

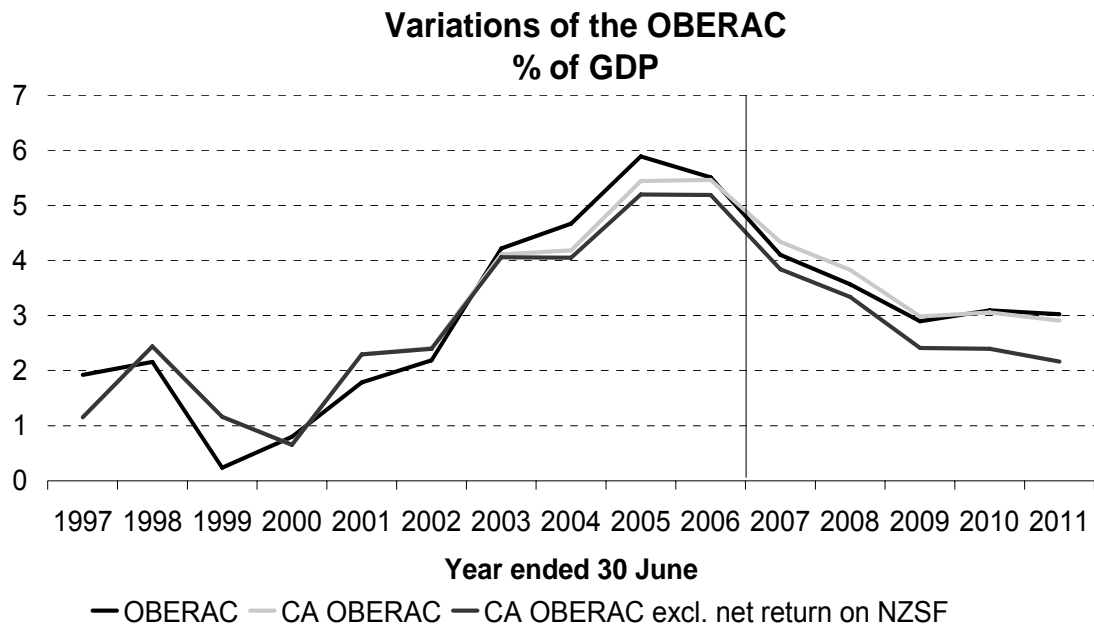
The cyclically-adjusted balance (CAB) provides an estimate of what a particular fiscal balance would be if the economy was operating on trend.¹ The adjustment also incorporates estimates of the responsiveness of different tax types and unemployment to changes in real output. No adjustments are made for prices being above or below trend levels. Because it is based on a number of assumptions and is sensitive to new information, the estimate is subject to some uncertainty.

The graph below shows that the cyclically-adjusted OBERAC (excluding the net return on the NZSF) has been a little below the actual OBERAC (excluding the net return on the NZSF) over the past few years. This pattern is expected to reverse over the forecast period as actual output is forecast to move below trend output.



Source: The Treasury

¹ Trend output is estimated using a Hodrick-Prescott (HP) filter.

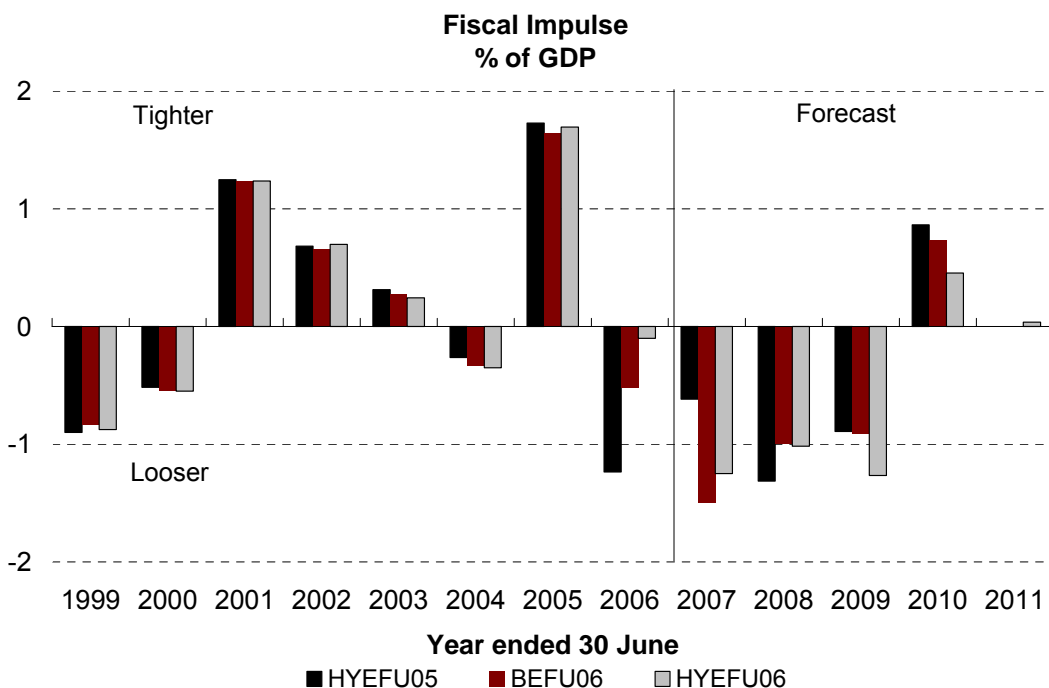
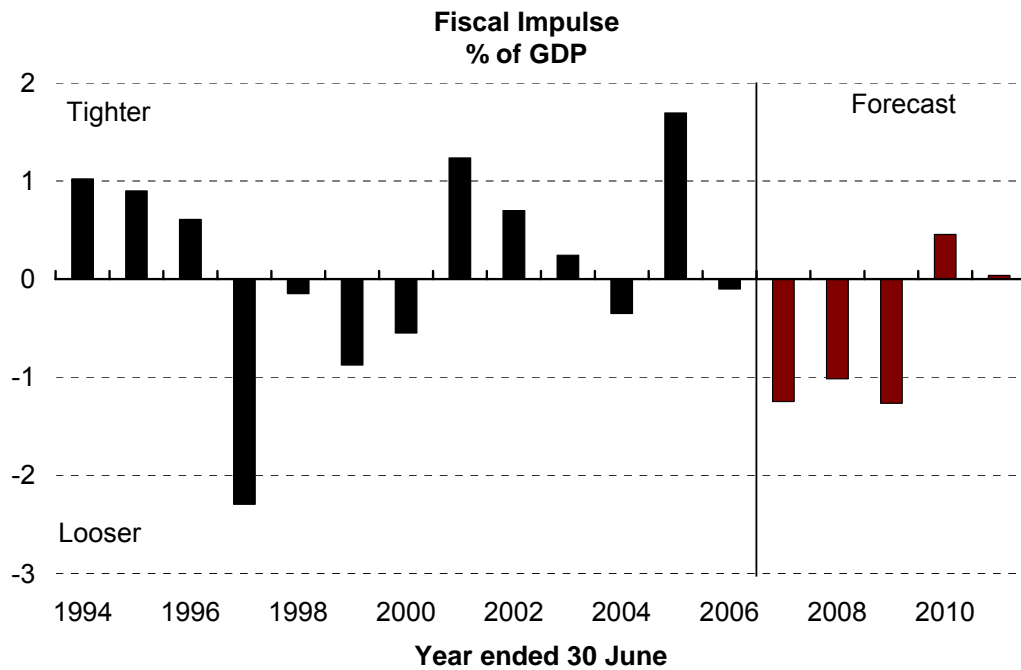


Source: The Treasury

Fiscal impulse

Fiscal impulse is a measure of whether changes in fiscal policy are adding to, or subtracting from, aggregate demand pressures in the economy. To better capture discretionary fiscal policy, the focus is on the core Crown with cyclical influences (i.e., so-called automatic fiscal stabilisers) and net interest payments removed. To better capture the role of capital spending the indicator is derived from cash flow information. The indicator incorporates judgments about which components capital spending are likely to affect aggregate demand. Fiscal impulse is calculated as the change in a cyclically-adjusted primary cash balance. Although the trends are similar, this balance is not the same as the cyclically-adjusted balance above. In the graphs below, a positive fiscal impulse represents a tightening of policy relative to the previous year. Although it is cash-based, the fiscal impulse does not match the change in reported fiscal indicators such as “residual cash” due to cyclical-adjustments and because selected items of capital are excluded from the calculations.

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).



Source: The Treasury

Ex post estimates of fiscal impulse can differ from the *ex ante* estimate because of revisions to the cyclically-adjusted component of the fiscal balance and the implementation of spending plans (both operating and capital). For example, the estimated impulse for 2006 for this update differs from that published in the *Budget Update*. This estimate could again change as new information alters the view of cyclical developments. As shown in the above graph, the revisions tend to reduce as time passes. The forecasts of fiscal impulse can and do change between economic and fiscal updates. For example, the 2005 *Half-year Update*, the 2006 *Budget Update*, and this update all show expansionary impulses over 2007 to 2009. However, at this update the estimate of fiscal impulse for the year ending 2007 is slightly smaller than at the Budget,

and larger for the year ending 2009 (in part because the Budget 2008 allocation is \$1 billion higher than indicated in the 2006 *Fiscal Strategy Report*).

Furthermore, a measure of discretionary fiscal policy changes does not provide a complete account of the overall impact of fiscal policy because it excludes the effect of automatic stabilisers and net interest payments. For the 2007 to 2009 fiscal years both approaches yield expansionary fiscal impulses, averaging just over one percent of GDP.

Treasury's approach to estimating cyclically-adjusted fiscal balances and fiscal impulses is set out in Treasury Working Papers 01/10 and 02/30. The 2002 *December Update* discussed some of the alternative techniques used to estimate trend output (see pages 38 - 40). The approaches used to calculate the cyclically-adjusted fiscal balance and fiscal impulse will be reviewed over 2006/07.

Summary table

Year Ended 30 June (% of GDP)	OBERAC (excl. net return on NZSF)	Cyclically-adjusted OBERAC (excl. net return on NZSF)	Fiscal Impulse
1996	3.1	2.5	0.6
1997	1.9	1.2	-2.3
1998	2.2	2.4	-0.1
1999	0.2	1.2	-0.9
2000	0.8	0.7	-0.5
2001	1.8	2.3	1.2
2002	2.2	2.4	0.7
2003	4.2	4.1	0.2
2004	4.5	4.0	-0.4
2005	5.6	5.2	1.7
2006	5.2	5.2	-0.1
2007	3.6	3.8	-1.2
2008	3.1	3.3	-1.0
2009	2.3	2.4	-1.3
2010	2.4	2.4	0.5
2011	2.3	2.2	0.0

Source: The Treasury

Reconciliation of Operating Balance to Net Crown Debt

(\$ million)	2006 Actual	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast
Operating balance	11,473	6,260	6,071	5,197	5,826	5,979
Add/(less) valuation items	(2,825)	396	-	-	-	-
OBERAC	8,648	6,656	6,071	5,197	5,826	5,979
Less NZS Fund contributions	(2,337)	(2,049)	(2,133)	(2,326)	(2,459)	(2,576)
Less after-tax income of the NZS Fund	(969)	(743)	(840)	(1,027)	(1,238)	(1,468)
Available after NZS Fund requirements	5,342	3,864	3,098	1,844	2,129	1,935
Decrease/(increase in net debt)	4,433	1,363	459	(1,264)	(510)	172
Difference	(909)	(2,501)	(2,639)	(3,108)	(2,639)	(1,763)
This difference comprises:						
<i>Non-cash elements of the OBERAC:</i>						
SOE/CE retained surplus net of						
dividends (excluding valuation issues)	(1,833)	(1,536)	(1,731)	(1,779)	(1,634)	(1,563)
Depreciation	1,066	1,210	1,295	1,330	1,356	1,472
Pension liabilities movement	279	299	45	(16)	(97)	(153)
Amortisation of Goodwill	47	47	47	47	47	47
Student loan influences	1,671	823	525	553	578	603
<i>Cash elements not in the OBERAC:</i>						
Issue of circulating currency	165	69	34	35	35	35
Net purchase of physical assets						
including capital contingency provision	(1,826)	(2,319)	(1,787)	(1,430)	(1,739)	(1,260)
Net capital injections	(389)	(1,142)	(1,051)	(720)	(674)	(683)
Other movements	(89)	48	(16)	(1,128)	(511)	(261)
	(909)	(2,501)	(2,639)	(3,108)	(2,639)	(1,763)

Source: The Treasury

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

	2006 Actuals	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast
Reconciliation Between the Net Cash Flows Balance						
Net Cash Flows from Operations	8,859	6,607	4,813	2,864	4,049	4,245
<i>Items included in the operating balance but not in net cash flows from operations</i>						
Valuation changes						
(Increase)/decrease in pension liabilities	(279)	(299)	(45)	16	97	153
National Provident Fund guarantee	(54)	-	-	-	-	-
Revaluation of commercial forests	15	-	-	-	-	-
Total valuation changes	(318)	(299)	(45)	16	97	153
Property, plant & equipment asset movements						
Depreciation	(1,066)	(1,210)	(1,295)	(1,330)	(1,356)	(1,472)
Total property, plant & equipment movements	(1,066)	(1,210)	(1,295)	(1,330)	(1,356)	(1,472)
Other Non-cash Items						
Student loans	(1,671)	(823)	(525)	(553)	(578)	(603)
Amortisation of goodwill	(47)	(47)	(47)	(47)	(47)	(47)
Accrued income on NZS Fund	969	743	840	1,027	1,238	1,468
Total Other Non-cash Items	(749)	(127)	268	427	613	818
Total other investing and financing items	368	294	196	199	203	204
Movements in Working Capital						
(Decrease)/increase in other receivables	3,290	3	123	777	110	46
Increase/(decrease) in inventories	34	6	21	46	10	4
Decrease/(increase) in payables	(1,148)	(217)	259	419	466	418
Total movements in working capital	2,176	(208)	403	1,242	586	468
Operating Balance	9,270	5,057	4,340	3,418	4,192	4,416

Source: The Treasury

Tax Revenue Tables

Table 1 – Treasury and Inland Revenue forecasts of tax revenue

(\$ million)	2005/06	2006/07		2007/08		2008/09		2009/10		2010/11	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
		Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct Tax											
Individuals											
PAYE	19,225	20,566	20,580	21,404	21,510	22,354	22,475	23,668	23,890	24,980	25,250
Other persons tax	4,940	4,477	4,565	4,506	4,628	4,681	4,695	4,984	4,992	5,229	5,229
Refunds	(953)	(1,039)	(1,130)	(1,047)	(1,160)	(1,045)	(1,175)	(1,049)	(1,190)	(1,072)	(1,185)
Fringe benefit tax	450	443	449	465	465	486	479	513	502	534	532
Subtotal: Individuals	23,662	24,447	24,464	25,328	25,443	26,476	26,474	28,116	28,194	29,671	29,826
Company Tax (net)	9,797	8,440	8,452	8,594	9,212	9,260	10,012	10,203	10,295	10,685	10,804
Withholding taxes on:											
Resident interest income	1,879	2,115	2,141	2,189	2,227	2,142	2,176	2,090	2,230	2,141	2,297
Non-resident income	1,096	1,178	1,261	1,115	1,159	1,183	1,243	1,240	1,305	1,296	1,357
Super fund contributions	711	665	725	736	750	767	783	812	820	858	860
Foreign-source dividends	160	168	171	173	183	178	195	183	207	188	217
Resident dividend income	74	81	72	86	77	88	82	90	86	92	90
Subtotal: Withholding Tax	3,920	4,207	4,370	4,299	4,396	4,358	4,479	4,415	4,648	4,575	4,821
Total Income Tax	37,379	37,094	37,286	38,221	39,051	40,094	40,965	42,734	43,137	44,931	45,451
Other: Estate and gift duties	3	2	2	2	2	2	2	2	2	2	2
Total Direct Tax	37,382	37,096	37,288	38,223	39,053	40,096	40,967	42,736	43,139	44,933	45,453
Indirect Tax											
GST											
GST (Customs)	5,079	5,456	5,441	5,688	5,750	6,001	6,067	6,389	6,444	6,781	6,853
GST (IRD)	9,054	9,273	9,223	9,775	9,557	10,099	9,957	10,344	10,207	10,636	10,539
Subtotal: GST	14,133	14,729	14,664	15,463	15,307	16,100	16,024	16,733	16,651	17,417	17,392
Excise duties on:											
Alcoholic drinks	516	544	532	565	545	586	556	604	567	622	579
Tobacco products ¹	834	246	261	150	153	152	153	154	158	155	161
Petroleum fuels	852	893	870	906	890	920	900	930	915	940	925
Subtotal: Excise Duties	2,202	1,683	1,663	1,621	1,588	1,658	1,609	1,688	1,640	1,717	1,665
Other Indirect Tax											
Customs duty	1,083	1,724	1,783	1,842	1,891	1,819	1,889	1,830	1,918	1,868	1,957
Road user charges	731	772	765	819	805	877	855	932	905	988	955
Gaming duties	301	269	276	260	275	261	282	262	287	262	290
Motor vehicle fees	221	224	225	229	230	238	240	245	245	250	250
Approved issuer levy	75	75	84	71	78	71	75	71	77	71	79
Exhaustible resource levy	73	69	67	66	64	64	60	61	57	64	54
Cheque duty	8	8	7	8	7	8	6	8	6	8	5
Subtotal: Other Indirect Tax	2,492	3,141	3,207	3,295	3,350	3,338	3,407	3,409	3,495	3,511	3,590
Total Indirect Tax	18,827	19,553	19,534	20,379	20,245	21,096	21,040	21,830	21,786	22,645	22,647
Total Tax	56,209	56,649	56,822	58,602	59,298	61,192	62,007	64,566	64,925	67,578	68,100
Tax-to-GDP	35.7%	34.8%	34.9%	34.3%	34.8%	34.0%	34.5%	34.2%	34.4%	34.1%	34.4%
Core Crown Eliminations	These are removed from Total Tax to derive Core Crown taxation.										
Core Crown income tax	209	387	387	399	399	477	477	563	563	659	659
GST on departmental outputs	1,054	1,142	1,142	1,173	1,173	1,169	1,169	1,164	1,164	1,167	1,167
GST on Crown expenses	2,502	2,878	2,878	3,109	3,109	3,313	3,313	3,670	3,670	3,804	3,804
Core Crown Taxation	52,444	52,242	52,415	53,921	54,617	56,233	57,048	59,169	59,528	61,948	62,470
Tax-to-GDP	33.3%	32.1%	32.2%	31.6%	32.0%	31.3%	31.7%	31.3%	31.5%	31.3%	31.5%
Total Crown Eliminations	These are removed from Core Crown taxation to derive Total Crown taxation.										
Income tax from SOEs and CE	445	494	494	536	536	594	594	613	613	677	677
Lottery duty	26	39	39	41	41	43	43	44	44	46	46
Total Crown Taxation	51,973	51,709	51,882	53,344	54,040	55,596	56,411	58,512	58,871	61,225	61,747
Tax-to-GDP	33.0%	31.8%	31.9%	31.3%	31.7%	30.9%	31.4%	31.0%	31.2%	30.9%	31.2%
GDP	157,332	162,667	162,667	170,633	170,633	179,817	179,817	188,764	188,764	198,068	198,068

Sources: Inland Revenue, The Treasury

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

(\$ million)	2005/06	2006/07		2007/08		2008/09		2009/10		2010/11	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
		Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct Tax											
Individuals											
PAYE	19,187	20,554	20,580	21,404	21,510	22,354	22,475	23,668	23,890	24,980	25,250
Other persons tax	4,883	5,189	5,205	5,324	5,290	5,421	5,375	5,823	5,670	6,053	5,915
Refunds	(1,503)	(1,776)	(1,805)	(1,920)	(1,880)	(1,927)	(1,895)	(1,930)	(1,910)	(1,940)	(1,915)
Fringe benefit tax	450	450	445	460	465	482	482	503	503	527	527
Subtotal: Individuals	23,017	24,417	24,425	25,268	25,385	26,330	26,437	28,064	28,153	29,620	29,777
Company Tax (net)	8,444	8,293	8,174	8,517	9,010	8,615	9,192	10,140	10,132	10,622	10,626
Withholding taxes on:											
Resident interest income	1,862	2,111	2,141	2,190	2,227	2,143	2,176	2,091	2,230	2,142	2,297
Non-resident income	1,093	1,128	1,261	1,115	1,159	1,183	1,243	1,240	1,305	1,296	1,357
Super fund contributions	710	677	725	736	750	767	783	812	820	858	860
Foreign-source dividends	157	169	171	173	183	178	195	183	207	188	217
Resident dividend income	74	81	72	86	77	88	82	90	86	92	90
Subtotal: Withholding Tax	3,896	4,166	4,370	4,300	4,396	4,359	4,479	4,416	4,648	4,576	4,821
Total Income Tax	35,357	36,876	36,969	38,085	38,791	39,304	40,108	42,620	42,933	44,818	45,224
Other: Estate and gift duties	2	2	2	2	2	2	2	2	2	2	2
Total Direct Tax	35,359	36,878	36,971	38,087	38,793	39,306	40,110	42,622	42,935	44,820	45,226
Indirect Tax											
GST											
GST (Customs)	5,014	5,410	5,441	5,690	5,750	6,003	6,067	6,391	6,444	6,783	6,853
GST (IRD)	9,031	9,317	9,223	9,775	9,557	10,099	9,957	10,344	10,207	10,636	10,539
Subtotal: GST	14,045	14,727	14,664	15,465	15,307	16,102	16,024	16,735	16,651	17,419	17,392
Excise duties on:											
Alcoholic drinks	514	544	532	565	545	586	556	604	567	622	579
Tobacco products	842	246	261	150	153	152	153	154	158	155	161
Petroleum fuels	847	893	870	906	890	920	900	930	915	940	925
Subtotal: Excise Duties	2,203	1,683	1,663	1,621	1,588	1,658	1,609	1,688	1,640	1,717	1,665
Other Indirect Tax											
Customs duty	1,074	1,724	1,783	1,842	1,891	1,819	1,889	1,830	1,918	1,868	1,957
Road user charges	721	772	765	819	805	877	855	932	905	988	955
Gaming duties	301	269	276	260	275	261	282	262	287	262	290
Motor vehicle fees	199	224	225	229	230	238	240	245	245	250	250
Approved issuer levy	72	75	84	71	78	71	75	71	77	71	79
Exhaustible resource levy	73	71	67	66	64	64	60	61	57	64	54
Cheque duty	8	8	7	8	7	8	6	8	6	8	5
Subtotal: Other Indirect Tax	2,448	3,143	3,207	3,295	3,350	3,338	3,407	3,409	3,495	3,511	3,590
Total Indirect Tax	18,696	19,553	19,534	20,381	20,245	21,098	21,040	21,832	21,786	22,647	22,647
Total Tax	54,055	56,431	56,505	58,468	59,038	60,404	61,150	64,454	64,721	67,467	67,873
Tax-to-GDP	34.4%	34.7%	34.7%	34.3%	34.6%	33.6%	34.0%	34.1%	34.3%	34.1%	34.3%
Core Crown Eliminations	These are removed from Total Tax to derive Core Crown taxation.										
Core Crown income tax	..	424	424	396	396	474	474	561	561	657	657
GST on departmental outputs	1,056	1,142	1,142	1,173	1,173	1,169	1,169	1,164	1,164	1,167	1,167
GST on Crown expenses	2,500	2,878	2,878	3,109	3,109	3,313	3,313	3,670	3,670	3,804	3,804
Core Crown Taxation	50,499	51,987	52,061	53,790	54,360	55,448	56,194	59,059	59,326	61,839	62,245
Tax-to-GDP	32.1%	32.0%	32.0%	31.5%	31.9%	30.8%	31.3%	31.3%	31.4%	31.2%	31.4%
Total Crown Eliminations	These are removed from Core Crown taxation to derive Total Crown taxation.										
Income tax from SOEs and CEs	765	438	438	475	475	527	527	540	540	587	587
Lottery duty	28	39	39	41	41	43	43	44	44	46	46
Total Crown Taxation	49,706	51,510	51,584	53,274	53,844	54,878	55,624	58,475	58,742	61,206	61,612
Tax-to-GDP	31.6%	31.7%	31.7%	31.2%	31.6%	30.5%	30.9%	31.0%	31.1%	30.9%	31.1%

Sources: Inland Revenue, The Treasury

Contingent Liabilities

The Specific Fiscal Risks chapter in the published 2006 *Half Year Economic and Fiscal Update* includes tables listing quantifiable and unquantified contingent liabilities as at 31 October 2006. Following are the detailed write-ups outlining the nature of the items in the tables in the Specific Fiscal Risks chapter.

Quantifiable Contingent Liabilities

Guarantees and indemnities

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

Cook Islands – Asian Development Bank (ADB) loans

Before 1992, the New Zealand Government guaranteed the Cook Islands' borrowing from the ADB. These guarantees have first call on New Zealand's Official Development Assistance.

\$16 million at 31 October 2006 (\$17 million at 30 June 2006).

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 2006 (\$10 million at 30 June 2006).

Indemnification of touring exhibitions

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

\$250 million at 31 October 2006 (\$250 million at 30 June 2006).

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.

\$105 million at 31 March 2006 (\$87 million at 30 June 2006).

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 2006 (\$10 million at 30 June 2006).

Post Office Bank (PostBank) – guaranteed deposits

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

\$11 million at 31 October 2006 (\$11 million at 30 June 2006).

Guarantees and indemnities of SOEs and Crown entities

\$19 million at 31 October 2006 (\$19 million at 30 June 2006).

Other Guarantees and indemnities

\$1 million at 31 October 2006 (\$1 million at 30 June 2006)

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled capital at 31 October 2006 \$m	Uncalled capital at 30 June 2006 \$m
Asian Development Bank	1,116	1,223
European Bank for Reconstruction and Development	14	15
International Bank for Reconstruction and Development	1,235	1,354

Legal proceedings and disputes

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

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

Health – legal claims

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

\$90 million at 31 October 2006 (\$90 million at 30 June 2006).

Tax in dispute

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

\$827 million at 31 October 2006 (\$784 million at 30 June 2006).

Other legal claims against SOEs and Crown entities

\$3 million at 31 October 2006 (\$25 million at 30 June 2006).

Other legal claims

\$93 million at 31 October 2006 (\$133 million at 30 June 2006).

Other quantifiable contingent liabilities

International finance organisations

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

	31 October 2006 \$m	30 June 2006 \$m
IMF	1,860	1,806

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 2006 (\$67 million at 30 June 2006).

Social Development – claim for judicial review

Claim for Judicial Review of Ministry's interpretation and application of Special Benefit Direction. Proceeding is brought representatively - on behalf of all applicants for Special Benefit from 12 December 2000 to date, who have been declined special benefit for reasons of "no special or unusual circumstances".

\$71 million at 31 October 2006 (\$67 million at 30 June 2006)

Transpower New Zealand Limited – other quantifiable contingent liabilities

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

\$98 million at 31 October 2006 (\$99 million at 30 June 2006).

Other quantified contingent liabilities of SOEs and Crown entities

\$37 million at 31 October 2006 (\$38 million at 30 June 2006).

Other quantifiable contingent liabilities

\$22 million at 31 October 2006 (\$26 million at 30 June 2006).

Unquantifiable Contingent Liabilities

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

Guarantees and indemnities

Asure New Zealand Limited

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

At Work Insurance Limited

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

Auckland Rail lease

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

Bona Vacantia property

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

Building Industry Authority

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

Crown Research Institutes (CRIs)

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

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

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

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

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

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

District Health Boards – director indemnity - (DHBs)

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

Earthquake Commission (EQC)

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

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy, or royalty imposed on ECNZ for the use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The Agreement also provides for compensation for any net costs to ECNZ arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is now longer liable to ECNZ in respect of those assets transferred to it from ECNZ. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited.

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

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

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

Ministry of Fisheries – indemnity provided for delivery of registry services

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

Genesis Power Ltd (Genesis Energy)

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

Geothermal carbon tax indemnity

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

Housing New Zealand Corporation (HNZC)

HNZC is liable to the owners (ANZ National Bank Limited, Ichthus Limited and Westpac Banking Corporation) of mortgages sold by HNZC during 1992 to 1999 for credit losses they may incur from specified limited aspects of their ownership of those mortgages with the Crown standing behind this obligation.

HCNZ has provided a Lender's Mortgage Insurance Indemnity under a Mortgage Guarantee Scheme. 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. HNZC ceased providing mortgage guarantees from 1 November 1991.

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.

The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL) (HNZL was incorporated into the HNZC group as a subsidiary in 2001 as part of a legislated consolidation of government housing functions)

and has indemnified HNZN against any breach of this warranty. In addition, the Crown has indemnified HNZN 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 HNZN against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Indemnities against acts of war and terrorism

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

Maui Partners

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

National Provident Fund

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

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

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

New Zealand Railways Corporation

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

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

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 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)

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

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

State Insurance and Rural Bank – tax liabilities

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

Synfuels – Waitara Outfall Indemnity

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

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

Tainui Corporation

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

Toll NZ Ltd – purchase of rail network assets

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

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

Works Civil Construction

The Crown has provided an indemnity to the purchasers of Works Civil Construction in relation to the activities of the Ministry of Works and Development prior to 1 April 1989. In addition, an indemnity has been provided against certain costs, claims or damages in relation to the Clyde and Ohaaki power projects.

Works Consultancy Services

The Crown has provided an indemnity to the purchasers of Works Consultancy Services in relation to the activities of the Ministry of Works and Development prior to 1 April 1989.

Other unquantifiable contingent liabilities

Abuse claims

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

Accident Compensation Corporation (ACC) litigations

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

A particular issue before the courts is access of ACC claimants to lump sum compensation for asbestos related illnesses. On 3 June 2005 the High Court overturned a decision by the District Court made in 2004 that had upheld an interpretation that a lump sum payment was required to be paid in respect of one claimant. Leave to appeal this decision to the Court of Appeal has been granted to the claimant.

If the Court of Appeal overturns the decision made in the High Court, ACC could be exposed to substantial future liability in respect of claims for asbestosis and possibly other illnesses listed under Schedule 2 of the Injury Prevention Rehabilitation and Compensation Act 2001.

Environmental Liabilities

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

During 2002/03 departments managing significant Crown properties undertook exercises to establish the nature and quantity of any contaminated sites. These exercises continued into the 2004/05 year. Where appropriate, departmental systems have been implemented to identify, monitor and assess potential contaminated sites.

In accordance with FRS 15: Provisions, Contingent Liabilities and Contingent Assets any contaminated sites for which costs can be reliably measured have been included in the Statement of Financial Position as provisions.

Rugby World Cup 2011

The Crown has agreed in joint venture arrangements with the New Zealand Rugby Union to an uncapped underwrite of the costs of hosting the 2011 Rugby World Cup, on a loss sharing basis (Crown 67%, NZRU 33%). A provision for the forecast losses has been made in the Crown financial statements.

The Crown has agreed to reimburse New Zealand income tax that might be incurred by the joint venture entity (Rugby New Zealand 2011 Limited) or the NZRU in relation to the joint venture entity, and has also agreed to reimburse the NZRU for New Zealand withholding tax that might be incurred on certain payments made in relation to the tournament.

The Crown has further agreed to review its level of support to the tournament if the actual tax revenue arising from the tournament exceeds forecasts.

Sale of Crown assets

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

Treaty of Waitangi claims

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

Settlement relativity payments

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

Other contingencies

Foreshore and seabed

The Foreshore and Seabed Act 2004 (FSA):

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

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

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

Accounting Policies and Forecast Assumptions

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

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

Basis of combination

Ministers of the Crown, departments, Offices of Parliament, the Reserve Bank of New Zealand, the GSF, the NZS Fund, SOEs (including Air New Zealand Limited) and Crown entities (excluding TEIs) are combined using the purchase method of combination. Corresponding assets, liabilities, revenues and expenses are added together line by line. Transactions and balances between these sub-entities are eliminated on combination.

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

Page 62 of the 30 June 2006 Crown financial statement outlines in more detail why there is a difference in the accounting treatment of TEIs from other Crown entities.

Revenue

Revenue levied through the Crown's sovereign power

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

Such revenue is received through the exercise of the Crown's sovereign power. Where possible, revenue is recognised at the time the debt to the Crown arises.

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

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

Revenue earned through operations

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

Investment income

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

Premiums and discounts

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

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

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

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

Gains

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

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

Forecasts of foreign-currency monetary assets and liabilities for the year ending 30 June 2007 and the other forecast periods use the exchange rates prevailing on 30 September 2006. As a consequence, no realised or unrealised exchange gains are forecast for the entire forecast period

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

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

The 30 June 2007 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 2006 and any additional valuations that have occurred up to 30 September 2006.

The value of property, plant and equipment for the other forecast periods is forecast using the same valuation as that used for the 30 June 2007 forecasts. As a consequence, no realised or unrealised gains are forecast for the entire forecast period.

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

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

All investments and marketable securities and deposits held for investment that are forecast to be held after the forecast finalisation date are assumed to be held to maturity. The investment income forecast of these financial asset portfolios held by the Crown are based on long run rate of return assumptions appropriate to the forecast portfolio mix.

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits

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

Grants and subsidies

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

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

Discounts and premiums

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

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

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

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

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

Losses

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

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

The 30 June 2007 forecasts for foreign-currency monetary assets and liabilities use the exchange rates prevailing on 30 September 2006.

Forecasts of foreign-currency monetary assets and liabilities for the other forecast periods are based on the exchange rates used for the 30 June 2007 forecast. As a consequence, no realised or unrealised exchange losses are forecast for these years.

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

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

The 30 June 2007 forecasts for the value of property, plant and equipment use valuations as recorded in the Crown Financial Statements for the year ended 30 June 2006, and any additional actual valuations that have occurred up to 30 September 2006.

The value of property plant and equipment for the other forecast periods is forecast using the same valuation used for the 30 June 2007 forecasts. As a consequence, no realised or unrealised losses are forecast beyond the current year.

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

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

Foreign-currency transactions

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

Other transactions in foreign currencies are translated into New Zealand dollars using the exchange rate on the date of the transaction. Exchange differences arising on settlement of these transactions are recognised in the Statement of Financial Performance.

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

Outstanding foreign-exchange contracts are translated using the exchange rate prevailing on 30 September 2006.

For forecasting purposes, the exchange rates prevailing on 30 September 2006 are assumed to prevail throughout the other forecast periods.

Depreciation

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

Freehold buildings	25 to 60 years
Specialist military equipment	5 to 25 years
Other plant and equipment	3 to 25 years
State highways:	
Pavement (surfacing)	7 years
Pavement (other)	36 years
Bridges	90 to 100 years
Aircraft (ex specialist military equipment)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 55 years

Assets

Foreign monetary assets

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

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

Receivables and advances excluding student loans

Receivables and advances excluding student loans are recorded at the amounts expected to be ultimately collected in cash.

Student loans

Student loans are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment loss. The effective interest rate discounts estimated future cash receipts through the expected life of the loan to the net carrying amount of the loan but does not consider future credit losses. Interest is recognised on the loan evenly in proportion to the amount outstanding over the period to repayment.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the loan is impaired. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that a 'loss' event (or events) has an impact on the estimated future cash flows of the student loan book value that can be reliably measured.

Interest and impairment losses are recognised in the Statement of Financial Performance.

Inventories

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

Investments

Marketable securities held for trading purposes

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

Equity investments

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

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

Other investments and marketable securities held for investment purposes

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

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

The proceeds from sales of investments or entities are only included in the forecasts when those sales have been contractually confirmed at the forecast finalisation date.

Items of property, plant and equipment

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

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

Revaluation is based on the fair value of the asset. Where an asset is recorded using depreciated replacement cost, depreciated replacement cost is based on the estimated present cost of construction, reduced by factors for age and deterioration of the asset.

Classes of property, plant and equipment assets that are revalued, are revalued at least every five years.

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

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

Land and buildings

Land and buildings are recorded at fair value less accumulated depreciation on buildings. In cases where valuations conducted in accordance with the New Zealand Property Institute's standards are not available, valuations conducted in accordance with the Rating Valuation Act 1998, which have been confirmed as appropriate by an independent valuer, have been used.

Land and buildings forecast to be purchased after the forecast finalisation date are valued at their forecast cost.

Valuations are assumed to remain constant over the forecast period.

Specialist military equipment

Specialist military equipment is recorded at depreciated replacement cost (fair value) less accumulated depreciation. Valuations have been obtained through specialist assessment by New Zealand Defence Force advisers, and the basis of these valuations has been confirmed as appropriate by an independent valuer.

Specialist military equipment forecast to be purchased after that date is valued at forecast cost.

State highways

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

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

Aircraft (excluding specialist military equipment)

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

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

Electricity distribution network

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

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

Electricity generation assets

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

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

Other items of property, plant and equipment – at cost

Other property, plant and equipment, which include motor vehicles and office equipment, are recorded at cost less accumulated depreciation.

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

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

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

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

Commercial forests

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

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

Goodwill and intangible assets

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

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

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

Liabilities

Borrowings

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

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

Foreign monetary liabilities

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

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

For forecasting purposes, the exchange rates prevailing on 30 September 2006 are assumed to prevail throughout the other forecast periods.

Pension liabilities

Forecasts of Government Superannuation Fund pension liabilities in respect of the contributory service of superannuation scheme members are based on financial assumptions applied to the latest actuarial value of the Crown's liability for pension payments net of the scheme's assets, adjusted in future years for any projected changes in demographic assumptions.

ACC claims liabilities

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

Currency issued

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

Leases

Finance leases transfer to the Crown as lessee substantially all the risks and rewards incident on the ownership of a leased asset. The obligations under such leases are capitalised at the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

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

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

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

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

Employee entitlements

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

Other liabilities

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

Commitments

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

Existing commitments include those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of Commitments.

Specific Fiscal Risks

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

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

Changes in Accounting Policies

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