

# VOTE *Finance*

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# *Finance*

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## Overview

### **Departmental Appropriations**

Departmental output expense appropriations for Vote Finance in 2005/06 total \$48.877 million. This sum is intended to be spent as follows:

- \$4.168 million (8% of departmental output expense appropriations in this Vote) on purchasing advice on general economic and fiscal strategies.
- \$2.952 million (6% of departmental output expense appropriations in this Vote) on purchasing advice on financial and public sector management systems.
- \$2.742 million (6% of departmental output expense appropriations in this Vote) on purchasing advice on tax.
- \$2.359 million (5% of departmental output expense appropriations in this Vote) on Budget management.
- \$6.107 million (12% of departmental output expense appropriations in this Vote) on economic and fiscal forecasting and reporting.
- \$4.352 million (9% of departmental output expense appropriations in this Vote) on debt and related financial asset management.
- \$2.279 million (5% of departmental output expense appropriations in this Vote) on management of claims against the Crown, contractual liabilities and Crown properties.
- \$2.637 million (5% of departmental output expense appropriations in this Vote) on purchasing advice on the ownership and performance of Crown companies and financial institutions.
- \$21.281 million (44% of departmental output expense appropriations in this Vote) on purchasing advice on regulation and Vote purchase, ownership and performance issues.

## Multi-Year Non-Departmental Appropriations

From 2002/03 to 2004/05, Vote Finance included a multi-year non-departmental appropriation of \$500,000 (GST not applicable) for asbestosis compensation payments. This appropriation expires on 30 June 2005.

From 2004/05 to 2007/08, Vote Finance includes a multi-year non-departmental appropriation of \$200 million (GST inclusive) for the development of the national rail infrastructure. It is estimated that up to \$92 million (GST inclusive) will be spent in 2005/06.

## Other Non-Departmental Appropriations

Other non-departmental appropriations sought for Vote Finance in 2005/06 total \$6,029.545 million. This is intended to be spent as follows:

- \$9.823 million on non-departmental output expenses.
- \$825.193 million on benefits and other unrequited expenses.
- \$2,611.000 million on borrowing expenses.
- \$198.214 million on other expenses to be incurred by the Crown.
- \$2,385.315 million on capital expenditure.

## Crown Revenue and Receipts

- \$2,624.522 million of current revenue from interest, dividends and other revenue.
- \$254.055 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 B1 and C of this Vote. Details of Crown revenue appear in Part F.

## Terms and Definitions Used

<b>CEL</b>	Contact Energy Ltd
<b>CRI</b>	Crown research institute
<b>EQC</b>	Earthquake Commission
<b>GAAP</b>	Generally accepted accounting practice
<b>GSF</b>	Government Superannuation Fund
<b>GSFA</b>	GSF Authority (a Crown entity formed to manage the GSF)
<b>GSF Schemes</b>	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
<b>HNZC</b>	Housing New Zealand Corporation
<b>IMF</b>	International Monetary Fund
<b>MFAT</b>	Ministry of Foreign Affairs and Trade
<b>NPF</b>	National Provident Fund
<b>NZRC</b>	New Zealand Railways Corporation
<b>NZSF</b>	New Zealand Superannuation Fund
<b>SOE</b>	State-owned enterprise

## Footnotes

<b>Note 1</b>	Expenses to be incurred pursuant to section 61(1) of the Public Finance Act 1989
<b>Note 2</b>	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
<b>Note 3</b>	Expenses to be incurred pursuant to sections 60 and 61(1) of the Public Finance Act 1989
<b>Note 4</b>	Expenses incurred pursuant to section 74(5) of the Public Finance Act 1989
<b>Note 5</b>	Expenses incurred pursuant to section 5 of the International Finance Agreements Act 1961
<b>Note 6</b>	This is the value of the expenditure that the Government currently expects it will have incurred against the appropriation by the time the appropriation expires at the end of June 2008

# Finance

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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 Finance

#### *Related Government Outcomes*

The appropriations in Vote Finance will contribute to the key Government goals that guide the public sector in achieving sustainable development. They will fund advice and services aimed primarily at facilitating economic growth and developing an economy that adapts to change, provides opportunities and increases employment, and while reducing inequalities, increases incomes for all New Zealanders.

These appropriations will also fund analysis and advice contributing to the Government's other goals of: maintaining trust in Government and providing strong social services; reducing inequalities in health, education, employment and housing; improving New Zealanders' skills; protecting and enhancing the environment; and strengthening national identity and upholding the principles of the Treaty of Waitangi.

They fund advice and services that contribute to the following outcomes:

- Improving New Zealand's overall economic performance.
- Stable and sustainable macroeconomic environment.
- Effective and efficient use of State resources and regulatory powers.
- Improved decision-making and performance management systems.
- Efficient management of the Crown's assets and liabilities.

For 2005/06 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:

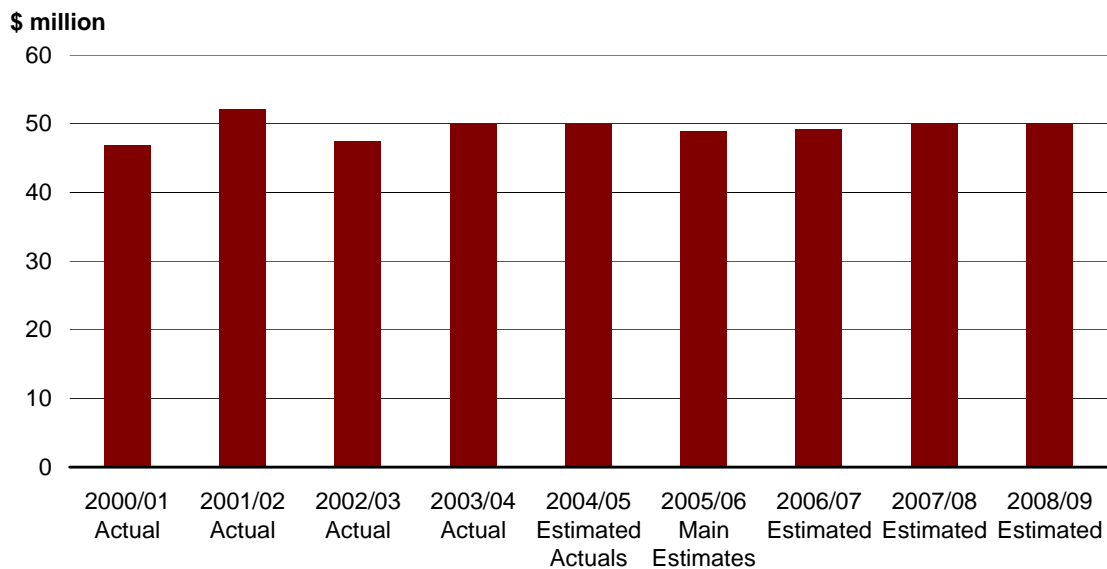
- general economic and fiscal strategies
- financial and public sector management systems
- tax
- Budget management
- economic and fiscal forecasting and reporting
- debt and related financial asset management
- management of claims against the Crown, contractual liabilities and Crown properties
- ownership and performance of Crown companies and financial institutions
- regulation and Vote purchase, ownership and performance issues.

## Part A2 - Trends in Vote Finance

### *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

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 is 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 2001/02, a new non-departmental output expense funded the Crown's share of the expenses of the GSF Authority (GSFA).

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

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

### **Benefits and other unrequited expenses**

Appropriations for Government Superannuation Fund (GSF) benefits, previously in Vote GSF, were transferred to Vote Finance from 2001/02.

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 item in this category is 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 operating expenses of Geothermal Trading, 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 that will 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 requires that all expenses other than re-measurements be appropriated. This has resulted in changes to appropriations as follows:

- A new appropriation has been created for the amortisation of goodwill in Air New Zealand.
- The cost of Maui prepaid gas sold has been added to the appropriation “Maui Gas Contracts”.
- Depreciation has been added to the appropriation “Crown Overseas Properties”.
- Depreciation has been added to the appropriation “Track Co - Relocation and Maintenance Costs, Wellington Railway Station”.
- Depreciation has been added to the appropriation “Geothermal Trading”.

### **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 2000/01 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 to Air New Zealand
- in 2002/03 and 2003/04, equity injections to 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 NZRC
- in 2004/05, a capital injection into the Reserve Bank
- from 2004/05, debt funding to NZRC, Taitokerau Forests, and the Auckland and Wellington Regional Councils
- additions to Geothermal Trading’s steam generating assets
- additions to the Crown’s overseas property portfolio (this item will transfer to the Ministry of Foreign Affairs and Trade (MFAT) on 1 July 2005)
- purchase of, and additions to, the national rail corridor infrastructure
- 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 cease 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 2001/02, employers' contributions to the GSF Schemes, which were previously recorded in Vote GSF, are reported in Vote Finance.

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, interest paid by HNZC on Crown debt, together with HNZC dividends, are reported through 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 mentioned above, net borrowing receipts are no longer recorded.

## New Policy Initiatives by Appropriation

Initiative	Appropriation as shown in Part B	\$000 increase/(decrease)				
		2004/05	2005/06	2006/07	2007/08	2008/09
Increased funding for the Guardians of New Zealand Superannuation	Non-Departmental Output Expense - Guardians of New Zealand Superannuation	1,023	2,044	2,044	2,044	2,044
	Capital Expenditure - Guardians of New Zealand Superannuation	-	225	-	-	-
Revised budget for the GSFA	Non-Departmental Output Expense - GSF Authority	219	(331)	(308)	(277)	(277)
GSF benefits - indexation	Benefits and Other Unrequited Expenses - GSFA - Subsidies to GSF Schemes	-	-	400	600	600
GSF benefits - spousal annuities	Benefits and Other Unrequited Expenses - GSFA - Subsidies to GSF Schemes	-	-	2,900	2,800	2,800
Funding to NZRC	Capital Expenditure - Loans to New Zealand Railways Corporation	75,000	10,000	-	-	-
	Capital Expenditure - New Zealand Railways Corporation Equity Injection	10,000	3,000	-	-	-
Loans to Wellington Regional Council for passenger rail upgrades	Capital Expenditure - Loans to Wellington Regional Council	-	7,420	3,180	-	-
Transfer of Crown overseas properties to MFAT	Capital Expenditure - Crown Overseas Properties	-	(1,200)	(1,000)	(1,000)	(1,000)
Wellington Railway Station upgrade: Stage 2	Capital Expenditure - Track Co - Purchase of Wellington Railway Station	6,180	5,870	-	-	-
<b>Total Initiatives</b>		<b>92,422</b>	<b>27,028</b>	<b>7,216</b>	<b>4,167</b>	<b>4,167</b>

## Trends in Vote Finance - Summary of Financial Activity

	2000/01	2001/02	2002/03	2003/04	2004/05		2005/06 Appropriations to be Used				2006/07	2007/08	2008/09	
	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				
<b>Appropriations</b>														
Output Expenses	47,057	55,901	54,888	60,819	60,822	60,781	44,525	4,352	9,823	-	58,700	59,053	59,916	59,951
Benefits and Other Unrequited Expenses	-	1,151,574	2,479,379	242,561	826,418	826,418	N/A	N/A	-	825,193	825,193	853,907	876,879	894,961
Borrowing Expenses	2,650,272	2,488,549	2,616,011	2,549,901	2,548,000	2,548,000	N/A	N/A	-	2,611,000	2,611,000	2,491,000	2,496,000	2,444,000
Other Expenses	356,746	322,424	317,802	229,166	212,562	196,040	-	-	191,353	6,861	198,214	128,214	104,314	98,814
Capital Expenditure	163,760	4,647,183	807,321	4,143,642	3,603,381	3,391,381	-	-	2,185,315	200,000	2,385,315	2,377,051	2,517,089	2,718,000
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
<b>Total Appropriations</b>	<b>3,217,835</b>	<b>8,665,631</b>	<b>6,275,401</b>	<b>7,226,089</b>	<b>7,251,183</b>	<b>7,022,620</b>	<b>44,525</b>	<b>4,352</b>	<b>2,386,491</b>	<b>3,643,054</b>	<b>6,078,422</b>	<b>5,909,225</b>	<b>6,054,198</b>	<b>6,215,726</b>
<b>Crown Revenue and Receipts</b>														
Tax Revenue	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Non-Tax Revenue	2,850,859	3,009,664	2,539,488	2,561,499	2,616,198	2,606,020	N/A	N/A	N/A	N/A	2,624,522	2,617,335	2,660,841	2,728,219
Capital Receipts	1,097,503	1,149,018	1,894,283	446,462	1,005,440	981,940	N/A	N/A	N/A	N/A	254,055	248,887	230,682	223,372
<b>Total Crown Revenue and Receipts</b>	<b>3,948,362</b>	<b>4,158,682</b>	<b>4,433,771</b>	<b>3,007,961</b>	<b>3,621,638</b>	<b>3,587,960</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>2,878,577</b>	<b>2,866,222</b>	<b>2,891,523</b>	<b>2,951,591</b>

## Part B - Statement of Appropriations

### Part B1 - Details of Appropriations

	2004/05				2005/06		Scope of 2005/06 Appropriations
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
<b>Departmental Output Expenses (General)</b>							
Policy Advice - General Economic and Fiscal Strategies	4,060	-	4,060	-	<b>4,168</b>	-	- Policy advice on the Government's broad economic strategy and macroeconomic policy settings, and their effect on the welfare of New Zealanders. The increase in 2005/06 reflects increased demand for growth outputs which is partly offset by lower office rental costs.
Policy Advice - Financial and Public Sector Management Systems	3,252	-	3,252	-	<b>2,952</b>	-	- Policy advice to maintain and develop financial and performance management systems in use across the Crown. The decrease largely reflects savings from amalgamating two sections during 2004/05 and lower office rental costs.
Policy Advice - Tax	2,396	-	2,396	-	<b>2,742</b>	-	- 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. The increase largely reflects increased demand for tax outputs which is partly offset by lower office rental costs.
Budget Management	2,466	-	2,466	-	<b>2,359</b>	-	- Development of the 2005 Budget strategy and the operational activities of the 2005 Budget process. The decrease largely reflects progress in implementing changes to the Public Finance Act and lower office rental costs.
Economic and Fiscal Forecasting and Reporting	6,235	-	6,235	-	<b>6,107</b>	-	- 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. The decrease largely reflects progress in implementing changes to the Public Finance Act and international accounting standards in the public sector, and lower office rental costs.

## Part B1 - Details of Appropriations (continued)

	2004/05				2005/06		Scope of 2005/06 Appropriations
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
<b>Departmental Output Expenses (General) - cont'd</b>							
Debt and Related Financial Asset Management	-	4,417	-	4,417	-	4,352	Operational management of the Crown's debt portfolio and associated financial investments (see Note 1). The decrease largely reflects lower office rental costs.
Management of Claims Against the Crown, Contractual Liabilities and Crown Properties	2,553	-	2,553	-	<b>2,279</b>	-	Management of commercial, contractual or Treaty of Waitangi-related claims against the Crown; and the management of New Zealand House, London. The decrease reflects lower demand for Maui gas outputs and lower office rental costs.
Policy Advice - Ownership and Performance of Crown Companies and Financial Institutions	2,729	-	2,729	-	<b>2,637</b>	-	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. The decrease largely reflects lower rental costs.
Policy Advice - Regulation and Vote Purchase, Ownership and Performance Issues	21,844	-	21,844	-	<b>21,281</b>	-	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. The decrease largely reflects the completion of rail policy outputs and lower office rental costs.
<b>Total Appropriations for Departmental Output Expenses (General)</b>	<b>45,535</b>	<b>4,417</b>	<b>45,535</b>	<b>4,417</b>	<b>44,525</b>	<b>4,352</b>	

<b>Non-Departmental Output Expenses</b>							
GSF Authority	4,624	-	4,624	-	<b>3,961</b>	-	The Crown's share of expenses incurred by the GSFA in managing the GSF assets and administering the GSF Schemes. The change between years reflects reduced operating costs.
Guardians of New Zealand Superannuation	3,690	-	3,690	-	<b>4,711</b>	-	Costs of managing the NZSF on behalf of the Crown. The budget was increased during 2004/05.
Management of Auckland Rail Corridor Infrastructure	905	-	905	-	-	-	Costs of managing the Auckland rail corridor infrastructure on behalf of the Crown. Responsibility for this transferred to NZRC during 2004/05.
Management of Crown Overseas Properties	1,500	-	1,500	-	<b>1,000</b>	-	Property management costs for New Zealand House, London. The change between years reflects revised forecasting assumptions.
Management of Geothermal Trading	151	-	110	-	<b>151</b>	-	Fees payable for managing the Crown's geothermal assets.
<b>Total Appropriations for Non-Departmental Output Expenses</b>	<b>10,870</b>	<b>-</b>	<b>10,829</b>	<b>-</b>	<b>9,823</b>	<b>-</b>	
<b>Benefits and Other Unrequited Expenses</b>							
GSFA - Subsidies to GSF Schemes	-	826,418	-	826,418	-	825,193	Payment of the shortfall in benefits (including withholding tax) paid to beneficiaries of the GSF Schemes (see Note 2). The change between years reflects revised actuarial assumptions.
<b>Total Appropriations for Benefits and Other Unrequited Expenses</b>	<b>-</b>	<b>826,418</b>	<b>-</b>	<b>826,418</b>	<b>-</b>	<b>825,193</b>	
<b>Borrowing Expenses</b>							
Debt Servicing	-	2,548,000	-	2,548,000	-	2,611,000	Payment of interest and other finance costs relating to the Crown's New Zealand-dollar and foreign-currency debt (see Note 3). The amount varies with interest rates and the amount of debt outstanding.
<b>Total Appropriations for Borrowing Expenses</b>	<b>-</b>	<b>2,548,000</b>	<b>-</b>	<b>2,548,000</b>	<b>-</b>	<b>2,611,000</b>	

## Part B1 - Details of Appropriations (continued)

	2004/05				2005/06		Scope of 2005/06 Appropriations
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
<b>Other Expenses to be Incurred by the Crown</b>							
Amortisation of Goodwill in Air New Zealand	46,900	-	46,900	-	<b>46,900</b>	-	Amortisation of goodwill in Air New Zealand.
Crown Overseas Properties	21,885	-	17,385	-	<b>16,000</b>	-	Operational costs of New Zealand House, London. The change between years reflects revised forecasting assumptions.
Crown Residual Liabilities	674	-	442	-	<b>230</b>	-	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. The amount required is reducing over time.
Geothermal Trading	3,460	-	2,260	-	<b>3,460</b>	-	Geothermal Trading manages the Crown's geothermal interests. The appropriation covers operating expenditure (operating revenue is recorded in Part F).
GSF - Crown Share of Custodial and Investment Management Expenses	-	6,438	-	6,438	-	6,361	This appropriation provides for reimbursement to the GSF of the Crown's share of custodial and investment management expenses (see Note 2). The amount required varies with the size of the Fund.
Government Superannuation Appeals Board	50	-	5	-	<b>50</b>	-	Expenses and fees of members of the Government Superannuation Appeals Board, and expenses associated with hearing appeals.
Maui Gas Contracts	128,090	-	118,090	-	<b>123,100</b>	-	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). Gas purchases are forecast to reduce as the field starts to run down.
Overseas Investment Commission Honoraria	25	-	20	-	<b>25</b>	-	Honoraria and expenses paid to the Crown-appointed members of the Overseas Investment Commission.



Track Co Establishment Costs	3,110	-	3,110	-	-	-	Operational costs of establishing Track Co as a new Crown entity to manage the national rail network. The project is expected to be completed in 2004/05.
Track Co - Relocation and Maintenance Costs, Wellington Railway Station	1,430	-	1,340	-	<b>1,588</b>	-	Relocation costs and deferred maintenance following the purchase of Wellington Railway Station. The change between years reflects the timing of the project.
Unclaimed Money	-	500	-	50	-	500	Provision for repayment of unclaimed money deposited with the Crown (see Note 4).
<b>Total Appropriations for Other Expenses to be Incurred by the Crown</b>	205,624	6,938	189,552	6,488	191,353	6,861	
<b>Capital Expenditure</b>							
Air New Zealand	149,350	-	149,350	-	-	-	This appropriation provided for the purchase of additional equity in Air New Zealand in 2004/05.
Auckland Regional Council - Loan to Purchase and Upgrade Rolling Stock	20,400	-	9,400	-	-	-	This appropriation provided for a loan facility to the Auckland Regional Council to assist with the purchase and upgrade of rolling stock for the suburban rail system in 2004/05.
Development of Crown Overseas Properties	3,100	-	2,100	-	-	-	Cost of capital upgrades to the Crown's overseas properties. Responsibility for the portfolio will transfer to MFAT on 1 July 2005.
Double Tracking Auckland Rail Corridor	4,268	-	4,268	-	-	-	This appropriation covers the cost of the first stage of double tracking part of the Auckland rail corridor. Responsibility for this project transferred to NZRC in 2004/05.
Geothermal Trading	4,273	-	4,273	-	<b>1,100</b>	-	Geothermal Trading is drilling new wells in order to comply with its resource consents. The change between years reflects the forecast timing of the project.
Guardians of New Zealand Superannuation	-	-	-	-	<b>225</b>	-	Provision of working capital to the Guardians of New Zealand Superannuation. This is a one-off item in 2005/06.
International Financial Institutions	-	200,000	-	-	-	200,000	Capital payments in respect of New Zealand's membership of the IMF, the Asian Development Bank, the World Bank and the International Finance Corporation (see Note 5).

**Part B1 - Details of Appropriations (continued)**

	2004/05				2005/06		Scope of 2005/06 Appropriations
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
<b>Capital Expenditure - cont'd</b>							
Loans to New Zealand Railways Corporation	75,000	-	75,000	-	10,000	-	This appropriation provides for a loan facility to NZRC to fund a range of rail infrastructure capital projects. The change between years reflects the forecast timing of projects.
New Zealand Railways Corporation Equity Injection	20,000	-	20,000	-	3,000	-	Provision of working capital to NZRC. The change between years reflects NZRC's forecast capital requirements.
NZ Superannuation Fund - Contributions	2,107,000	-	2,107,000	-	2,157,000	-	Capital contributions by the Crown to the NZSF. The amount varies according to a formula in the New Zealand Superannuation Act 2001.
Reserve Bank	1,000,000	-	1,000,000	-	-	-	This appropriation allowed for an equity injection to the Reserve Bank. This was a one-off appropriation in 2004/05.
Taitokerau Forests	950	-	950	-	700	-	Advances to Taitokerau Forests Ltd to meet the company's ongoing forest management and development costs. The change between years reflects the forecast timing of loan drawdowns.
Track Co - Purchase of Rail Network Assets	8,000	-	8,000	-	-	-	Residual costs of the purchase of rail network assets from Tranz Rail in 2004/05.
Track Co - Purchase of Wellington Railway Station	11,040	-	11,040	-	5,870	-	Purchase and upgrade of Wellington Railway Station. The change between years reflects the timing of the project.
Wellington Regional Council Loan	-	-	-	-	7,420	-	This appropriation provides a loan facility to the Wellington Regional Council to assist in the purchase and upgrade of passenger rail carriages. This is a new item in 2005/06.
<b>Total Appropriations for Capital Expenditure</b>	3,403,381	200,000	3,391,381	-	2,185,315	200,000	
<b>Total Appropriations</b>	3,665,410	3,585,773	3,637,297	3,385,323	2,431,016	3,647,406	

## Part B2 - Details of Multi-Year Appropriation

Appropriations	Current Appropriation	Scope of Appropriation
<b>Other Expenses to be Incurred by the Crown</b>	\$000	
<b>Upgrade of Rail Network</b>		
Term	2004/05 to 2007/08	This appropriation provides a total of \$200 million (GST inclusive) 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	This multi-year appropriation was approved in 2004/05. The appropriation is still in force and operates on a GST-inclusive basis. The figures presented here include GST.
Adjustments	-	
Total Appropriation	200,000	
Actual to Date (March 2005)	21,818	
Expected Actual to Year End	44,000	
Remaining	156,000	
<b>Expected Outcome (see Note 6)</b>	<b>200,000</b>	

## Part C - Explanation of Appropriations for Output Expenses

### Part C1 - Departmental Output Expenses

#### *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 strengthening the fiscal policy framework and reporting on monetary policy developments.

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. 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 - 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 - 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.

### *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:

- implementing changes arising from the passage of the Public Finance Amendment Act 2004
- improving linkages between allocation of resources and achieving desired results.

### *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 include 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 output also includes 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 consequences of government decisions, by entity and in the aggregate.

### *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. All expenses are incurred under section 61 of the Public Finance Act 1989. 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.

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

This class of outputs involves managing a range of commercial, contractual 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 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 - 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, and 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 outcome of 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.

Areas covered are:

- 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.



## Part C2 - Non-Departmental Output Expenses

### *GSF Authority*

The outputs purchased from the 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 \$3.961 million (GST exclusive).

Year	Total output expenses (GST exclusive) \$000	Total output revenue (GST exclusive) \$000
2005/06	3,961	-
2004/05	4,624	-

#### **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 (GST exclusive).

Year	Total output expenses (GST exclusive) \$000	Total output revenue (GST exclusive) \$000
2005/06	4,711	-
2004/05	3,690	-

**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 (GST not applicable). The cost of this output is fully funded from third-party revenue.

Year	Total output expenses (GST exclusive) \$000	Total output revenue (GST exclusive) \$000
2005/06	1,000	-
2004/05	1,500	-

**Provider**

King Sturge International Property Consultants, London.

*Management of Geothermal Trading*

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

The range of services includes:

- management of geothermal contracts, including periodic renegotiation
- maintenance of geothermal wells and associated assets
- 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 property manager on a quarterly basis
- management of geothermal contracts will optimise net revenue for the Crown
- 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 (GST exclusive). The cost of this output class is fully funded from third-party revenue.

Year	Total output expenses (GST exclusive) \$000	Total output revenue (GST exclusive) \$000
2005/06	151	-
2004/05	151	-

**Provider**

Connell Wagner Ltd.

## Part E - Explanation of Capital Flows

### Part E1 - Explanation of Movements in Departmental Net Asset Schedules

#### *Explanation of Movements in the Treasury's Net Asset Schedule*

Details of Net Asset Schedule for the Treasury	Estimated Actual 2004/05 \$ million	Projected 2005/06 \$ million	Explanation of Projected Movements in 2005/06
Opening Balance	7.127	8.927	
Capital Injections	1.800	-	
Capital Withdrawals	-	(0.400)	Repayment of surplus capital following completion of the Treasury accommodation project.
Surplus to be Retained (Deficit Incurred)	-	-	
Other Movements	-	-	
Closing Balance	8.927	8.527	

### 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 2005 Budget.

	Balance Date	Estimated Net Worth 2004 \$ million	Forecast Net Worth 2005 \$ million
Crown Entities:			
Earthquake Commission	30 June	4,704	5,040
Government Superannuation Fund Authority	30 June	0.006	0.006
Guardians of New Zealand Superannuation	30 June	0.300	0.525

## **Part E3 - Explanation of Appropriations for Capital Expenditure**

### **Geothermal Trading**

This appropriation provides for the cost of drilling new wells that are required under the terms of Geothermal Trading's resource consents.

### **Guardians of New Zealand Superannuation**

This appropriation provides for the cost of the Guardian's information technology requirements for new staff and for upgrading existing hardware.

### **International Financial Institutions**

This appropriation provides for capital contributions to the IMF, the Asian Development Bank, the World Bank and its subsidiary the International Finance Corporation, 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 New Zealand Railways Corporation**

This appropriation provides for a loan facility to NZRC 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.

### **New Zealand Railways Corporation Equity Injection**

This appropriation provides for an increase in the working capital of NZRC that is necessary for its new role as the entity managing the rail network infrastructure on behalf of the Crown.

### **New Zealand Superannuation Fund contributions**

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

### **Taitokerau Forests**

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.

### **Track Co - Purchase of Wellington Railway Station**

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 NZRC.

### **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

	2004/05		2005/06	Description of 2005/06 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
<b>Current Revenue</b>				
Non-Tax Revenue				
Auckland Rail Corridor - Grant from Infrastructure Auckland	7,278	7,278	-	Grant from Infrastructure Auckland towards the cost of the first stage of double tracking part of the Auckland rail corridor. Responsibility for this transferred to NZRC in 2004/05.
Capital Charge - Departments	1,118,722	1,118,722	1,197,005	A charge on the Crown's investment in government departments. The increase reflects increased investment in departments.
Contact Energy Ltd Crown Margin	1,830	2,654	5,945	Income from the Maui take-or-pay agreement with Contact Energy Ltd (CEL) for the supply of gas. The change between years reflects revised forecasting assumptions.
Dividends from Crown Entities	48,698	48,698	5,878	Dividends from Crown entities. The amount varies with company profitability.
Dividends from SOEs	325,968	325,969	297,711	Dividends from SOEs. The amount varies with company profitability.
Dividends - Other	2,837	2,837	2,350	Dividends from regional airport companies and other investments. 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	63,539	63,539	60,362	The subsidy payable by employers on the superable salary of staff who are members of the GSF. The change between years reflects revised actuarial forecasting assumptions.
Export Credit Office	380	12	1,789	Premium revenue from export credit insurance policies written by the Export Credit Office. The change between years reflects revised forecasting assumptions.
Sale of Goods and Services	29,600	30,736	29,000	Revenue from the sale of prepaid Maui gas, and operational revenue of Geothermal Trading (operating expenditure is reported in Part B). The change between years reflects the forecast profile of sales of prepaid gas.

Interest -				
Investments	658,000	658,000	623,000	Interest earned on the Crown's official overseas reserves, bank accounts and domestic bond assets. The change between years reflects revised forecasting assumptions.
Other	13,328	13,328	4,900	Miscellaneous interest receipts. The change between years reflects revised forecasting assumptions.
Maui Gas Contracts	116,000	106,000	111,000	Revenue received from the on-sale of Maui gas (the cost of purchasing the gas is included in Part B). Sales of gas are expected to fall as the field starts to run down.
Rentals from Crown Overseas Properties	25,900	24,129	16,400	Revenue from overseas properties owned by the Crown. From 1 July 2005, rentals will only be received in respect of New Zealand House, London, as responsibility for the other properties will transfer to MFAT.
Reserve Bank Surplus	191,747	191,747	258,182	Surplus funds transferred to the Crown under the Reserve Bank Act 1989. The change between years reflects the Bank's forecasts.
Other Current Revenue	871	871	500	Miscellaneous revenue. The change between years reflects revised forecasting assumptions.
Unclaimed Money	1,500	1,500	500	Unclaimed money deposited with the Crown. The amount received varies considerably.
<b>Total Non-Tax Revenue</b>	<b>2,616,198</b>	<b>2,606,020</b>	<b>2,624,522</b>	
<b>Total Current Revenue</b>	<b>2,616,198</b>	<b>2,606,020</b>	<b>2,624,522</b>	
<b>Capital Receipts</b>				
Contact Energy Limited Crown Margin	48,370	48,370	51,555	Capital portion of the revenue from the Maui take-or-pay agreement with CEL for the supply of gas. The change between years reflects the forecast profile of sales.
Loan Repayment by Auckland Regional Council	25,000	1,500	2,000	Loan repayments by the Auckland Regional Council. The change between years reflects revised forecasting assumptions.
Loan Repayments by New Zealand Railways Corporation	-	-	500	Loan repayments by NZRC. This is a new item in 2005/06.
Loan Repayments from Other Parties	70	70	-	Other loan repayments. None are forecast for 2005/06.
Net Foreign Borrowing	732,000	732,000	-	Net borrowing by the Crown on overseas markets. From 2005/06, this item is no longer recorded.
Return of Capital by the IMF	200,000	200,000	200,000	New Zealand contributes to the IMF's medium-term lending programme (see Part B, Capital Contributions to Other Persons or Organisations), by increasing its capital investment in the IMF. When the loans are repaid, the funds are returned to contributing countries. The timing of repayments is highly variable.
<b>Total Capital Receipts</b>	<b>1,005,440</b>	<b>981,940</b>	<b>254,055</b>	
<b>Total Crown Revenue and Receipts</b>	<b>3,621,638</b>	<b>3,587,960</b>	<b>2,878,577</b>	

