Additional Information

The following information forms part of Budget Economic and Fiscal Update 2008 (*2008 Budget),* released by the Treasury on 22 May 2008. This information provides users of the *2008 Budget* 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 – estimates of the cyclically-adjusted balance and fiscal impulse
- Tax tables – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts
- Contingent liabilities and contingent assets – write-ups of the nature of each item in the tables outlined in the *2008 Budget* Specific Fiscal Risks chapter
- Crown accounting policies – outline of the specific Crown accounting policies and forecast assumptions. The published GAAP tables only provide a summary.

Detailed Economic Forecast Information

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

Table 1: Real Gross Domestic Product (Production)

Chain-volume series expressed in 1995/96 prices

	Actual			Seasonally Adjusted	
	$ million	Annual % change	Annual Average % change	$million	Quarterly % change
2005Q1	31,283	2.4	3.8	31,550	0.9
2005Q2	31,352	3.1	3.2	32,039	1.5
2005Q3	31,821	3.0	2.9	32,149	0.3
2005Q4	33,294	2.3	2.7	32,035	-0.4
2006Q1	32,052	2.5	2.7	32,315	0.9
2006Q2	31,644	0.9	2.2	32,304	0.0
2006Q3	32,112	0.9	1.6	32,442	0.4
2006Q4	33,908	1.8	1.5	32,658	0.7
2007Q1	32,799	2.3	1.5	33,060	1.2
2007Q2	32,687	3.3	2.1	33,350	0.9
2007Q3	33,167	3.3	2.7	33,512	0.5
2007Q4	35,138	3.6	3.1	33,854	1.0
2008Q1	33,570	2.4	3.1	33,837	-0.1
2008Q2	33,280	1.8	2.8	33,955	0.3
2008Q3	33,723	1.7	2.4	34,074	0.4
2008Q4	35,525	1.1	1.7	34,227	0.4
2009Q1	34,115	1.6	1.5	34,387	0.5
2009Q2	33,894	1.8	1.6	34,581	0.6
2009Q3	34,461	2.2	1.7	34,819	0.7
2009Q4	36,407	2.5	2.0	35,077	0.7
2010Q1	35,089	2.9	2.3	35,368	0.8
2010Q2	34,958	3.1	2.7	35,667	0.8
2010Q3	35,587	3.3	2.9	35,957	0.8
2010Q4	37,597	3.3	3.1	36,223	0.7
2011Q1	36,215	3.2	3.2	36,503	0.8
2011Q2	36,050	3.1	3.2	36,782	0.8
2011Q3	36,645	3.0	3.1	37,026	0.7
2011Q4	38,691	2.9	3.1	37,277	0.7
2012Q1	37,236	2.8	3.0	37,533	0.7
2012Q2	37,037	2.7	2.9	37,788	0.7

Source: Statistics New Zealand, The Treasury

Table 2: Consumers Price Index and Exchange Rates

	Consumers Price Index			Exchange rates	
	Index	Quarterly % change	Annual % change	TWI	USD
2005Q1	953	0.4	2.8	69.6	0.72
2005Q2	962	0.9	2.8	70.8	0.72
2005Q3	973	1.1	3.4	69.7	0.69
2005Q4	979	0.7	3.2	71.5	0.69
2006Q1	985	0.6	3.3	68.3	0.67
2006Q2	1000	1.5	4.0	62.8	0.62
2006Q3	1007	0.7	3.5	63.6	0.63
2006Q4	1005	-0.2	2.6	67.1	0.67
2007Q1	1010	0.5	2.5	68.8	0.70
2007Q2	1020	1.0	2.0	72.0	0.74
2007Q3	1025	0.5	1.8	71.3	0.74
2007Q4	1037	1.2	3.2	71.0	0.76
2008Q1	1044	0.7	3.4	71.9	0.79
2008Q2	1054	0.9	3.3	70.0	0.77
2008Q3	1063	0.8	3.7	70.0	0.77
2008Q4	1070	0.7	3.2	69.5	0.76
2009Q1	1077	0.7	3.2	68.6	0.75
2009Q2	1083	0.6	2.8	67.0	0.74
2009Q3	1090	0.6	2.6	65.8	0.72
2009Q4	1097	0.6	2.5	64.4	0.71
2010Q1	1107	0.9	2.8	63.1	0.69
2010Q2	1116	0.8	3.0	61.9	0.68
2010Q3	1123	0.7	3.1	60.9	0.67
2010Q4	1131	0.7	3.1	59.9	0.66
2011Q1	1138	0.7	2.8	59.1	0.65
2011Q2	1147	0.8	2.8	58.3	0.64
2011Q3	1155	0.7	2.8	57.6	0.63
2011Q4	1162	0.6	2.8	57.1	0.63
2012Q1	1170	0.6	2.8	56.7	0.62
2012Q2	1177	0.6	2.6	56.3	0.62

Source: Statistics New Zealand, The Treasury

Table 3: Nominal Gross Domestic Product (Expenditure and Income)

March Year	2007 Actual			2008 Estimate			2009 Forecast			2010 Forecast			2011 Forecast			2012 Forecast
	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill
Consumption:																
- *Private*	98,616	3.6	1.8	103,967	1.9	2.4	108,462	1.9	2.1	112,878	1.6	2.5	117,557	1.4	2.3	121,901
- *Public*	30,639	4.6	2.8	32,963	3.7	2.1	34,870	3.1	1.9	36,628	3.3	2.0	38,576	3.3	2.0	40,652
Gross Fixed Capital Formation:																
- *Residential*	10,813	4.5	4.5	11,813	-9.7	2.6	10,947	-3.1	2.7	10,895	2.4	3.8	11,579	3.0	4.3	12,440
- *Market **	24,509	6.8	-0.2	26,120	2.8	-2.6	26,152	-0.9	-0.4	25,815	2.1	2.0	26,892	3.5	2.5	28,546
- *Non-market ***	2,769	1.9	-1.0	2,798	22.7	0.5	3,447	4.2	2.0	3,664	2.0	1.9	3,807	2.0	1.5	3,942
- *Total all sectors*	38,101	5.2	1.6	40,733	1.1	-1.5	40,554	-0.9	0.5	40,381	2.2	2.4	42,285	3.4	2.7	44,934
Change in Stocks	-320			956			861			992			890			1,040
Gross National Expenditure	167,036	4.8	2.0	178,620	-3.3	7.8	184,747	1.2	2.2	190,879	2.2	2.1	199,308	2.2	2.4	208,527
Exports	48,199	3.1	3.7	51,677	-0.9	7.7	55,055	4.0	2.5	58,709	4.4	5.9	64,941	4.1	4.9	70,900
Imports	50,528	9.6	-5.1	52,520	0.9	4.8	55,539	1.3	5.8	59,502	1.0	8.0	64,910	2.0	5.9	70,115
Expenditure on GDP	164,707	3.0	4.8	177,776	1.3	2.3	184,263	2.3	0.8	190,086	3.2	1.7	199,340	2.9	2.0	209,312
Statistical Discrepancy	1,536			1,587			1,613			1,636			1,672			1,711
Gross Domestic Product	166,243			179,363			185,875			191,722			201,012			211,023
Compensation of employees	74,322		6.1	78,873		5.8	83,412		5.0	87,543		4.8	91,721		5.1	96,412
Operating Surplus, net:																
- *Agriculture*	3,201		54.9	4,959		3.9	5,151		-13.4	4,461		-11.7	3,937		-6.3	3,687
- *Other*	43,998		8.9	47,894		-0.2	47,810		-0.2	47,695		5.9	50,531		5.3	53,209
- *Total all sectors*	47,199		12.0	52,853		0.2	52,960		-1.5	52,156		4.4	54,469		4.5	56,896
Consumption of fixed capital	23,755		6.0	25,180		4.0	26,188		6.0	27,759		6.0	29,424		6.0	31,190
Indirect Taxes	21,564		6.9	23,055		3.7	23,913		4.0	24,862		4.6	25,995		4.3	27,124
Less subsidies	598		0.0	598		0.0	598		0.0	598		0.0	598		0.0	598
Gross Domestic Product	166,243		7.9	179,363		3.6	185,875		3.1	191,722		4.8	201,012		5.0	211,023

* 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	2007 Actual	2008 Estimate	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Real GDP (production basis)	1.5	3.1	1.5	2.3	3.2	3.0
Working Age Population	1.4	1.2	1.1	1.2	1.2	1.1
Labour Force	1.9	1.6	1.4	0.9	0.6	0.9
Employment - Full Time Equivalents*	2.0	1.4	1.4	0.2	0.3	1.0
Labour Productivity*	-0.5	1.8	0.1	2.1	2.9	1.9
Labour Productivity **	1.0	2.6	0.5	2.1	2.8	1.9
CPI (annual percentage change)	2.5	3.4	3.2	2.8	2.8	2.8
Average Ordinary Time Hourly Wages	4.8	4.1	4.2	4.7	4.4	4.0
Average Weekly Earnings	5.2	3.7	4.0	4.7	4.4	4.0
Real Wages	1.5	1.5	0.8	1.9	1.3	1.2
Compensation of Employees	8.1	6.1	5.8	5.0	4.8	5.1
Unit Labour Costs (Hours worked basis)	3.8	1.4	3.7	2.6	1.5	2.1
Real Unit Labour Costs	0.5	-1.1	0.4	-0.1	-1.5	-0.7

* Full time equivalent basis
** Hours worked basis
Source: Statistics New Zealand, The Treasury

Number (000's)

As at March Quarter	2007 Actual	2008 Estimate	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Total Population	4,223	4,261	4,300	4,342	4,383	4,424
Natural Increase	34	34	34	33	31	31
Net Migration	12	4	6	8	10	10
Annual Change	47	38	40	41	41	41
Working Age Population	3,248	3,282	3,320	3,360	3,398	3,435
Annual Change	45	35	38	39	39	37
Not in the labour force	1,010	1,012	1,023	1,045	1,068	1,081
Annual Change	10	3	11	22	23	13
Labour Force	2,238	2,270	2,298	2,315	2,331	2,354
Annual Change	35	32	27	17	16	23
Total Employment	2,144	2,182	2,201	2,200	2,214	2,239
Annual Change	36	38	19	-1	14	26
Unemployment	94	88	97	115	117	115
Annual Change	-2	-5	8	18	2	-2
Participation Rate (%sa)	68.6	68.9	68.9	68.5	68.2	68.1
Unemployment Rate (%sa)	3.7	3.5	3.7	4.4	4.5	4.3

Source: Statistics New Zealand, The Treasury

Table 6: Current Account

$NZ Million Year ended March	2007 Actual	2008 Estimate	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast	Percent of Nominal GDP 2007 Actual	2008 Estimate	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Exports Goods	35,633	38,794	42,333	45,208	49,904	54,055						
annual % Change	*12.8*	*8.9*	*9.1*	*6.8*	*10.4*	*8.3*						
Imports Goods	38,464	40,097	42,543	45,508	49,612	53,646						
annual % Change	*7.8*	*4.2*	*6.1*	*7.0*	*9.0*	*8.1*						
Balance on Goods	-2,830	-1,302	-210	-299	292	409	-1.7	-0.7	-0.1	-0.2	0.1	0.2
Exports Services	12,565	12,794	12,759	13,543	15,092	16,925						
annual % change	*2.9*	*1.8*	*-0.3*	*6.1*	*11.4*	*12.1*						
Imports Services	12,064	12,424	12,988	13,987	15,289	16,460						
annual % change	*2.6*	*3.0*	*4.5*	*7.7*	*9.3*	*7.7*						
Balance on services	500	368	-229	-443	-197	465	0.3	0.2	-0.1	-0.2	-0.1	0.2
Balance on goods & services	-2,330	-934	-439	-743	95	874	-1.4	-0.5	-0.2	-0.4	0.0	0.4
Int'l investment income and transfers balance	-11,192	-12,136	-12,833	-13,002	-14,224	-14,666	-6.8	-6.8	-7.0	-6.8	-7.1	-7.0
Current account balance	**-13,522**	**-13,069**	**-13,272**	**-13,745**	**-14,129**	**-13,792**	**-8.2**	**-7.4**	**-7.2**	**-7.2**	**-7.1**	**-6.6**

Source: Statistics New Zealand, The Treasury

Table 7: Exports - SNA basis

Breakdown of Exports

March	Dairy Products			Meat and Meat Products			Non-Commodity*		
Years	%v	%p	$ mn	%v	%p	$ mn	%v	%p	$ mn
2004	5.2	-7.8	5,835	7.9	-8.2	4,379	0.4	-5.6	9,340
2005	-9.4	9.1	5,783	3.5	6.7	4,873	8.4	-0.2	10,122
2006	-2.4	6.0	5,993	-2.2	-3.1	4,611	-0.5	2.5	10,331
2007	22.3	2.0	7,455	6.7	2.5	5,037	0.6	11.7	11,678
2008	1.5	24.1	9,557	-0.9	-5.1	4,756	2.3	6.2	12,424
2009	-1.3	28.2	11,891	-3.4	4.7	4,803	2.4	-1.3	12,601
2010	3.0	-6.0	11,516	3.0	6.2	5,249	5.1	7.7	14,252
2011	4.0	1.6	12,187	2.1	8.0	5,787	5.5	8.5	16,316
2012	3.2	2.5	12,892	0.9	5.7	6,174	4.4	5.8	18,039

March	Total Goods**			Services			Total Exports		
Years	%v	%p	$ mn	%v	%p	$ mn	%v	%p	$ mn
2004	2.1	-7.1	29,054	-2.2	-0.3	11,604	0.9	-5.4	40,657
2005	5.1	1.8	31,114	3.5	1.8	12,239	4.7	1.8	43,353
2006	0.7	0.9	31,580	-2.2	1.9	12,205	-0.1	1.1	43,786
2007	4.9	7.4	35,633	-1.6	4.6	12,565	3.1	6.8	48,199
2008	4.2	4.5	38,794	-0.3	2.1	12,794	3.1	3.7	51,677
2009	-0.6	9.8	42,333	0.0	0.0	12,759	-0.9	7.7	55,055
2010	3.7	3.1	45,208	4.9	0.9	13,543	4.0	2.5	58,709
2011	4.0	6.1	49,904	5.7	5.3	15,092	4.4	5.9	64,941
2012	3.4	4.7	54,055	6.4	5.4	16,925	4.1	4.9	70,900

* Consists of 'Metal Products and Machinery Equipment', 'Chemicals, Rubber and Other Non-Metallic Goods' and 'Textile, Apparel and Leather'
** Note that Statistics NZ withhold data for some components of exports for confidentaility reasons. As a result we have not published the "Wood and Wood Products' and 'Other Goods' components of exports that we have published previously.

Source: Statistics New Zealand, The Treasury

Table 8: Imports - SNA basis

Breakdown of Imports

March	Capital Goods (VFD)			Mineral Fuel* (VFD)			Intermediate Goods** (VFD)			Consumption Goods (VFD)		
Years	%v	%p	$ mn	%v	%p	$ mn	%v	%p	$ mn	%v	%p	$ mn
2004	30.6	-16.0	6,198	0.1	-7.9	2,763	8.5	-9.4	13,412	10.3	-9	7649
2005	16.8	-9.1	6,607	13.7	21.6	3,811	10.1	-1.9	14,481	10.5	-3.9	8125
2006	16.3	-5.0	7,301	0.3	37.3	5,250	-1.4	0.7	14,365	8.1	-1	8703
2007	-3.2	2.3	7,223	-8.0	21.2	5,872	-2.8	12.4	15,717	5.8	3.7	9544
2008	9.0	-11.3	6,997	10.1	3.3	6,646	10.0	-6.3	16,192	8.0	-3	9994
2009	2.3	-8.0	6,578	-7.3	30.1	8,041	3.4	4.4	17,472	-1.8	5.4	10348
2010	3.0	1.4	6,873	-0.2	4.9	8,423	-0.2	6.3	18,541	3.6	7.2	11495
2011	0.2	6.5	7,341	0.7	5.2	8,927	0.7	8.7	20,289	4.5	7.7	12933
2012	1.6	5.3	7,850	1.9	4.6	9,515	1.9	6.1	21,927	3.7	5.7	14179

March	Total Goods (VFD)			Services			Total		
Years	%v	%p	$ mn	%v	%p	$ mn	%v	%p	$ mn
2004	13.3	-10.9	30,246	11.1	-10.8	10,009	12.7	-10.8	40,255
2005	12.0	-1.7	33,343	13.7	-1.7	11,169	12.5	-1.8	44,512
2006	3.9	3.1	35,685	4.5	0.6	11,759	4.1	2.5	47,444
2007	-0.9	8.7	38,464	-4.3	7.0	12,064	-1.7	8.3	50,528
2008	9.4	-4.8	40,097	9.7	-6.1	12,424	9.6	-5.1	52,520
2009	0.9	5.2	42,543	0.8	3.7	12,988	0.9	4.8	55,539
2010	1.9	5.0	45,508	-0.7	8.5	13,987	1.3	5.8	59,502
2011	1.4	7.5	49,612	-0.4	9.7	15,289	1.0	8.0	64,910
2012	2.4	5.6	53,646	0.6	7.0	16,460	2.0	5.9	70,115

* 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'

Source: Statistics New Zealand, The Treasury

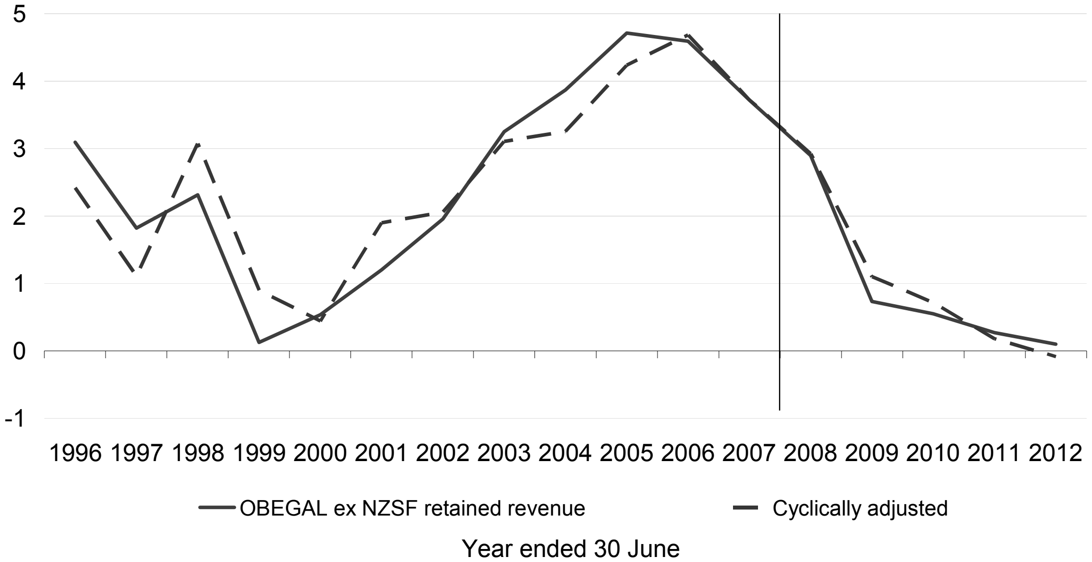
Estimates of the Cyclically-Adjusted Balance and Fiscal Impulse

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 incorporates estimates of the responsiveness of different tax types and sales of other goods and services, and unemployment, to changes in 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.

In the figure below the cyclically-adjusted balance is calculated for a measure of the operating balance that excludes gains and losses and the retained revenue of the NZS Fund. As discussed in the *2007 Fiscal Strategy Report*, a focus on this measure is relevant because after-tax returns are retained in the NZS Fund. Over the past few years the cyclically-adjusted estimate and the actual balance have been pretty much in line with each other. Over the next few years, the actual balance is forecast to be below what would prevail if the economy were operating at potential. In other words, slow economic growth over the remainder of 2008 and into 2009 is expected to act as a depressing influence on fiscal outcomes. Although the estimate of the cyclically-adjusted balance shows a small forecast deficit in 2012, the uncertainty around the methodology discussed above would suggest this is within the margin of error.

Balance & Cyclically-adjusted balance
% of GDP



Source: The Treasury

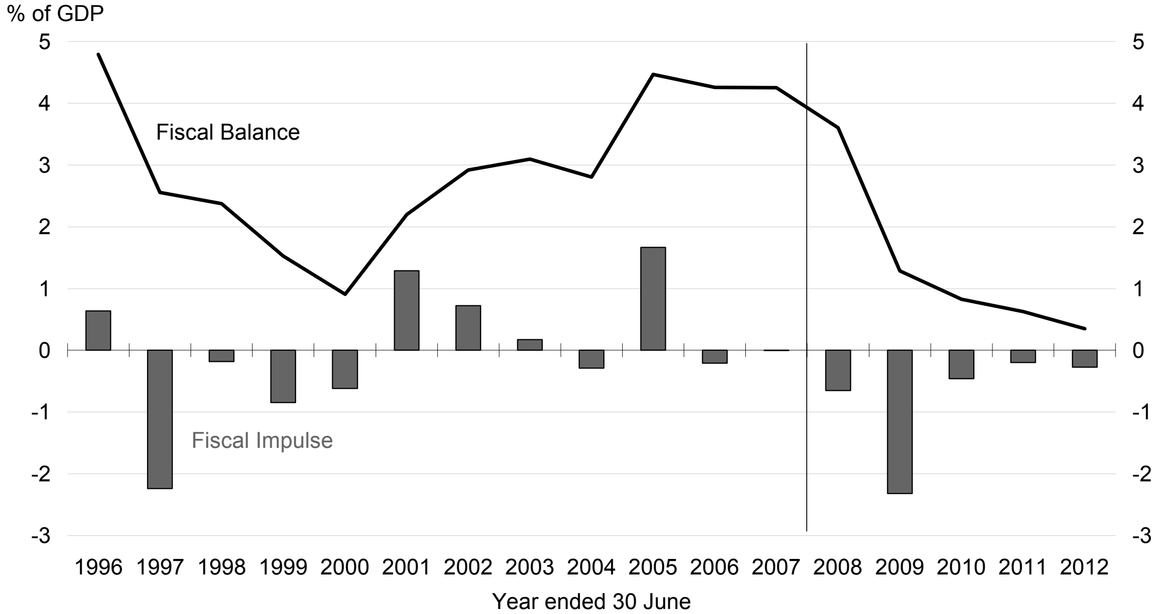
1 Trend output is estimated here using a Hodrick-Prescott (HP) filter.

Fiscal balance and fiscal impulse

Fiscal impulse is a summary indicator of whether changes in fiscal policy are adding to, or subtracting from, changes in aggregate demand. It is not an indicator of the impact of fiscal policy on inflation. Fiscal impulse is calculated as the change in a cyclically-adjusted, exclusive of net interest, cash balance - the “Fiscal Balance” in the figure below. To capture changes in 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 capture the role of capital spending the indicator is derived from cash flow information. The indicator incorporates the judgment that defence capital spending is less likely to affect aggregate demand and is thus deducted from total capital spending. An adjustment has also been made for the government’s contribution to KiwiSaver accounts.

A positive fiscal impulse represents an increase in the fiscal balance relative to the previous year. Although they are cash based, the fiscal balance and the fiscal impulse do not correspond to reported fiscal indicators such as “residual cash” due to cyclical-adjustments and because selected items of capital are excluded from the calculations.

Fiscal Balance and Impulse



Source: The Treasury

Indicators of fiscal impulse based on fiscal aggregates have limitations. At best they can only provide an indication of the first round impact of changes in fiscal policy. They focus only on the net impact of tax and spending changes and so do not take into account the composition of changes in fiscal policy (which may be relevant for the assessment of inflationary impacts).

Ex post estimates of fiscal impulse may differ from the *ex ante* estimate because of revisions to the cyclically-adjusted component of the fiscal balance and the implementation of spending plans (i.e., timing delays in departmental spending, both operating and capital). The estimates of fiscal impulse can and do change between economic updates. One reason for this is that estimates of the impulse for the year ahead (and so the change in the fiscal balance) are affected by the top-down adjustment applied for underspend that is made to the current year.

Treasury's approach to estimating the cyclically-adjusted balance and fiscal impulse 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).

June Year % of GDP	Fiscal Balance	Fiscal Impulse	OBEGAL	Cyclically-adjusted OBEGAL
1996	4.8	0.6	3.1	2.4
1997	2.6	-2.2	1.8	1.1
1998	2.4	-0.2	2.3	3.1
1999	1.5	-0.8	0.1	0.9
2000	0.9	-0.6	0.5	0.4
2001	2.2	1.3	1.2	1.9
2002	2.9	0.7	2.0	2.1
2003	3.1	0.2	3.2	3.1
2004	2.8	-0.3	3.9	3.3
2005	4.5	1.7	4.7	4.2
2006	4.3	-0.2	4.6	4.7
2007	4.3	0.0	3.7	3.7
2008	3.6	-0.7	2.9	2.9
2009	1.3	-2.3	0.7	1.1
2010	0.8	-0.5	0.5	0.7
2011	0.6	-0.2	0.3	0.2
2012	0.4	-0.3	0.1	-0.1

Source: The Treasury

Tax Revenue Tables

Table 1 – Treasury and Inland Revenue forecasts of tax revenue

	2006/07	2007/08		2008/09		2009/10		2010/11		2011/12	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
$ million		**Treasury**	**IRD**	**Treasury**	**IRD**	**Treasury**	**IRD**	**Treasury**	**IRD**	**Treasury**	**IRD**
Direct tax											
Individuals											
Source deductions	21,373	23,083	23,263	23,192	23,396	23,964	24,345	24,700	25,088	25,664	26,065
Other persons tax	4,440	4,986	5,055	4,986	5,051	5,162	5,187	5,205	5,268	5,317	5,316
Refunds	(1,080)	(1,290)	(1,270)	(1,199)	(1,250)	(1,277)	(1,280)	(1,288)	(1,310)	(1,322)	(1,335)
Fringe benefit tax	468	521	518	523	524	541	546	571	570	595	590
Subtotal: Individuals	**25,201**	**27,300**	**27,566**	**27,502**	**27,721**	**28,390**	**28,798**	**29,188**	**29,616**	**30,254**	**30,636**
Company tax (net)	**9,516**	**8,789**	**8,680**	**8,397**	**8,156**	**8,766**	**8,774**	**9,470**	**9,423**	**10,147**	**9,870**
Withholding taxes on:											
Resident interest income	2,227	2,596	2,626	2,740	2,809	2,719	2,748	2,646	2,667	2,719	2,620
Non-resident income	1,189	1,653	1,611	1,402	1,417	1,364	1,415	1,303	1,433	1,375	1,463
Foreign-source dividends	149	122	92	109	108	109	108	109	114	109	118
Resident dividend income	89	63	45	91	67	221	201	269	249	271	256
Subtotal: Withholding tax	**3,654**	**4,434**	**4,374**	**4,342**	**4,401**	**4,413**	**4,472**	**4,327**	**4,463**	**4,474**	**4,457**
Total income tax	**38,371**	**40,523**	**40,620**	**40,241**	**40,278**	**41,569**	**42,044**	**42,985**	**43,502**	**44,875**	**44,963**
Other: Estate and gift duties	2	3	3	3	3	3	3	3	3	3	3
Total direct tax	**38,373**	**40,526**	**40,623**	**40,244**	**40,281**	**41,572**	**42,047**	**42,988**	**43,505**	**44,878**	**44,966**
Indirect tax											
GST											
GST (Customs)	5,391	5,732	5,611	5,925	5,992	6,371	6,328	6,951	6,910	7,521	7,500
GST (IRD)	9,712	10,302	10,332	10,549	10,750	10,791	11,178	11,009	11,375	11,188	11,540
Subtotal: GST	**15,103**	**16,034**	**15,943**	**16,474**	**16,742**	**17,162**	**17,506**	**17,960**	**18,285**	**18,709**	**19,040**
Excise duties on:											
Alcoholic drinks	553	573	581	605	608	636	633	660	660	687	688
Tobacco products	238	144	158	151	172	154	183	157	190	160	194
Petroleum fuels	819	818	800	813	791	831	800	841	801	849	810
Subtotal: excise duties	**1,610**	**1,535**	**1,539**	**1,569**	**1,571**	**1,621**	**1,616**	**1,658**	**1,651**	**1,696**	**1,692**
Other indirect tax											
Customs duty	1,836	1,880	1,884	1,859	1,860	1,862	1,884	1,861	1,878	1,854	1,868
Road user charges	786	867	860	940	938	925	973	933	1,021	944	1,070
Gaming duties	271	285	282	298	290	309	293	319	294	329	296
Motor vehicle fees	222	227	232	229	235	230	242	232	250	234	258
Exhaustible resource levy	54	47	45	43	45	43	45	43	50	43	55
Approved issuer levy, cheque duty & other	107	104	103	106	101	112	94	111	93	111	93
Subtotal: Other indirect tax	**3,276**	**3,410**	**3,406**	**3,475**	**3,469**	**3,481**	**3,531**	**3,499**	**3,586**	**3,515**	**3,640**
Total indirect tax	**19,989**	**20,979**	**20,888**	**21,518**	**21,782**	**22,264**	**22,653**	**23,117**	**23,522**	**23,920**	**24,372**
Total tax	**58,362**	**61,505**	**61,511**	**61,762**	**62,063**	**63,836**	**64,700**	**66,105**	**67,027**	**68,798**	**69,338**
Total tax (% of GDP)	34.7%	34.1%	34.1%	33.3%	33.5%	33.2%	33.7%	32.8%	33.2%	32.5%	32.7%
***less* Core Crown tax eliminations**											
Core Crown income tax	733	259	259	323	323	404	404	480	480	560	560
GST on Crown expenses and departmental outputs	3,888	4,220	4,220	4,594	4,594	4,873	4,873	4,968	4,968	5,182	5,182
Crown SSCWT	389	339	339	309	309	315	315	322	322	329	329
Crown AIL	13	15	15	15	15	15	15	15	15	15	15
Core Crown taxation	**53,339**	**56,672**	**56,678**	**56,521**	**56,822**	**58,229**	**59,093**	**60,320**	**61,242**	**62,712**	**63,252**
Core Crown tax (% of GDP)	31.7%	31.5%	31.5%	30.5%	30.6%	30.3%	30.8%	29.9%	30.3%	29.6%	29.9%
***less* Total Crown tax eliminations**											
Income tax from SOEs and CEs	230	437	437	557	557	527	527	517	517	515	515
Other Crown GST	..	..	..	..	..	..	..	..	..	..	..
SSCWT from SOEs and CEs	4	9	9	9	9	10	10	10	10	10	10
Lottery duty	41	40	40	44	44	47	47	50	50	53	53
Total Crown taxation	**53,064**	**56,186**	**56,192**	**55,911**	**56,212**	**57,645**	**58,509**	**59,743**	**60,665**	**62,134**	**62,674**
Total Crown tax (% of GDP)	31.6%	31.2%	31.2%	30.1%	30.3%	30.0%	30.5%	29.6%	30.1%	29.3%	29.6%
Nominal GDP	168,106	180,137	180,137	185,478	185,478	192,125	192,125	201,802	201,802	211,800	211,800

Sources: Inland Revenue, The Treasury

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

	2006/07	2007/08		2008/09		2009/10		2010/11		2011/12	
	Actual	Forecast		Forecast		Forecast		Forecast		Forecast	
$ million		**Treasury**	**IRD**	**Treasury**	**IRD**	**Treasury**	**IRD**	**Treasury**	**IRD**	**Treasury**	**IRD**
Direct tax											
Individuals											
Source deductions	21,357	23,013	23,194	23,050	23,254	23,890	24,271	24,623	25,011	25,584	25,985
Other persons tax	5,121	5,669	5,645	5,570	5,690	5,813	5,850	5,895	5,945	5,928	5,995
Refunds	(1,850)	(2,238)	(2,145)	(2,065)	(2,130)	(2,093)	(2,140)	(2,117)	(2,170)	(2,122)	(2,195)
Fringe benefit tax	482	486	507	513	517	535	539	560	563	586	589
Subtotal: Individuals	**25,110**	**26,930**	**27,201**	**27,068**	**27,331**	**28,145**	**28,520**	**28,961**	**29,349**	**29,976**	**30,374**
Company tax (net)	**9,005**	**8,989**	**8,917**	**7,816**	**7,606**	**8,672**	**8,721**	**9,348**	**9,334**	**9,971**	**9,736**
Withholding taxes on:											
Resident interest income	2,192	2,567	2,625	2,740	2,809	2,719	2,748	2,646	2,667	2,719	2,620
Non-resident income	1,135	1,615	1,611	1,373	1,417	1,335	1,412	1,340	1,435	1,396	1,461
Foreign-source dividends	141	122	92	109	108	109	108	109	114	109	118
Resident dividend income	90	63	45	90	67	220	201	267	249	269	256
Subtotal: Withholding tax	**3,558**	**4,367**	**4,373**	**4,312**	**4,401**	**4,383**	**4,469**	**4,362**	**4,465**	**4,493**	**4,455**
Total income tax	**37,673**	**40,286**	**40,491**	**39,196**	**39,338**	**41,200**	**41,710**	**42,671**	**43,148**	**44,440**	**44,565**
Other: Estate and gift duties	3	3	2	3	3	3	3	3	3	3	3
Total direct tax	**37,676**	**40,289**	**40,493**	**39,199**	**39,341**	**41,203**	**41,713**	**42,674**	**43,151**	**44,443**	**44,568**
Indirect tax											
GST											
GST (Customs)	5,390	5,664	5,611	5,926	5,992	6,372	6,328	6,952	6,910	7,522	7,500
GST (IRD)	9,600	10,046	10,131	10,349	10,561	10,583	10,959	10,789	11,154	10,958	11,309
Subtotal: GST	**14,990**	**15,710**	**15,742**	**16,275**	**16,553**	**16,955**	**17,287**	**17,741**	**18,064**	**18,480**	**18,809**
Excise duties on:											
Alcoholic drinks	549	573	581	605	608	636	633	660	660	687	688
Tobacco products	265	144	158	151	172	154	183	157	190	160	194
Petroleum fuels	835	818	800	813	791	831	800	841	801	849	810
Subtotal: Excise duties	**1,649**	**1,535**	**1,539**	**1,569**	**1,571**	**1,621**	**1,616**	**1,658**	**1,651**	**1,696**	**1,692**
Other indirect tax											
Customs duty	1,778	1,880	1,884	1,859	1,860	1,862	1,884	1,861	1,878	1,854	1,867
Road user charges	791	867	860	940	939	925	973	933	1,021	944	1,070
Gaming duties	277	285	282	298	290	309	293	319	294	329	296
Motor vehicle fees	208	227	232	229	235	230	242	232	250	234	258
Exhaustible resource levy	55	52	45	43	45	43	45	43	50	43	55
Approved issuer levy, cheque duty & other	87	104	105	107	103	112	96	111	95	111	95
Subtotal: Other indirect tax	**3,196**	**3,415**	**3,408**	**3,476**	**3,472**	**3,481**	**3,533**	**3,499**	**3,588**	**3,515**	**3,641**
Total indirect tax	**19,835**	**20,660**	**20,689**	**21,320**	**21,596**	**22,057**	**22,436**	**22,898**	**23,303**	**23,691**	**24,142**
Total tax	**57,511**	**60,949**	**61,182**	**60,519**	**60,937**	**63,260**	**64,149**	**65,572**	**66,454**	**68,134**	**68,710**
Total tax (% of GDP)	34.2%	33.8%	34.0%	32.6%	32.9%	32.9%	33.4%	32.5%	32.9%	32.2%	32.4%
***less* Core Crown tax eliminations**											
Core Crown income tax	596	302	302	323	323	404	404	480	480	560	560
GST on Crown expenses and departmental outputs	3,914	4,211	4,211	4,597	4,597	4,863	4,863	4,959	4,959	5,175	5,175
Crown SSCWT	345	333	333	308	308	315	315	322	322	328	328
Crown AIL	13	15	15	15	15	15	15	15	15	15	15
Core Crown taxation	**52,643**	**56,088**	**56,321**	**55,276**	**55,694**	**57,663**	**58,552**	**59,796**	**60,678**	**62,056**	**62,632**
Core Crown tax (% of GDP)	31.3%	31.1%	31.3%	29.8%	30.0%	30.0%	30.5%	29.6%	30.1%	29.3%	29.6%
***less* Total Crown tax eliminations**											
Income tax from SOEs and CEs	442	360	360	545	545	517	517	526	526	512	512
Other Crown GST	..	22	22	1	1	7	7	17	17	13	13
SSCWT from SOEs and CEs	3	4	4	5	5	5	5	5	5	5	5
Lottery duty	41	40	40	44	44	47	47	50	50	53	53
Total Crown taxation	**52,157**	**55,662**	**55,895**	**54,681**	**55,099**	**57,087**	**57,976**	**59,198**	**60,080**	**61,473**	**62,049**
Total Crown tax (% of GDP)	31.0%	30.9%	31.0%	29.5%	29.7%	29.7%	30.2%	29.3%	29.8%	29.0%	29.3%

Sources: Inland Revenue, The Treasury

Contingent Assets and Contingent Liabilities

The Specific Fiscal Risks chapter in the published *2008 Budget* includes tables listing quantifiable and unquantifiable contingent liabilities as at 31 March 2008. Following are the detailed write-ups outlining the nature of the items in the tables in the *Specific Fiscal Risks* chapter along with a brief summary of the contingent assets balance.

Only contingent liabilities involving amounts of over $10 million are separately disclosed. Contingent liabilities below $10 million are included in the "other quantifiable contingent liabilities" total. Comparatives have been adjusted where appropriate to align with the disclosure of new "material" contingent liabilities. The total amount of prior periods' contingent liabilities remains unchanged.

	31 March 2008	31 October 2007
	$m	$m
Guarantees and indemnities	**168**	171
Uncalled capital	**2,080**	2,114
Legal proceedings and disputes	**349**	484
Other quantifiable contingent liabilities	**1,984**	2,014
Total Quantifiable Contingent Liabilities	**4,581**	4,783
Total Quantifiable Contingent Assets	**90**	94

Quantifiable Contingent Liabilities

Contingent liabilities are costs that the Crown will have to face if a particular event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation. In general, if a contingent liability were realised it would reduce the operating balance and net worth, and increase gross sovereign issued debt. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to gross sovereign issued debt.

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

Guarantees and indemnities

Guarantees and indemnities are disclosed in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets.*

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.

$14 million at 31 March 2008 ($14 million at 31 October 2007).

Indemnification of receivers and managers – Terralink Limited

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

$10 million at 31 March 2008 ($10 million at 31 October 2007).

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 or gift duty liability arising from the payment of tangible redress.

$105 million at 31 March 2008 ($105 million at 31 October 2007).

Ministry of Transport – funding guarantee

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

$10 million at 31 March 2008 ($10 million at 31 October 2007).

Guarantees and indemnities of SOEs and Crown entities

$18 million at 31 March 2008 ($18 million at 31 October 2007).

Other Guarantees and indemnities

$11 million at 31 March 2008 ($14 million at 31 October 2007).

Uncalled Capital

The Crown's uncalled capital subscriptions are as follows:	**Uncalled capital at 31 March 2008 $m**	**Uncalled capital at 31 October 2007 $m**
Asian Development Bank	**1,005**	1,002
Bank for International Settlements	**25**	25
European Bank for Reconstruction and Development	**14**	13
International Bank for Reconstruction and Development	**1,036**	1,074
	2,080	2,114

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 alleged negligence for failing to screen blood for Hepatitis C when screening had first become available, resulting in people allegedly contracting Hepatitis C through contaminated blood and blood products.

$39 million at 31 March 2008 ($53 million at 31 October 2007).

Tax in dispute

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

$220 million at 31 March 2008 ($322 million at 31 October 2007).

Other legal claims against SOEs and Crown entities

$3 million at 31 March 2008 ($33 million at 31 October 2007).

Other legal claims

$87 million at 31 March 2008 ($76 million at 31 October 2007).

Other quantifiable contingent liabilities

International finance organisations

The Crown has lodged promissory notes with the International Monetary Fund. Payment of the notes depends upon the operation of the rules of the organisation.

$1,647 million at 31 March 2008 ($1,531 million at 31 October 2007).

New Zealand Export Credit Office – export guarantees

The New Zealand Export Credit Office (NZECO) provides a range of guarantee products to assist New Zealand exporters. These NZECO guarantees are recorded by the Crown as contingent liabilities. The amount of future liabilities arising from these guarantees is expected to be minor.

$33 million at 31 March 2008 ($29 million at 31 October 2007).

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 March 2008 ($23 million at 31 October 2007).

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".

$88 million at 31 March 2008 ($83 million at 31 October 2007).

Transpower New Zealand Limited – other quantifiable contingent liabilities

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) has been passed on to or claimed from customers over time.

$37 million at 31 March 2008 ($98 million at 31 October 2007).

Other quantifiable contingent liabilities of SOEs and Crown entities

$85 million at 31 March 2008 ($50 million at 31 October 2007).

Other quantifiable contingent liabilities

$71 million at 31 March 2008 ($54 million at 31 October 2007).

Unquantifiable Contingent Liabilities

Accounting standard NZ IAS 37 requires that contingent liabilities be disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Disclosure of remote contingent liabilities is only required if knowledge of the transaction or event is necessary to achieve the objectives of general purpose financial reporting. This part of the Statement provides details of those contingent liabilities of the Crown which cannot be quantified (remote contingent liabilities are excluded).

Guarantees and indemnities

AgriQuality Limited (formerly Asure New Zealand Limited)

The Crown has indemnified the directors of AgriQuality 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 Limited and Comalco New Zealand Limited 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.

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 117 of the Coroners Act 2006 confers on Coroners acting within the Coroner Act 2006 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.

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 Contact Energy stands in place of ECNZ for those assets transferred to Contact Energy 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 HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL 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 HNZL 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 18 in the *GAAP Series Tables* chapter of the *2008 Budget*).

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).

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 (NZLFIL), the Crown transferred to NZLFIL 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 NZLFIL 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

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.

Environmental Liabilities

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

Departments managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with IAS 37: *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- joint venture arrangements

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 Government's 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.

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.

Treaty of Waitangi claims - 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.

Quantifiable Contingent Assets

Contingent assets are potential assets dependent on a particular event occurring. As at 31 March 2008, the Crown had quantifiable contingent assets totalling $90 million ($94 million at 31 October 2007). $82 million relates to suspensory loans issued by the Ministry of Education to integrated schools.

Accounting Policies and Forecast Assumptions

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

Reporting Entity

The Government's financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989. For the purposes of financial reporting the Government of New Zealand is a public benefit entity. The financial statements of the Government are the consolidated financial statements. The Government reporting entity comprises the Sovereign in right of New Zealand and the legislative, executive and judicial branches of the Government of New Zealand. It comprises:

- Parliament
- Departments
- Reserve Bank of New Zealand
- State owned enterprises
- Crown entities
- Organisations named in Schedule 4 of the Public Finance Act 1989
- Ministers of the Crown
- Offices of Parliament
- New Zealand Superannuation Fund
- Air New Zealand Limited

Reporting Period

The reporting period for these forecast financial statements covers years ending 30 June 2008 to 30 June 2012.

The "2007 Actual" information is the unaudited NZ IFRS results for the year-ended 30 June 2007. The "2008 previous budget" data is the original forecast to June 2008, as presented in the 2007 Budget. The 2008 forecasts, as presented in Budget 2008, have been prepared using actual data up to 29 February 2008 and forecast data for the remainder of the financial year.

Statement of Compliance

These Forecast Financial Statements have been prepared in accordance with the accounting policies expected to be used in the comparable audited actual Financial Statements of the Government.

These Forecast Financial Statements comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989.

Forecasts have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities. These are the standards adopted by the Crown from 1 July 2007.

All forecasts use the accrual basis of accounting, except where specified (e.g. Statement of Cashflows). Forecasts have been prepared for the consolidated financial statements of the government reporting entity, including all entities controlled by the Government (as defined by applicable financial reporting standards).

Accounting Policies

The accounting policies set out below have been applied consistently to all periods in Budget 2008 and in preparing an opening NZ IFRS balance sheet as at 1 July 2007 for the purposes of the transition to NZ IFRS.

The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies.

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest million.

Judgements and Estimations

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Key assumptions used are set out on pages 69-70 of Budget 2008.

Basis of Combination

Ministers of the Crown, departments, Offices of Parliament, the Reserve Bank of New Zealand, the New Zealand Superannuation Fund, SOEs (including Air New Zealand Limited) and Crown entities (excluding Tertiary education institutions) 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 consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Government reporting entity.

Tertiary education institutions (‘TEIs’) are equity accounted, which recognises these entities’ net assets, including asset revaluation movements and surpluses and deficits. Page 64 of the 30 June 2007 Crown financial statement outlines in more detail why there is a difference in the accounting treatment of TEIs from other Crown entities.

The basis of combination for joint ventures depends on the form of the joint venture interest:

Forms of Joint Venture	Basis of Combination
Jointly controlled operations	The Government reporting entity recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the jointly controlled operations' income
Jointly controlled assets	The Government reporting entity recognises its share of the jointly controlled assets, its share of any liabilities and expenses incurred jointly, any other liabilities and expenses it has incurred in respect of the jointly controlled asset, and income from the sale or use of its share of the output of the jointly controlled asset.
Jointly controlled entities	Jointly controlled entities are equity accounted, whereby the Government reporting entity initially recognises its share of interest in these entities' net assets at cost and subsequently adjusts the cost for changes in net assets. The Government reporting entities' share of the jointly controlled entity's surpluses and deficits are recognised in the statement of financial performance.

Business combinations that occurred prior to the date of transition to NZ IFRS have not been restated retrospectively.

Revenue

Tax

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 (GST)	When the liability to the Crown is incurred
Customs and Excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment for the fee or charge is made
Stamp, cheque and gaming duties	Assessment filed date
Exhaustible Resources Levy	When the resource is extracted
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).

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. Revenue from the supply of goods and services is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised at balance date on a straight line basis over the specified period for the services unless an alternative method better represents the stage of completion of the transaction.

Interest

Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Dividend

Dividend income from investments is recognised when the Government's rights as a shareholder to receive payment have been established.

Forecasts of dividend income are based on long-run rate of return assumptions appropriate to the forecast portfolio mix.

Rental Income

Rental income is recognised in the Statement of Financial Performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Donated or Subsidised Assets

Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue in the Statement of Financial Performance.

Expenses

Welfare Benefits and Entitlements

Welfare benefits and entitlements, including New Zealand superannuation, are recognised in the period when an application for a benefit has been received and the eligibility criteria met.

Grants/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 expensed in any one year may be greater or less than the amount forecast for that particular year, since actual expenses depend on the settlements reached.

Interest expense

Interest expense is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash payments through the expected life of the liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Foreign Currency

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance, except when deferred in equity when hedge accounting is applied.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into New Zealand dollars at the exchange rate applicable at the fair value date. The associated foreign exchange gains or losses follow the fair value gains or losses to either the Statement of Financial Performance or directly to equity.

Foreign exchange gains and losses arising from translating monetary items that form part of the net investment in a foreign operation are reported in a translation reserve in equity.

For forecasting purposes, exchange rates prevailing on 29 February 2008 are assumed to prevail for 30 June 2008 forecasts and beyond. As a consequence, no additional realised or unrealised foreign exchange gains or losses are forecast for the forecast period.

Financial Instruments - accounting policies

The measurement (e.g. amortised cost, fair value, hedge accounting) and reporting of financial instruments depends on their designation adopted under NZ IAS 39. The designations used in preparing these forecasts for financial assets are: loans and receivables, available for sale, held for trading and designated at fair value through profit and loss. For financial liabilities the designations are amortised cost, held for trading and designated at fair value through profit and loss.

Designation of financial assets and financial liabilities by individual entities is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation. The designations applied by entities are reflected in the forecasts (after making necessary consolidation adjustments).

Financial Assets

Financial assets held for trading and financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Financial Performance. A financial asset is designated at fair value through profit and loss if acquired principally for the purpose of selling in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significant reduces an accounting mismatch with related liabilities or is part of a group of financial assets that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the Statement of Financial Performance (refer below for forecasting policies). Transaction costs are expensed as they are incurred.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in equity except for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses resulting from translation differences due to changes in amortised cost of the asset. These latter items are recognised in the Statement of Financial Performance. For non-monetary available-for-sale financial assets (e.g. equity instruments) the fair value movements recognised in equity include any related foreign exchange component (refer below for forecasting policies). At derecognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the Statement of Financial Performance.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer interest revenue policy). Loans and receivables issued with duration less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the Statement of Financial Performance (refer below for forecasting policies).

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with a maturity of no more than three months from date of acquisition.

Fair values of quoted investments are based on current bid prices. Regular way purchases and sales of all financial assets are accounted for at trade date.[1] If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques. At each balance date an assessment is made whether there is objective evidence that a financial asset or group of financial assets is impaired.

Financial Liabilities

Financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Financial Performance. A financial liability is designated at fair value through profit and loss if acquired principally for the purpose of selling in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significant reduces an accounting mismatch with related assets or is part of a group of financial liabilities that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the Statement of Financial Performance (refer below for forecasting policies). Transaction costs are expensed as they are incurred.

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1 "Regular way" transactions are those under a contract whose terms require delivery within the time frame established by regulation or marketplace convention.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer interest expense policy). Financial liabilities entered into with duration less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the Statement of Financial Performance as is any gain or loss when the liability is derecognised (refer below for forecasting policies). Currency issued for circulation, including demonetised currency, is recognised at face value. Currency issued represents a liability in favour of the holder.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively. Recognition of the movements in the value of derivatives depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged (see Hedging section).

Derivatives that are not designated as for hedge accounting are classified as held-for-trading financial instruments with fair value gains or losses recognised in the Statement of Financial Performance. Such derivatives may be entered into for risk management purposes, although not formally designated for hedge accounting, or for tactical trading. The underlying intent of the derivative influences where gains and losses are reported in the Statement of Financial Performance (refer below for forecasting policies).

Hedging

Individual entities consolidated within the Government reporting entity apply hedge accounting after considering the costs and benefits of adopting hedge accounting, including whether an economic hedge exists and the effectiveness of that hedge, whether the hedge accounting qualifications could be met, and the extent it would improve the relevance of reported results.

Transactions between entities within the Government reporting entity do not qualify for hedge accounting in the financial statements of the Government (although they may qualify for hedge accounting in the separate financial statements of the individual entities). Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, the effects of the hedge relationship are automatically reflected in the Statement of Financial Performance so hedge accounting is not necessary.

Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective part of any gain or loss on the derivative is recognised in equity while the ineffective part is recognised in the Statement of Financial Performance. Where the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability (e.g. where the hedge relates to purchase of an asset in a foreign currency), the amount recognised directly in equity is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in equity transfer to the Statement of Financial Performance in the same periods as when the hedged item affects the Statement of Financial Performance (e.g. when the forecast sale occurs).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Financial Performance. When a forecast transaction is no longer expected to occur, the cumulative gain or loss hat was reported in equity is transferred to the Statement of Financial Performance.

Financial Instruments - forecasting policies

For forecasting purposes, financial instruments held after 29 February 2008 are assumed to be held until they mature. Additional gains and losses on financial assets measured at fair value are based on long-run rate of return assumptions appropriate to the forecast portfolio mix, after adjusting for interest revenue and dividend revenue which are reported separately. Gains and losses on financial liabilities measured at fair value are assumed to unwind over the period to maturity, as they are assumed to be redeemed at par value.

Forecast sales and purchases of financial instruments are assumed to be issued at par value, with no premiums or discounts forecasted. The exceptions are interest-free assets with long maturities, such as student loans and some sovereign receivables, where a write-down to fair value is recognised when the loan or receivable is issued.

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.

Derivatives held for trading are measured at fair value, which is nil when initially entered into i.e. fair value changes are only recognised after the derivative is created and as a result of changes in underlying variables such as exchange rates. Hence, forecasts for derivatives expected to be entered into over the forecast period are assumed to have a nil balance. Forward margins on forward-exchange contracts existing as at 29 February 2008 are amortised over the period of the contract on a straight line basis.

Gains and losses are not forecast for financial assets measured at amortised cost.

Inventory

Inventories are recorded at the lower of cost (calculated using weighted average method) and net realisable value. Inventories held for distribution for public benefit purposes are recorded at the lower of cost or current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost at the date of acquisition. Inventories include unissued currency and harvested agricultural produce (e.g. logs, wool). The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

Property, Plant & Equipment – accounting policies

Overview

Items of property, plant and equipment are initially recorded at cost. Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Where an asset is acquired for nil or nominal consideration the asset will be recognised initially at fair value, where fair value can be reliably determined, with the fair value of the asset received, less costs incurred to acquire the asset, also recognised as revenue in the Statement of Financial Performance.

Revaluations are carried out for a number of 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, with changes reported by class of asset.

Land & Buildings

Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where available. Otherwise, valuations conducted in accordance with the Rating Valuation Act 1998, which have been confirmed as appropriate by an independent valuer, have been used.

Specialist Military Equipment

Specialist military equipment is recorded at fair value (which is determined using depreciated replacement cost) less depreciation and impairment losses accumulated since the assets were last revalued. Valuations have been obtained through specialist assessment by New Zealand Defence Force advisers, and the bases of these valuations have been confirmed as appropriate by an independent valuer.

State Highways

State highways are recorded at fair value (which is determined using depreciated replacement cost) less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the state highways is valued using an opportunity cost based on adjacent use, as an approximation to fair value.

Aircraft

Aircraft (excluding Specialised Military Equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.

Electricity Distribution

Electricity distribution network assets are recorded at cost, less accumulated depreciation and accumulated impairment losses.

Electricity Generation

Electricity generation assets are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.

Other PPE – at cost

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

Specified cultural and heritage assets

Specified cultural and heritage assets comprise the collections of the National Library, National Archives, Parliamentary Library and Te Papa. Such physical assets are recorded at fair value less subsequent impairment losses and, for non-land assets, less subsequent accumulated depreciation.

Assets that are not realistically able to be reproduced or replaced, which do not generate cash flows and where no market exists to provide a valuation are not reported with a financial value.

Classes of property, plant and equipment that are revalued, are revalued at least every five years or whenever the carrying amount differs materially to fair value. Unrealised gains and losses arising from changes in the value of property, plant and equipment are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the Statement of Financial Performance for the asset class, the gain is credited to the Statement of Financial Performance. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. To the extent that there is a balance in the asset revaluation reserve for the asset class any loss is debited to the reserve. Otherwise, losses are reported in the Statement of Financial Performance.

Accumulated depreciation at revaluation date may be either restated proportionately or eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount. The elimination approach is applied unless otherwise indicated.

Realised gains and losses arising from disposal of property, plant and equipment are recognised in the Statement of Financial Performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

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.

The carrying amounts of plant, property and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Statement of Financial Performance, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

Property, Plant & Equipment – forecasting policies

The 30 June 2008 forecasts for the value of property, plant and equipment use valuations as recorded in the Crown Financial Statements for the year ended 30 June 2007, and any additional actual valuations that have occurred up to 29 February 2008. The value of property, plant and equipment for the other forecast periods is forecast using the same valuation used for the 30 June 2008 forecasts. Property, plant and equipment forecast to be purchased, constructed, or sold after 29 February 2008 are valued at their forecast cost. As a consequence, no realised or unrealised losses are forecast beyond the current year.

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
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
Other plant and equipment	3 to 25 years

Biological Assets

Biological assets (e.g. trees, sheep) managed for harvesting into agricultural produce (e.g. logs, wool) are measured at fair value less estimated point-of-sale costs, with any realised and unrealised gains or losses reported in the Statement of Financial Performance. Where fair value cannot be reliably determined, the asset is recorded at cost less accumulated depreciation and accumulated impairment losses. For commercial forests, fair value takes into account age, quality of timber and the forest management plan.

Log prices and other applicable market inputs to determining fair values for biological assets are assumed to be constant over the forecast period.

Biological assets not managed for harvesting into agriculture produce are reported as property, plant and equipment in accordance with the policies identified above.

Generally, forecasting policies for these assets are the same as those applied to property, plant and equipment. As a consequence, no realised gains or losses are forecast beyond the current year. However, physical growth activities for agricultural assets (e.g. livestock, forestry) separate from price changes can be forecasted.

Intangible Assets

Intangible assets are initially recorded at cost. The cost of intangible assets acquired in a business combination is their fair values at date of acquisition. The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Expenditure incurred on research[2] of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the Statement of Financial Performance on a straight-line basis over the useful life of the asset.

Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment. Where there is an active market for an intangible asset, the asset is recorded at a revalued amount, being fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are done for each intangible asset, not for a class of asset.

Realised gains and losses arising from disposal of intangible assets are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Intangible assets with finite lives are reviewed at least annually to determine if there is any indication of impairment. An intangible asset with an indefinite life is tested for impairment annually. Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Statement of Financial Performance, unless the asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

Goodwill is recognised as an asset at cost and tested for impairment at least annually. Any impairment is recognised as an expense. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill must be allocated to cash generating units. Unless otherwise stated, the cash generating unit is synonymous with the entity acquired (e.g. Air New Zealand). Goodwill arising on acquisitions before the date of transition to NZ IFRS has been retained at the previous NZ GAAP amounts subject to being tested for impairment at that date.

For forecasting purposes, intangible assets forecast to be purchased, developed, or sold after 29 February 2008 are valued at their forecast cost. As a consequence, no realised gains or losses are forecast beyond the current year.

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[2] Research is "original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding".

Non-current Assets Held for Sale and Discontinued Operations

Non-current assets or disposal groups are separately classified where their carrying amount will be recovered through a sale transaction rather than continuing use; that is, where such assets are available for immediate sale and where sale is highly probable. These assets are recorded at the lower of their carrying amount and fair value less costs to sell.

Forecasting policies for these assets are the same as those applied to property, plant and equipment. As a consequence, no realised gains or losses are forecast beyond the current year.

Investment Property

Investment property is property held primarily to earn rentals or for capital appreciation or both. It does not include property held primarily for strategic purposes or to provide a social service (e.g. affordable housing) even though such property may earn rentals or appreciate in value - such property is reported as property, plant and equipment. Nor does investment property include property interests held under operating leases.

Investment properties are measured at fair value. Gains or losses arising from fair value changes are included in the Statement of Financial Performance. Valuations are undertaken in accordance with standards issued by the New Zealand Property Institute.

Forecasting policies for these assets are the same as those applied to property, plant and equipment. As a consequence, no realised gains or losses are forecast beyond the current year.

Employee Benefits

Pension Liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the Statement of Financial Performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial value of the Crown liability. All movements in the liability, including actuarial gains and losses, are recognised in full in the Statement of Financial Performance in the period in which they occur. All actuarial gains and losses as at the date of transition to NZ IFRS were recognised.

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. Actuarial gains and losses are not forecast beyond the current year; those in the current year relate to those gains or losses identified at the last actuarial valuation.

Other Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the Statement of Financial Performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Termination Benefits

Termination benefits are recognised in the Statement of Financial Performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Insurance Contracts

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. Financial assets backing the liability are designated at fair value through profit and loss.

Leases

Finance leases transfer to the Crown as lessee substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or 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 lessor substantially retains 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. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

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.

Other Liabilities and Provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their present value.

Commitments

The commitments reported in these forecast financial statements are **actual** commitments at 31 March 2008.

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 9 May 2008** and contingent liabilities and assets at 31 March 2008. They include existing contingent liabilities and contingent assets, which are recognised at the point at which the contingency is evident.

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

Institutional Analysis

The Government reporting entity is not required to provide segment reporting as it is a public benefit entity. Nevertheless, information is presented for material institutional components and major economic activities within or undertaken by the Government Reporting Entity.

Changes in Accounting Policies

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information.