AUDITED FINANCIAL STATEMENTS

Statement of Financial Performance

for the year ended 30 June 2012

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Note	Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Revenue			
54,690	54,331	Taxation revenue	2	54,665	51,128
5,808	5,112	Other sovereign revenue	2	5,130	5,281
60,498	**59,443**	**Total sovereign revenue**		**59,795**	**56,409**
16,078	16,380	Sales of goods and services	3	16,785	15,084
3,051	2,824	Interest revenue and dividends	4	2,763	2,570
3,106	3,928	Other revenue	5	4,140	7,500
22,235	**23,132**	**Total revenue earned through operations**		**23,688**	**25,154**
82,733	**82,575**	**Total revenue (excluding gains)**		**83,483**	**81,563**
		Expenses			
22,926	22,534	Transfer payments and subsidies	6	22,354	22,172
19,149	19,315	Personnel expenses	7	19,475	19,088
4,631	4,520	Depreciation and amortisation	8	6,350	4,682
37,792	36,386	Other operating expenses	9	35,678	35,829
4,685	4,173	Interest expenses	10	4,290	3,596
3,138	4,451	Insurance expenses	11	4,576	14,592
463	87	Forecast new operating spending		-	-
(310)	(450)	Top-down expense adjustment		-	-
92,474	**91,016**	**Total expenses (excluding losses)**		**92,723**	**99,959**
(9,741)	**(8,441)**	**Operating balance before gains/(losses)**		**(9,240)**	**(18,396)**
1,973	917	Net gains/(losses) on financial instruments	12	692	4,619
172	(3,371)	Net gains/(losses) on non-financial instruments	13	(6,526)	79
2,145	**(2,454)**	**Total gains/(losses)**		**(5,834)**	**4,698**
303	253	Net surplus from associates and joint ventures		233	237
(7,293)	**(10,642)**	**Operating balance (including minority interest)**		**(14,841)**	**(13,461)**
-	-	Operating balance attributable to minority interests		(56)	101
(7,293)	**(10,642)**	**Operating balance**		**(14,897)**	**(13,360)**

The accompanying notes (including accounting policies) are an integral part of these statements.

Analysis of Expenses by Functional Classification

for the year ended 30 June 2012

Forecast 30 June 2012 Budget 11 $m	Budget 12 $m		Actual 30 June 2012 $m	30 June 2011 $m
		Total Crown expenses		
26,353	25,772	Social security and welfare	25,457	25,324
311	200	GSF pension expenses	197	311
13,787	13,471	Health	13,650	13,068
13,005	12,690	Education	12,407	12,406
5,440	4,791	Core government services	5,305	5,515
3,745	3,679	Law and order	3,592	3,567
1,872	1,776	Defence	1,693	1,778
8,584	8,829	Transport and communications	10,259	8,402
7,758	9,560	Economic and industrial services	10,018	18,818
3,327	3,421	Heritage, culture and recreation	3,215	3,437
1,700	1,650	Primary services	1,588	1,603
1,119	878	Housing and community development[1]	627	1,655
635	489	Other	425	479
4,685	4,173	Finance costs	4,290	3,596
463	87	Forecast new operating spending	-	-
(310)	(450)	Top-down expense adjustment	-	-
92,474	**91,016**	**Total Crown expenses (excluding losses)**	**92,723**	**99,959**

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and State-owned enterprises.

Forecast 30 June 2012 Budget 11 $m	Budget 12 $m		Actual 30 June 2012 $m	30 June 2011 $m
		Core Crown expenses		
22,935	22,236	Social security and welfare	22,028	22,005
302	190	GSF pension expenses	192	305
14,353	14,130	Health	14,160	13,753
12,257	11,883	Education	11,654	11,650
5,564	4,943	Core government services	5,428	5,563
3,555	3,494	Law and order	3,403	3,382
1,911	1,818	Defence	1,736	1,809
2,378	2,366	Transport and communications	2,232	2,281
2,235	2,099	Economic and industrial services	2,157	2,609
1,947	2,015	Heritage, culture and recreation	1,632	1,966
755	677	Primary services	648	706
333	103	Housing and community development[1]	(130)	876
635	489	Other	425	479
3,714	3,553	Finance costs	3,511	3,066
463	87	Forecast new operating spending	-	-
(310)	(450)	Top-down expense adjustment	-	-
73,027	**69,633**	**Total core Crown expenses (excluding losses)**	**69,076**	**70,450**

1. Housing and community development expenses for the year ended 30 June 2012 include a reversal of $408 million in relation to the weathertight services financial assistance package (refer note 27).

The accompanying notes (including accounting policies) are an integral part of these statements.

Statement of Comprehensive Income

for the year ended 30 June 2012

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
(7,293)	**(10,642)**	**Operating balance (including minority interest)**	**(14,841)**	**(13,461)**
		Other comprehensive income		
-	(47)	Revaluation of physical assets	(6,461)	(443)
-	-	Share of associates revaluation of physical assets	-	-
(4)	34	Net change in hedging instruments entered into for cash flow hedges	143	(140)
(6)	58	Foreign currency translation differences for foreign operations	(2)	(37)
6	11	Valuation gains/(losses) on investments available for sale taken to reserves	13	(1)
50	2	Other movements	1	1
46	**58**	**Total other comprehensive income**	**(6,306)**	**(620)**
(7,247)	**(10,584)**	**Total comprehensive income**	**(21,147)**	**(14,081)**
		Attributable to:		
-	-	- minority interests	84	(74)
(7,247)	(10,584)	- the Crown	(21,231)	(14,007)
(7,247)	**(10,584)**	**Total comprehensive income**	**(21,147)**	**(14,081)**

The accompanying notes (including accounting policies) are an integral part of these statements.

Statement of Cash Flows

for the year ended 30 June 2012

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Note	Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Cash Flows From Operations			
		Cash was provided from			
53,959	53,178	Taxation receipts	2	53,582	50,418
4,878	4,889	Other sovereign receipts	2	4,890	4,693
16,046	16,284	Sales of goods and services		16,812	14,899
2,594	2,808	Interest and dividend receipts		2,603	2,682
4,536	4,738	Other operating receipts		4,395	2,990
82,013	**81,897**	**Total cash provided from operations**		**82,282**	**75,682**
		Cash was disbursed to			
23,435	23,049	Transfer payments and subsidies		22,840	22,172
59,108	60,303	Personnel and operating payments		59,107	55,152
4,583	4,045	Interest payments		3,954	3,107
463	87	Forecast new operating spending		-	-
(310)	(450)	Top-down expense adjustment		-	-
87,279	**87,034**	**Total cash disbursed to operations**		**85,901**	**80,431**
(5,266)	**(5,137)**	**Net cash flows from operations**		**(3,619)**	**(4,749)**
		Cash Flows From Investing Activities			
		Cash was provided from			
393	757	Sale of physical assets		596	521
50,570	57,796	Sale of shares and other securities		61,477	48,191
-	-	Sale of intangible assets		1	1
1,733	1,302	Repayment of advances		1,845	2,295
-	-	Cash balance in relation to AMI		-	152
45	169	Sale of investments in associates		181	53
52,741	**60,024**	**Total cash provided from investing activities**		**64,100**	**51,213**
		Cash was disbursed to			
8,245	7,231	Purchase of physical assets		6,362	6,517
45,943	53,098	Purchase of shares and other securities		61,053	54,967
532	547	Purchase of intangible assets		568	601
3,772	3,401	Issue of advances		3,129	3,298
182	67	Acquisition of investments in associates		296	32
142	88	Forecast for new capital spending		-	-
(170)	(250)	Top-down capital adjustment		-	-
58,646	**64,182**	**Total cash disbursed to investing activities**		**71,408**	**65,415**
(5,905)	**(4,158)**	**Net cash flows from investing activities**		**(7,308)**	**(14,202)**
(11,171)	**(9,295)**	**Net cash flows from operating and investing activities**		**(10,927)**	**(18,951)**

The accompanying notes (including accounting policies) are an integral part of these statements.

Statement of Cash Flows (continued)

for the year ended 30 June 2012

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
(11,171)	**(9,295)**	**Net cash flows from operating and investing activities**	**(10,927)**	**(18,951)**
		Cash Flows From Financing Activities		
		Cash was provided from		
219	306	Issue of circulating currency	203	234
13,580	16,951	Issue of Government stock and treasury bills	15,155	19,231
900	458	Issue of foreign currency borrowings	1,004	2,379
13,756	16,760	Issue of other New Zealand dollar borrowings	14,196	6,245
28,455	**34,475**	**Total cash provided from financing activities**	**30,558**	**28,089**
		Cash was disbursed to		
7,602	7,602	Repayment of Government stock and treasury bills	7,601	-
7,539	9,232	Repayment of foreign currency borrowings	7,426	570
2,366	3,300	Repayment of other New Zealand dollar borrowings	3,843	5,923
-	-	Dividends paid to minority interests	7	13
17,507	**20,134**	**Total cash disbursed to financing activities**	**18,877**	**6,506**
10,948	**14,341**	**Net cash flows from financing activities**	**11,681**	**21,583**
(223)	**5,046**	**Net movement in cash**	**754**	**2,632**
9,103	9,801	**Opening cash balance**	9,801	7,774
6	52	Foreign-exchange gains/(losses) on opening cash	131	(605)
8,886	**14,899**	**Closing cash balance**	**10,686**	**9,801**

The accompanying notes (including accounting policies) are an integral part of these statements.

Statement of Cash Flows (continued)

for the year ended 30 June 2012

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance		
(5,266)	**(5,137)**	**Net Cash Flows from Operations**	**(3,619)**	**(4,749)**
		Items included in the operating balance but not in net cash flows from operations		
		Gains/(losses)		
1,973	917	Net gains/(losses) on financial instruments	692	4,619
172	(3,371)	Net gains/(losses) on non-financial instruments	(6,526)	79
2,145	**(2,454)**	**Total gains/(losses)**	**(5,834)**	**4,698**
		Other Non-cash Items in Operating Balance		
(4,631)	(4,520)	Depreciation and amortisation	(6,350)	(4,682)
(806)	(855)	Write-down on initial recognition of financial assets	(850)	(807)
85	82	Impairment of financial assets (excl receivables)	248	105
377	483	Non-cash movement in defined benefit retirement plan liabilities	512	358
1,269	1,080	Non-cash movement in insurance liabilities	1,070	(13,179)
307	253	Other	232	238
(3,399)	**(3,477)**	**Total other non-cash items in operating balance**	**(5,138)**	**(17,967)**
		Movements in Working Capital		
(1,081)	(312)	Increase/(decrease) in receivables	(242)	6,605
356	(111)	Increase/(decrease) in accrued interest	(175)	(599)
70	(7)	Increase/(decrease) in inventories	(74)	149
(3)	25	Increase/(decrease) in prepayments	32	39
62	244	Decrease/(increase) in deferred revenue	(38)	(46)
(177)	587	Decrease/(increase) in payables/provisions	191	(1,490)
(773)	**426**	**Total movements in working capital**	**(306)**	**4,658**
(7,293)	**(10,642)**	**Operating balance**	**(14,897)**	**(13,360)**

The accompanying notes (including accounting policies) are an integral part of these statements.

Statement of Changes in Net Worth

for the year ended 30 June 2012

Forecast Total Net Worth Budget 11 $m	Forecast Total Net Worth Budget 12 $m		Note	Actual Taxpayer funds $m	Actual Reserves $m	Actual Minority interest $m	Actual Total net worth $m
94,988	94,988	**Net worth at 30 June 2010**		31,087	63,499	402	94,988
(9,437)	(13,461)	Operating balance		(13,360)	-	(101)	(13,461)
69	(443)	Net revaluations		-	(443)	-	(443)
(44)	(279)	Transfers to/(from) reserves		460	(739)	-	(279)
(16)	17	(Gains)/losses transferred to the statement of financial performance		-	17	-	17
(41)	85	Other movements		1	57	27	85
(9,469)	**(14,081)**	**Total comprehensive income**		**(12,899)**	**(1,108)**	**(74)**	**(14,081)**
-	(20)	Transactions with minority interest		-	-	(20)	(20)
85,519	**80,887**	**Net worth at 30 June 2011**		**18,188**	**62,391**	**308**	**80,887**
(7,293)	(10,642)	Operating Balance		(14,897)	-	56	(14,841)
-	(47)	Net revaluations		-	(6,461)	-	(6,461)
53	58	Transfers to/(from) reserves		228	(148)	-	80
-	-	(Gains)/losses transferred to the statement of financial performance		-	55	28	83
(7)	47	Other movements		1	(9)	-	(8)
(7,247)	**(10,584)**	**Total comprehensive income**		**(14,668)**	**(6,563)**	**84**	**(21,147)**
-	-	Transactions with minority interests		-	-	40	40
78,272	**70,303**	**Net worth at 30 June 2012**	28	**3,520**	**55,828**	**432**	**59,780**

The accompanying notes (including accounting policies) are an integral part of these statements.

Statement of Financial Position

as at 30 June 2012

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Note	Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Assets			
8,886	14,899	Cash and cash equivalents		10,686	9,801
16,709	20,566	Receivables	14	20,956	21,690
43,034	43,821	Marketable securities, deposits and derivatives in gain	15	48,385	49,056
16,095	14,470	Share investments	16	14,385	14,248
22,433	22,091	Advances	17	21,766	20,567
1,380	1,301	Inventory	18	1,234	1,308
1,662	2,003	Other assets	19	2,134	1,996
121,186	118,008	Property, plant & equipment	20	108,584	114,854
9,613	9,756	Equity accounted investments	21	9,483	9,301
2,714	2,430	Intangible assets and goodwill	22	2,705	2,394
142	88	Forecast for new capital spending		-	-
(270)	(250)	Top-down capital adjustment		-	-
243,584	**249,183**	**Total assets**		**240,318**	**245,215**
		Liabilities			
4,598	4,560	Issued currency		4,457	4,254
9,603	12,866	Payables	23	11,604	11,099
1,371	1,430	Deferred revenue		1,712	1,674
101,383	101,466	Borrowings	24	100,534	90,245
30,533	39,905	Insurance liabilities	25	41,186	39,314
8,895	11,886	Retirement plan liabilities	26	13,539	10,156
8,929	6,767	Provisions	27	7,506	7,586
165,312	**178,880**	**Total liabilities**		**180,538**	**164,328**
78,272	**70,303**	**Total assets less total liabilities**		**59,780**	**80,887**
		Net Worth			
14,463	7,573	Taxpayer funds		3,520	18,188
63,614	62,618	Property, plant and equipment revaluation reserve		56,001	62,690
(207)	(196)	Other reserves		(173)	(299)
77,870	**69,995**	**Total net worth attributable to the Crown**		**59,348**	**80,579**
402	308	Net worth attributable to minority interests		432	308
78,272	**70,303**	**Total net worth**	28	**59,780**	**80,887**

The accompanying notes (including accounting policies) are an integral part of these statements.

Statement of Segments

Current Year Actual vs Estimated Actuals

	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2012 $m	**Estimated Actuals 2012 $m**	**Actual 2012 $m**	**Estimated Actuals 2012 $m**	**Actual 2012 $m**	**Estimated Actuals 2012 $m**	**Actual 2012 $m**	**Estimated Actuals 2012 $m**	**Actual 2012 $m**	**Estimated Actuals 2012 $m**
Revenue										
Taxation revenue	55,081	54,741	-	-	-	-	(416)	(410)	54,665	54,331
Other sovereign revenue	935	958	5,384	5,355	-	-	(1,189)	(1,201)	5,130	5,112
Revenue from core Crown funding	-	-	23,590	23,841	-	-	(23,590)	(23,841)	-	-
Sales of goods and services	1,448	1,414	1,817	1,660	14,230	13,964	(710)	(658)	16,785	16,380
Interest revenue and dividends	1,795	1,856	1,181	1,126	858	838	(1,071)	(996)	2,763	2,824
Other revenue	1,306	1,062	2,499	2,201	943	970	(608)	(305)	4,140	3,928
Total Revenue (excluding gains)	**60,565**	**60,031**	**34,471**	**34,183**	**16,031**	**15,772**	**(27,584)**	**(27,411)**	**83,483**	**82,575**
Expenses										
Transfer payments and subsidies	22,367	22,546	-	-	-	-	(13)	(12)	22,354	22,534
Personnel expenses	5,915	5,860	10,754	10,655	2,819	2,810	(13)	(10)	19,475	19,315
Other operating expenses	37,283	38,037	22,220	22,064	13,537	11,641	(26,436)	(26,385)	46,604	45,357
Interest expenses	3,511	3,553	246	244	1,268	1,104	(735)	(728)	4,290	4,173
Forecast new operating spending and top down adjustment	-	(363)	-	-	-	-	-	-	-	(363)
Total Expenses (excluding losses)	**69,076**	**69,633**	**33,220**	**32,963**	**17,624**	**15,555**	**(27,197)**	**(27,135)**	**92,723**	**91,016**
Operating Balance before gains/(losses)	**(8,511)**	**(9,602)**	**1,251**	**1,220**	**(1,593)**	**217**	**(387)**	**(276)**	**(9,240)**	**(8,441)**
Gains/(losses)	(3,160)	(1,497)	(1,892)	(873)	170	202	(775)	(33)	(5,657)	(2,201)
Operating Balance	**(11,671)**	**(11,099)**	**(641)**	**347**	**(1,423)**	**419**	**(1,162)**	**(309)**	**(14,897)**	**(10,642)**
Assets										
Financial assets	74,981	73,989	40,075	38,122	19,186	20,756	(18,064)	(17,020)	116,178	115,847
Property, plant and equipment	29,377	29,686	49,939	49,798	29,268	38,524	-	-	108,584	118,008
Investments in associates, CEs and SOEs	31,308	31,304	7,982	8,186	340	445	(30,147)	(30,179)	9,483	9,756
Other assets	2,743	2,826	905	772	2,463	2,174	(38)	(38)	6,073	5,734
Forecast adjustments	-	(162)	-	-	-	-	-	-	-	(162)
Total Assets	**138,409**	**137,643**	**98,901**	**96,878**	**51,257**	**61,899**	**(48,249)**	**(47,237)**	**240,318**	**249,183**
Liabilities										
Borrowings	84,510	85,761	5,325	5,436	25,374	25,441	(14,675)	(15,172)	100,534	101,466
Other liabilities	30,528	28,002	49,357	46,734	7,281	8,988	(7,162)	(6,310)	80,004	77,414
Total Liabilities	**115,038**	**113,763**	**54,682**	**52,170**	**32,655**	**34,429**	**(21,837)**	**(21,482)**	**180,538**	**178,880**
Net Worth	**23,371**	**23,880**	**44,219**	**44,708**	**18,602**	**27,470**	**(26,412)**	**(25,755)**	**59,780**	**70,303**
Cost of Acquisition of Physical Assets	**1,219**	1,470	**2,136**	2,546	**3,007**	3,215	-	-	**6,362**	7,231

Statement of Segments (continued)

	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Current Year Actual vs Prior Year Actual									
	Actual 2012 $m	**Actual 2011 $m**	**Actual 2012 $m**	**Actual 2011 $m**	**Actual 2012 $m**	**Actual 2011 $m**	**Actual 2012 $m**	**Actual 2011 $m**	**Actual 2012 $m**	**Actual 2011 $m**
Revenue										
Taxation revenue	55,081	51,557	-	-	-	-	(416)	(429)	54,665	51,128
Other sovereign revenue	935	1,275	5,384	5,080	-	-	(1,189)	(1,074)	5,130	5,281
Revenue from core Crown funding	-	-	23,590	23,442	-	-	(23,590)	(23,442)	-	-
Sales of goods and services	1,448	1,443	1,817	1,795	14,230	12,510	(710)	(664)	16,785	15,084
Interest revenue and dividends	1,795	2,169	1,181	1,234	858	801	(1,071)	(1,634)	2,763	2,570
Other revenue	1,306	1,106	2,499	6,485	943	935	(608)	(1,026)	4,140	7,500
Total Revenue (excluding gains)	**60,565**	**57,550**	**34,471**	**38,036**	**16,031**	**14,246**	**(27,584)**	**(28,269)**	**83,483**	**81,563**
Expenses										
Transfer payments and subsidies	22,367	22,227	-	-	-	-	(13)	(55)	22,354	22,172
Personnel expenses	5,915	5,996	10,754	10,410	2,819	2,695	(13)	(13)	19,475	19,088
Other operating expenses	37,283	39,161	22,220	32,670	13,537	9,727	(26,436)	(26,455)	46,604	55,103
Interest expenses	3,511	3,066	246	248	1,268	1,027	(735)	(745)	4,290	3,596
Total Expenses (excluding losses)	**69,076**	**70,450**	**33,220**	**43,328**	**17,624**	**13,449**	**(27,197)**	**(27,268)**	**92,723**	**99,959**
Operating Balance before gains/(losses)	**(8,511)**	**(12,900)**	**1,251**	**(5,292)**	**(1,593)**	**797**	**(387)**	**(1,001)**	**(9,240)**	**(18,396)**
Gains/(losses)	(3,160)	3,633	(1,892)	2,149	170	(470)	(775)	(276)	(5,657)	5,036
Operating Balance	**(11,671)**	**(9,267)**	**(641)**	**(3,143)**	**(1,423)**	**327**	**(1,162)**	**(1,277)**	**(14,897)**	**(13,360)**
Assets										
Financial assets	74,981	76,475	40,075	36,391	19,186	20,241	(18,064)	(17,745)	116,178	115,362
Property, plant and equipment	29,377	29,549	49,939	48,480	29,268	36,825	-	-	108,584	114,854
Investments in associates, CEs and SOEs	31,308	30,093	7,982	7,979	340	197	(30,147)	(28,968)	9,483	9,301
Other assets	2,743	2,848	905	808	2,463	2,097	(38)	(55)	6,073	5,698
Total Assets	**138,409**	**138,965**	**98,901**	**93,658**	**51,257**	**59,360**	**(48,249)**	**(46,768)**	**240,318**	**245,215**
Liabilities										
Borrowings	84,510	76,827	5,325	5,123	25,374	23,099	(14,675)	(14,804)	100,534	90,245
Other liabilities	30,528	27,207	49,357	45,105	7,281	9,021	(7,162)	(7,250)	80,004	74,083
Total Liabilities	**115,038**	**104,034**	**54,682**	**50,228**	**32,655**	**32,120**	**(21,837)**	**(22,054)**	**180,538**	**164,328**
Net Worth	**23,371**	**34,931**	**44,219**	**43,430**	**18,602**	**27,240**	**(26,412)**	**(24,714)**	**59,780**	**80,887**
Cost of Acquisition of Physical Assets	**1,219**	1,465	**2,136**	2,462	**3,007**	2,590	-	-	**6,362**	6,517

Notes to the Financial Statements

Note 1: Summary of Accounting Policies

These financial statements are prepared in accordance with the Public Finance Act 1989 and with New Zealand generally accepted accounting practice (NZ GAAP). For this purpose, the Government reporting entity is designated as a public benefit entity. These financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for public benefit entities.

These financial statements were authorised for issue by the Minister of Finance on 28 September 2012.

Reporting Entity

The consolidated financial statements for the Government reporting entity (financial statements of the Government of New Zealand), as defined in section 2(1) of the Public Finance Act 1989, means:

- the Sovereign in right of New Zealand, and

- the legislative, executive, and judicial branches of the Government of New Zealand.

The description "consolidated financial statements for the Government reporting entity" and the description "financial statements of the Government" have the same meaning and can be used interchangeably.

Basis of Preparation

The financial statements have been prepared on the basis of historic cost modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

The financial statements are presented in New Zealand dollars rounded to the nearest million, unless separately identified.

Judgements and Estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. 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.

A second area of uncertainty relates to the immature nature of the claims experience available to assist in estimating the claims and provisions arising from the Canterbury earthquakes. Actuarial valuations of these liabilities using the best available information have been used, however it is common in such cases for adjustments to be required as the claims experience develops.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

Early Adoption Standards and Interpretations

From 1 July 2011 no NZ IFRS or amendments to existing NZ IFRS applicable to public benefit entities have been issued as a consequence of recent decisions on the new Accounting Standard Framework. The Government has adopted all NZ IFRSs and Interpretations applicable to public benefit entities issued prior to that date, with the exception of *NZ IFRS 9: Financial Instruments*, approved in 2010.

NZ IFRS 9 will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement.* The first of three phases of this new standard has been completed and has been published in the new financial instrument standard NZ IFRS 9 (2010). This standard addresses the issues of classification and measurement of financial assets and financial liabilities and becomes effective for annual reporting periods commencing on or after 1 January 2015.

Significant Accounting Policies

Reporting and Forecast Period

The reporting and forecast period for the financial statements of the Government of New Zealand is the financial year from 1 July to 30 June.

Where necessary the financial information for State-owned enterprises and Crown entities that have a balance date other than 30 June has been adjusted for any transactions or events that have occurred since their most recent balance date and that are significant for the Government's financial statements. Such entities are primarily in the education sector.

Basis of Combination

These financial statements combine the following entities using the acquisition method of combination:

Core Crown entities

- Ministers of the Crown
- Government departments
- Offices of Parliament
- the Reserve Bank of New Zealand
- New Zealand Superannuation Fund

Other entities

- State-owned enterprises
- Crown entities (excluding Tertiary Education Institutions)
- Air New Zealand Limited
- Organisations listed in Schedule 4 of the Public Finance Act 1989
- Companies listed in Schedule 5 of the Public Finance Act 1989

Corresponding assets, liabilities, income and expenses, are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. 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 are equity accounted for the reasons explained in the notes to the financial statements. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

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

- 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 entity's share of the jointly controlled entities' surpluses and deficits are recognised in the statement of financial performance.

Income

Taxation revenue levied through the Crown's sovereign power

The Government 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, since there is no relationship between paying tax and receiving Crown services and transfers. Such revenue is received through the exercise of the sovereign power of the Crown in Parliament.

Tax revenue is recognised when a taxable event has occurred and the tax revenue can be reliably measured. The taxable event as defined as follows:

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax (RWT)	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	When assessed income is earned during the taxation period
Terminal tax	Assessment filed date
Goods and services tax (GST)	When the purchase or sale of taxable goods and services occurs during the taxation period
Customs and excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment of the fee or charge is made
Stamp, cheque and credit card duties	When the liability to the Crown is incurred
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 is incurred

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. Inland Revenue has implemented systems and controls (eg, performing audits of taxpayer records) in order to detect and correct situations where taxpayers are not complying with the various acts it administers.

Revenue earned through operations

Revenue from the supply of goods and services to third parties 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 on a straight-line basis over the specified period of the services unless an alternative method better represents the stage of completion of the transaction.

Interest income

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 income

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

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 an asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income in the statement of financial performance.

Expenses

General

Expenses are recognised in the period to which they relate.

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 and subsidies

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

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 financial 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 recognised in the statement of comprehensive income 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 the statement of comprehensive income.

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 net worth and recognised in the statement of comprehensive income.

Sovereign Receivables and Taxes Repayable

Receivables from taxes, levies and fines (and any penalties associated with these activities) as well as social benefit receivables which do not arise out of a contract are collectively referred to as sovereign receivables.

Sovereign receivables are initially assessed at nominal amount or face value; that is, the receivable reflects the amount of tax owed, levy, fine charged, or social benefit debt payable. These receivables are subsequently adjusted for penalties and interest as they are charged, and tested for impairment. Interest and penalties charged on tax receivables are presented as tax revenue in the statement of financial performance.

Taxes repayable represent refunds due to taxpayers and are recognised at their nominal value. They are subsequently adjusted for interest once account and refund reviews are complete.

Financial Instruments

Financial assets

Financial assets are designated into the following categories: loans and receivables, financial assets available-for-sale, financial assets held-for-trading, and financial assets designated as fair value through profit and loss. This designation is made by reference to the 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 maximum loss due to default on any financial asset is the carrying value reported in the statement of financial position.

Major financial asset type	Designation
Trade and other receivables	All designated as loans and receivables
Student loans	All designated as loans and receivables
Kiwibank mortgages	Generally designated as loans and receivables
Other advances	Generally designated as loans and receivables
IMF financial assets	All designated as loans and receivables
Share investments	Generally designated as fair value through profit and loss
Marketable securities	Generally designated as fair value through profit and loss

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 income policy). Loans and receivables issued with a duration of 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.

Financial assets held-for-trading and financial assets designated as 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 as fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significantly 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, such as with the NZ Superannuation Fund. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

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 in the statement of comprehensive income with some exceptions. Those exceptions are 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 (eg, some unlisted equity instruments) the fair value movements recognised in the statement of comprehensive income include any related foreign exchange component. At derecognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive income, is recognised in the statement of financial performance.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

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. 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, as set out in the notes to the financial statements. 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

Major financial liability type	Designation
Accounts payable	All designated at amortised cost
Government stock	Generally designated at amortised cost
Treasury bills	Generally designated at amortised cost
Government retail stock	All designated at amortised cost
Settlement deposits with Reserve Bank	All designated as fair value through profit and loss
Issued currency	Not designated: Recognised at face value

Financial liabilities held for trading and financial liabilities designated as fair value through profit and 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 as fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either eliminates or significantly 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. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with durations of 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.

Currency issued for circulation, including demonetised currency after 1 July 2004, 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 below).

Derivatives that are not designated 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.

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 to which 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.

(a) Cash flow hedge

Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective portion of any gain or loss on the derivative is recognised in the statement of comprehensive income and the ineffective portion 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 (eg, where the hedge relates to the purchase of an asset in a foreign currency), the amount recognised in the statement of comprehensive income is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive income transfer to the statement of financial performance in the same period as when the hedged item affects the statement of financial performance (eg, when the forecast sale occurs). Effective portions of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

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 net worth at that time remains in net worth 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 that was reported in the statement of comprehensive income is transferred to the statement of financial performance.

(b) Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in the statement of financial performance together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

Inventories

Inventories are recorded at the lower of cost (calculated using a weighted average method) and net realisable value. Inventories held for distribution for public benefit purposes are recorded at cost, adjusted where applicable for any loss of service potential. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the current replacement cost at the date of acquisition.

Inventories include unissued currency and harvested agricultural produce (eg, logs and wool).

The cost of harvested agricultural produce is measured at fair value less estimated costs to sell at the point of harvest.

Property, Plant and Equipment (PPE)

Items of property, plant and equipment are initially recorded at cost. Cost may include transfers from net worth of any gains or 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 is recognised initially at fair value, where fair value can be reliably determined, and as income 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.

Subsequent to initial recognition, classes of property, plant and equipment are accounted for as set out below.

Class of PPE	Accounting policy
Land and buildings	Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Land associated with the rail network and state highways is valued using an opportunity cost based on adjacent use, as an approximation to fair value. 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, may be used if they have been confirmed as appropriate by an independent valuer. When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out.
Specialist military equipment	Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the bases of these valuations are confirmed as appropriate by an independent valuer.
State highways	State highways are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.
Rail network	Rail infrastructure used for freight services (freight only and dual use lines) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued. Rail infrastructure used for metro only services are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.
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 network	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.

Class of PPE	Accounting policy
Electricity generation assets	Electricity generation assets are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Specified cultural and heritage assets	Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value less subsequent accumulated depreciation. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and when they do not generate cash flows and where no market exists to provide a valuation.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.

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.

Items of property are revalued to fair value for the highest and best use of the item on the basis of the market value of the item, or on the basis of market evidence, such as discounted cash flow calculations. If no market evidence of fair value exists, an optimised depreciated replacement cost approach is used as the best proxy for fair value. Where an item of property is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of property by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of property is recorded at its optimised depreciated replacement cost, the cost does not include any borrowing costs.

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.

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 taxpayer funds.

Generally, Government borrowings are not directly attributable to individual assets. Therefore, any borrowing costs incurred during the period required to complete and prepare assets for their intended use are expensed rather than capitalised. The major exception relates to service concession assets resulting from public private partnership arrangements where the liability incurred, and therefore the associated interest costs, are directly attributable to the service concession asset.

Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. The main reason for holding some assets (for example, electricity generation assets) is to generate cash. For these assets the recoverable amount is the higher of the amount that could be recovered by sale (after deducting the costs of sale) or the amount that will be generated by using the asset through its useful life. Some assets do not generate cash (for example, state highways) and for those assets, depreciated replacement cost is used. 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.

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 remaining useful life.

Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

Class of PPE	Estimated useful lives
Buildings	25 to 60 years
Specialist military equipment	5 to 55 years
State highways: Pavement (surfacing) Pavement (other) Bridges	 7 years 50 years 70 to 105 years
Rail Network: Track and ballast Tunnels and bridges Overhead traction and signalling	 25 to 40 years 60 to 100 years 10 to 40 years
Aircraft (excluding 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 30 years

Specified heritage and cultural assets are generally not depreciated.

Equity Accounted Investments

The applicable financial reporting standards that determine the basis of combination of entities that make up the Government reporting entity are NZ IAS 27: *Consolidated and Separate Financial Statements* and NZ IAS 28: *Investments in Associates.* NZ IAS 27 refers to guidance provided in IPSAS 6: *Consolidated and Separate Financial Statements* and FRS 37: *Consolidating Investments in Subsidiaries* which shall be used by public benefit entities in determining whether they control another entity.

These standards are, however, not clear about how the definitions of control and significant influence should be applied in some circumstances in the public sector, particularly where legislation provides public sector entities with statutory autonomy and independence, in particular with Tertiary Education Institutions. Treasury's view is that because the Government cannot determine its operating and financing policies, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates.

Biological Assets

Biological assets (eg, trees and sheep) managed for harvesting into agricultural produce (eg, logs and wool) or for transforming into additional biological assets are measured at fair value less estimated costs to sell, 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.

Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as property, plant and equipment in accordance with the policies for property, plant and equipment.

Intangible Assets

Intangible assets are initially recorded at cost. Where an intangible asset is created for nil or nominal consideration it is also initially carried at cost, which by definition is nil/nominal.

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. Research is “original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding”. Expenditure incurred on the research phase 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.

The Government’s holdings of assigned amount units arising from the Kyoto protocol are reported at fair value. Other 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. Typically, the estimated useful life of computer software is three to five years.

Intangible assets with indefinite useful lives are not amortised, but are tested at least annually for impairment.

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. Where an intangible asset’s recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance.

Goodwill is tested for impairment annually.

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. Non-current assets or disposal groups are recorded at the lower of their carrying amount and fair value less costs to sell.

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 (eg, affordable housing) even though such property may earn rentals or appreciate in value – such property is reported as property, plant and equipment.

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.

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 these liabilities, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

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 outstanding insurance claims liabilities are valued annually based on the latest actuarial information. The estimate includes estimated payments associated with claims reported and accepted, claims incurred but not reported, claims that may be re-opened, and the costs of managing these claims. Movements of the claims liabilities are reflected in the statement of financial performance. Financial assets backing these liabilities are designated at fair value through profit and loss.

Reinsurance

Premiums paid to reinsurers are recognised as reinsurance expense in the statement of financial performance from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the Statement of Financial Position.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, and unexpired risk liabilities are recognised as income in the statement of financial performance.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are measured as the present value of the expected future receipts.

Deferred acquisition costs

Accident compensation and earthquake commission levies are imposed through regulation and do not attract acquisition costs. Costs incurred in obtaining other insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Risks under the Group's general insurance contracts cover a period of up to 12 months, therefore, deferred acquisition costs are amortised within one year.

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.

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 the present value of their estimated future cash outflows.

Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising the option to cancel are reported at the value of that penalty or exit cost (ie, the minimum future payments).

Commitments are classified as:

- capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date, and

- non-cancellable operating leases with a lease term of more than one year.

Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of Commitments.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

In particular, land relating to state highways, the rail network and conservation which had previously been included within individual asset categories has been reclassified to the Land category. Comparatives of $18.7 billion have been restated accordingly.

In prior years “other” operating commitments were included in the Statement of Commitments. These commitments included other (non-lease) executory contracts (eg, cleaning) and funding commitments to non-government entities. The current disclosure excludes these commitments to align with NZ GAAP requirements. Comparatives of $12.9 billion have been restated accordingly.

Comparatives referred to as Budget 11 were forecasts published in the *2011 Budget Economic and Fiscal Update* while Budget 12 were forecasts published in the *2012 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment 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. The three major institutional components of the Crown are:

- Core Crown: This group, which includes Ministers, Departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes.

- State-owned enterprises: This group includes entities governed by the State-owned Enterprises Act 1986, and for the purposes of these statements also includes Air New Zealand Limited. This group represents entities that undertake commercial activity.

- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

Functional analysis is also provided of a number of financial statement items. This functional analysis is drawn from the *Classification of the Functions of Government* as developed by the Organisation for Economic Co-operation and Development (OECD).

Related Parties

Related parties of the Government include key management personnel, and their close family members. Key management personnel are Ministers of the Crown, and their close family members are their spouses, children and dependants. Transactions between these related parties and a Government entity are disclosed in these financial statements only if they have taken place within a Minister's portfolio and they are not transactions entered into in the same capacity as an ordinary citizen.

Tertiary Education Institutions, joint ventures and the Government Superannuation Fund are also related parties of the Government due to the Government's influence over these entities. Transactions between these entities and Government entities are separately disclosed where material.

There are no other related parties as no other parties control the Government, and no other parties are controlled by the Government, other than those that are consolidated into the Government's financial statements.

The Government comprises a large number of commonly controlled entities. Transactions between these entities are eliminated in these financial statements and therefore not separately disclosed.

Transactions where the financial results may have been affected by the existence of a related party relationship are disclosed in the financial statements.

Note 2: Sovereign Revenue (Accrual)

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Direct Income Tax Revenue (accrual)		
		Individuals		
21,165	21,169	Source deductions	21,237	20,857
4,342	4,242	Other persons	4,232	3,791
(1,656)	(1,657)	Refunds	(1,736)	(1,679)
430	444	Fringe benefit tax	462	462
24,281	**24,198**	**Total individuals**	**24,195**	**23,431**
		Corporate Tax		
7,978	8,019	Gross companies tax	8,310	6,687
(400)	(274)	Refunds	(202)	(197)
508	451	Non-resident withholding tax	500	467
1	5	Foreign-source dividend withholding payments	4	-
8,087	**8,201**	**Total corporate tax**	**8,612**	**6,957**
		Other Direct Income Tax		
1,665	1,671	Resident withholding tax on interest income	1,679	1,704
209	288	Resident withholding tax on dividend income	292	195
-	-	Estate and gift duties	-	2
1,874	**1,959**	**Total other direct income tax**	**1,971**	**1,901**
34,242	**34,358**	**Total direct income tax**	**34,778**	**32,289**
		Indirect Income Tax Revenue (accrual)		
		Goods and Services Tax		
26,007	25,853	Gross goods and services tax	25,199	23,484
(10,965)	(11,212)	Refunds	(10,627)	(9,776)
15,042	**14,641**	**Total goods and services tax**	**14,572**	**13,708**
		Other Indirect Taxation		
1,049	1,038	Road user charges	1,045	1,016
886	885	Petroleum fuels excise - domestic production	847	872
665	665	Alcohol excise - domestic production	656	623
251	254	Tobacco excise - domestic production	244	220
668	602	Petroleum fuels excise - imports[1]	631	575
250	240	Alcohol excise - imports[1]	241	229
1,005	957	Tobacco excise - imports[1]	993	924
130	190	Other customs duty	173	188
223	229	Gaming duties	216	214
168	174	Motor vehicle fees	175	172
73	65	Approved issuer levy and cheque duty	58	62
38	33	Energy resources levies	36	36
5,406	**5,332**	**Total other indirect taxation**	**5,315**	**5,131**
20,448	**19,973**	**Total indirect taxation**	**19,887**	**18,839**
54,690	**54,331**	**Total taxation revenue**	**54,665**	**51,128**
		Other Sovereign Revenue (accrual)		
3,882	3,670	ACC levies	3,695	3,586
309	322	Fire service levies	326	312
89	98	EQC levies	107	88
690	309	Child support	311	523
200	176	Court fines	176	190
638	537	Other miscellaneous items	515	582
5,808	**5,112**	**Total other sovereign revenue**	**5,130**	**5,281**
60,498	**59,443**	**Total sovereign revenue**	**59,795**	**56,409**

1. Customs excise-equivalent duty.

Note 2: Sovereign Receipts (Cash)

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Direct Income Tax Receipts (cash)		
		Individuals		
21,066	21,011	Source deductions	21,010	20,699
4,765	4,890	Other persons	4,720	4,386
(2,394)	(2,558)	Refunds	(2,468)	(2,463)
424	440	Fringe benefit tax	458	457
23,861	**23,783**	**Total individuals**	**23,720**	**23,079**
		Corporate Tax		
8,369	8,285	Gross companies tax	8,792	7,588
(799)	(729)	Refunds	(814)	(772)
508	432	Non-resident withholding tax	434	462
1	5	Foreign-source dividend withholding payments	4	(1)
8,079	**7,993**	**Total corporate tax**	**8,416**	**7,277**
		Other Direct Income Tax		
1,664	1,670	Resident withholding tax on interest income	1,699	1,701
208	288	Resident withholding tax on dividend income	290	196
-	-	Estate and gift duties	-	2
1,872	**1,958**	**Total direct other income tax**	**1,989**	**1,899**
33,812	**33,734**	**Total direct income tax**	**34,125**	**32,255**
		Indirect Tax Receipts (cash)		
		Goods and Services Tax		
25,135	25,024	Gross goods and services tax	24,574	22,162
(10,394)	(10,912)	Refunds	(10,435)	(9,177)
14,741	**14,112**	**Total goods and services tax**	**14,139**	**12,985**
		Other Indirect Taxation		
1,049	1,038	Road user charges	1,048	1,015
886	885	Petroleum fuels excise - domestic production	845	869
665	665	Alcohol excise - domestic production	654	625
251	254	Tobacco excise - domestic production	238	181
2,053	1,989	Customs duty	2,057	2,005
223	229	Gaming duties	216	216
168	174	Motor vehicle fees	169	171
73	65	Approved issuer levy and cheque duty	55	60
38	33	Energy resources levies	36	36
5,406	**5,332**	**Total other indirect taxation**	**5,318**	**5,178**
20,147	**19,444**	**Total indirect taxation**	**19,457**	**18,163**
53,959	**53,178**	**Total tax receipts collected**	**53,582**	**50,418**
		Other Sovereign Receipts (cash)		
3,804	3,703	ACC levies	3,693	3,612
309	322	Fire service levies	326	312
88	121	EQC levies	134	88
231	217	Child support	243	208
179	166	Court fines	157	179
267	360	Other miscellaneous items	337	294
4,878	**4,889**	**Total other sovereign receipts**	**4,890**	**4,693**
58,837	**58,067**	**Total sovereign receipts**	**58,472**	**55,111**

Note 3: Sales of Goods and Services

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
8,452	8,813	Sales of goods	9,110	7,590
74	71	Deposit guarantee schemes - guarantee fees	71	118
7,552	7,496	Rendering of services	7,604	7,376
16,078	**16,380**	**Total sales of goods and services**	**16,785**	**15,084**
		By source		
1,489	1,414	Core Crown	1,448	1,443
13,917	14,424	Crown entities	14,657	14,680
13,537	13,964	State-owned enterprises	14,230	12,510
(12,865)	(13,422)	Inter-segment eliminations	(13,550)	(13,549)
16,078	**16,380**	**Total sales of goods and services**	**16,785**	**15,084**

Note 4: Interest Revenue and Dividends

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
534	537	Student loans (interest unwind)	526	484
202	984	Other financial assets classified as amortised cost or available for sale	994	913
3	30	Financial assets classified as held for trading	36	40
1,830	832	Financial assets classified as fair value through profit and loss	737	705
2,569	**2,383**	**Total interest revenue**	**2,293**	**2,142**
482	441	Dividends	470	428
3,051	**2,824**	**Total interest revenue and dividends**	**2,763**	**2,570**
		By source		
2,134	1,856	Core Crown	1,795	2,169
768	1,126	Crown entities	1,181	1,234
1,021	838	State-owned enterprises	858	801
(872)	(996)	Inter-segment eliminations	(1,071)	(1,634)
3,051	**2,824**	**Total interest revenue and dividends**	**2,763**	**2,570**
		Included in total interest revenue above is interest on impaired financial assets of:		
		Impaired student loans	526	484
		Impaired other financial assets classified as amortised cost or available for sale	1	7
		Total interest revenue on impaired financial assets	**527**	**491**

Note 5: Other Revenue

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
379	352	Sale of royalties	379	399
1,134	1,120	Rental income	1,129	1,082
-	382	EQC insurance claim on reinsurers	391	4,185
1,593	2,074	Other revenue	2,241	1,834
3,106	**3,928**	**Total other revenue**	**4,140**	**7,500**

Note 6: Transfer Payments and Subsidies

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Social Assistance Grants		
9,575	9,587	New Zealand superannuation	9,584	8,830
2,178	2,111	Family tax credit	2,082	2,139
1,895	1,818	Domestic purposes benefit	1,811	1,757
1,347	1,326	Invalids benefit	1,325	1,306
1,264	1,203	Accommodation supplement	1,195	1,197
1,029	888	Unemployment benefit	883	943
782	774	Sickness benefit	775	743
567	568	In-work tax credit	567	585
627	649	Student allowances	644	620
587	589	Income related rents	580	553
411	403	Disability allowances	401	409
1,483	1,375	Other social assistance benefits	1,309	1,553
21,745	**21,291**	**Total social assistance grants**	**21,156**	**20,635**
		Subsidies		
656	708	KiwiSaver subsidies	688	1,042
		Other transfer payments		
525	535	Official development assistance	510	495
22,926	**22,534**	**Total transfer payments and subsidies**	**22,354**	**22,172**

Note 7: Personnel Expenses

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
17,862	18,068	Salaries and wages	18,330	17,913
327	212	Costs incurred on GSF and other defined benefit plans	198	314
379	418	Costs incurred on SSRSS and other defined contribution plans	452	468
581	617	Other personnel expenses	495	393
19,149	**19,315**	**Total personnel expenses**	**19,475**	**19,088**
		By source		
6,021	5,860	Core Crown	5,915	5,996
10,440	10,655	Crown entities	10,754	10,410
2,697	2,810	State-owned enterprises	2,819	2,695
(9)	(10)	Inter-segment eliminations	(13)	(13)
19,149	**19,315**	**Total personnel expenses**	**19,475**	**19,088**
		Key management personnel compensation		
		Salaries and other short-term employee benefits	8	8
		Post-employment benefits	1	-
		Other long-term benefits	-	-
		Termination benefits	-	-
			9	**8**

Key management personnel are the 28 Ministers of the Crown who are members of the Executive Council (including the Prime Minister).

The Remuneration Authority sets remuneration levels for members of the Executive. The Authority takes into account other benefits available to members of the Executive as set out in the Executive Travel, Accommodation, Attendance, and Communication Services Determination (No 2) 2009 (the "Determination"). The Determination was determined by the Minister Responsible for Ministerial Services. Members of Parliament, including Members of the Executive, have access to other non-cash entitlements as determined by the Speaker of the House of Representatives. Details of these entitlements (eg, travel discounts) can be found on the New Zealand Parliament website (www.parliament.nz).

Note 8: Depreciation and Amortisation

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Depreciation expense		
1,195	1,167	Buildings	1,174	1,077
382	410	State highways	432	408
400	407	Electricity generation assets	388	374
166	155	Electricity distribution network	137	147
297	249	Specialist military equipment	237	272
233	214	Aircraft (excluding military)	153	171
240	210	Rail network	223	210
17	20	Specified cultural and heritage assets	21	19
1,102	1,068	Other plant and equipment	1,038	1,020
4,032	**3,900**	**Total depreciation expense**	**3,803**	**3,698**
599	620	Amortisation and impairment of non-financial assets[1]	2,547	984
4,631	**4,520**	**Total depreciation and amortisation**	**6,350**	**4,682**

1. Includes an impairment expense of $1.4 billion in relation to the Rail Network (refer note 20).

Note 9: Other Operating Expenses

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
-	-	Retail deposit guarantee scheme - expenses accrued for entities in default and valuation of receivables	-	282
4,337	4,264	Donations and ex-gratia payments	3,682	4,220
5	6	Fees paid to audit firms (refer below)	5	7
275	226	Inventory expenses	474	467
1,780	1,146	Impairment of financial assets	1,004	1,300
-	-	Impairment of inventory	24	8
447	483	Lottery prize payments	529	521
1,115	1,120	Rental and leasing costs	1,109	1,156
806	855	Write-down on initial recognition of financial assets	850	807
29,027	28,286	Other operating expenses	28,001	27,061
37,792	**36,386**	**Total other operating expenses**	**35,678**	**35,829**
		By source		
38,693	36,565	Core Crown	35,876	37,454
16,820	16,397	Crown entities	16,321	16,368
9,004	9,802	State-owned enterprises	9,802	8,125
(26,725)	(26,378)	Inter-segment eliminations	(26,321)	(26,118)
37,792	**36,386**	**Total other operating expenses**	**35,678**	**35,829**

Operating expenses relate to those expenses incurred in the course of undertaking the functions and activities of entities included in the financial statements of the Government, excluding those expenses separately identified in the statement of financial performance and other notes. Items disclosed separately are those required by financial reporting standards.

Other operating expenses is the large residual item. Most of these costs represent payments made for services provided by third parties (road maintenance for example) or for raw materials (fuel, medicines or inventory for example). They also include other day-to-day operating costs.

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Audit and related expenses		
Auditor-General fees for the audit of financial statements[1]	35	34
Auditor-General fees for assurance and related services	1	1
Fees for other services	-	1
	36	36
Inter-segment eliminations	(36)	(36)
Total audit and related expenses	**-**	**-**
Fees for other work [2]		
Fees for assurance and related services	2	4
Fees for tax services	1	1
Fees for other services	2	2
Fees paid to audit firms	**5**	**7**

1. The audit of financial statements are those of the Government reporting entity and its sub-entities. Audit fees are eliminated because the Office of the Auditor-General is consolidated into these financial statements.
2. External auditing firms carry out other work for entities that they audit on behalf of the Auditor-General.

Note 10: Interest Expenses

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
3,161	3,596	Financial liabilities classified as amortised cost	3,785	3,060
-	9	Financial liabilities classified as held for trading	34	7
1,431	523	Financial liabilities classified as fair value through profit and loss	404	478
93	45	Interest unwind on provisions	67	51
4,685	**4,173**	**Total interest expenses**	**4,290**	**3,596**
		By source		
3,714	3,553	Core Crown	3,511	3,066
272	244	Crown entities	246	248
1,392	1,104	State-owned enterprises	1,268	1,027
(693)	(728)	Inter-segment eliminations	(735)	(745)
4,685	**4,173**	**Total interest expenses**	**4,290**	**3,596**

Note 11: Insurance Expenses

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By entity		
3,042	3,138	Accident Compensation Corporation (ACC)	3,010	2,979
78	958	Earthquake Commission (EQC)	1,073	11,776
-	347	Southern Response (formerly AMI insurance)	586	151
18	8	Other	20	22
-	-	Inter-segment eliminations	(113)	(336)
3,138	**4,451**	**Total insurance expenses**	**4,576**	**14,592**
		By type		
		Property damage claims in relation to Canterbury earthquakes	1,612	11,475
		Personal accident and injury claims	3,010	2,979
		Other insurance expenses	(46)	138
		Total insurance expenses	**4,576**	**14,592**

Insurance expenses include costs associated with insurance claims arising from the Canterbury earthquakes. Note 30 contains further discussion on total costs of the earthquakes to the Crown. These expenses do not include any proceeds from reinsurance. These proceeds are included as "other revenue" in the statement of financial performance (refer note 5).

The remainder of the note provides additional information on the insurance expenses for ACC, EQC, and Southern Response.

An analysis of the insurance liabilities is provided in note 25.

Note 11: Insurance Expenses (continued)

Analysis of ACC insurance expense	Actual 30 June 2012 $m	30 June 2011 $m
By type		
Claims expense	6,186	2,396
Movement in unexpired risk liability	68	(105)
Other underwriting expenses	99	90
Total ACC claims and other expenses	**6,353**	**2,381**
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss)	(2,942)	996
Operating costs relating to claims	(401)	(398)
Total ACC insurance expenses (excluding losses and operations)	**3,010**	**2,979**

Given the uncertainty over insurance claims, it is likely that the final cost will be different from the original liability established. Net claims incurred in the table below refers to the adjustment in the liability arising from claims incurred in the current financial year and reassessment of claims incurred in previous years. This reassessment results from new information on these claims (including new claims relating to incidents incurred in previous years) and changes in assumptions.

	Actual 30 June 2012 $m	30 June 2011 $m
ACC Claims Incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	7,130	7,800
Discount and discount movement	(4,144)	(4,857)
Total current year net claims incurred	**2,986**	**2,943**
Previous years' net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	(6,789)	348
Discount and discount movement	9,989	(895)
Total previous years' net claims incurred	**3,200**	**(547)**
ACC claims expense	**6,186**	**2,396**

The underwriting surplus/(deficit) represents the net effect on the statement of financial performance from claims incurred prior to reporting date. It includes actuarial gains/(losses).

Underwriting revenue is reported separately in the financial statements under other sovereign revenue (refer note 2).

	Actual 30 June 2012 $m	30 June 2011 $m
Net ACC Underwriting Result		
Premium revenue	3,695	3,586
Recoveries revenue (including reinsurance recovery)	-	-
ACC underwriting revenue	**3,695**	**3,586**
Less claims and other expenses	(6,353)	(2,381)
Net ACC underwriting surplus/(deficit)	**(2,658)**	**1,205**
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	3,693	3,612
Cash payments	(3,059)	(3,017)
Net ACC operating cash flows	**634**	**595**

Note 11: Insurance Expenses (continued)

Analysis of EQC insurance expense	Actual 30 June 2012 $m	Actual 30 June 2011 $m
By type		
Claims expense	1,193	11,446
Movement in unexpired risk liability	(192)	281
Other underwriting expenses	72	49
Total EQC claims and other expenses	**1,073**	**11,776**
Net EQC Underwriting Result		
Premium revenue	107	88
Recoveries revenue (including reinsurance recovery)	391	4,185
EQC underwriting revenue	**498**	**4,273**
Less claims and other expenses	1,073	11,776
Net EQC underwriting surplus/(deficit)	**(575)**	**(7,503)**
EQC operating cash flows associated with the underwriting result are:		
Cash receipts	134	88
Cash payments	2,890	1,230
Net EQC operating cash flows	**(2,756)**	**(1,142)**
EQC Claims Incurred		
Current year net EQC claims incurred		
Gross claims incurred and related expenses – undiscounted	719	12,337
Discount and discount movement	(17)	(891)
Total current year net claims incurred	**702**	**11,446**
Previous years' net EQC claims incurred		
Gross claims incurred and related expenses – undiscounted	(147)	-
Discount and discount movement	638	-
Total previous years' net claims incurred	**491**	**-**
EQC claims expense	**1,193**	**11,446**

Note 11: Insurance Expenses (continued)

Analysis of Southern Response insurance expense	Actual 30 June 2012 $m	30 June 2011 $m
By type		
Claims expense	609	175
Movement in unexpired risk liability	-	-
Total Southern Response claims and other expenses	**609**	**175**
less operating costs relating to claims	(23)	(24)
Total Southern Response insurance expenses (excluding operations)	**586**	**151**
Net Southern Response Underwriting Result		
Premium revenue	248	85
Recoveries revenue (including reinsurance recovery)	-	63
Southern Response underwriting revenue	**248**	**148**
Less claims and other expenses	609	175
Net Southern Response underwriting surplus/(deficit)	**(361)**	**(27)**
Southern Response operating cash flows associated with the underwriting result are:		
Cash receipts	526	101
Cash payments	540	94
Net Southern Response operating cash flows	**(14)**	**7**

Southern Response Earthquake Services ("Southern Response") manages claims related to the Canterbury earthquakes incurred by AMI Insurance. Comparatives only include costs incurred after 7 April 2011 (when the financial support package for AMI was agreed). As a result, comparatives are for the period between 7 April and 30 June. On 5 April 2012 the on-going insurance business was sold to IAG.

Note 12: Gains and Losses on Financial Instruments

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
-	(41)	Foreign exchange gains on financial assets measured at amortised cost	40	15
-	(145)	Foreign exchange losses on financial assets measured at amortised cost	(86)	(445)
-	5	Change in fair value of financial assets classified as held for trading	(6)	2
-	(6)	Gain/(loss) on disposal of financial assets measured at amortised cost	79	(25)
1,309	487	Change in fair value of financial assets classified as fair value through profit and loss	469	(1,979)
1,309	**300**	**Net gains/(losses) on financial assets**	**496**	**(2,432)**
6	1	Foreign exchange gain on financial liabilities measured at amortised cost	1	178
-	(25)	Foreign exchange loss on financial liabilities measured at amortised cost	(55)	(119)
-	-	Change in fair value of financial liabilities classified as held for trading	-	-
(4)	(5)	Gain/(loss) on disposal of financial liabilities measured at amortised cost	(4)	(5)
61	(163)	Change in fair value of financial liabilities classified as fair value through profit and loss	(362)	270
63	**(192)**	**Net gains/(losses) on financial liabilities**	**(420)**	**324**
601	809	Net gain/(loss) on derivatives	616	6,727
1,973	**917**	**Net gains/(losses) on financial instruments**	**692**	**4,619**
		By source		
1,546	558	Core Crown	526	4,116
688	650	Crown entities	930	1,058
(68)	(262)	State-owned enterprises	9	(281)
(193)	(29)	Inter-segment eliminations	(773)	(274)
1,973	**917**	**Net gains/(losses) on financial instruments**	**692**	**4,619**

Note 13: Gains and Losses on Non-Financial Instruments

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
-	82	Foreign exchange gains/(losses)	329	(153)
-	(2,212)	Actuarial gains/(losses) on GSF liability	(3,896)	(574)
-	(1,671)	Actuarial gains/(losses) on ACC outstanding claims	(2,942)	996
4	20	Other gains/(losses) on non-financial liabilities	(124)	187
(3)	(21)	Gains/(losses) on disposal or revaluation of property, plant and equipment	(77)	(565)
171	191	Gains/(losses) on agricultural assets	120	310
(1)	-	Gains/(losses) on intangible assets	(26)	1
1	240	Other gains/(losses) on non-financial assets	90	(123)
172	**(3,371)**	**Net gains/(losses) on non-financial instruments**	**(6,526)**	**79**
		By source		
(8)	(2,129)	Core Crown	(3,790)	(588)
(1)	(1,691)	Crown entities	(2,955)	931
180	448	State-owned enterprises	220	(264)
1	1	Inter-segment eliminations	(1)	-
172	**(3,371)**	**Net gains/(losses) on non-financial instruments**	**(6,526)**	**79**

The GSF and ACC liabilities are valued by an independent actuary (refer notes 25 and 26). Actuarial gains/(losses) represent differences between actual results and what the actuary had assumed when originally calculating the liability (experience adjustments) and the effect of changes in actuarial assumptions.

Note 14: Receivables

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
6,788	7,196	Tax receivables	7,257	7,104
3,947	3,255	Levies, fines and penalty receivables	3,267	3,440
490	481	Social benefit receivables	502	480
11,225	10,932	**Sovereign receivables**	11,026	11,024
320	723	Recoveries from Deposit Guarantee Scheme receiverships	270	739
5,164	8,911	Trade and other receivables	9,660	9,927
16,709	**20,566**	**Total receivables**	**20,956**	**21,690**
		By maturity		
13,504	14,600	Expected to be realised within one year	15,173	14,916
3,205	5,966	Expected to be outstanding for more than one year	5,783	6,774
16,709	**20,566**	**Total receivables**	**20,956**	**21,690**
		By source		
8,785	10,014	Core Crown	10,974	11,376
7,254	8,568	Crown entities	10,011	8,999
2,358	3,447	State-owned enterprises	2,154	3,576
(1,688)	(1,463)	Inter-segment eliminations	(2,183)	(2,261)
16,709	**20,566**	**Total receivables**	**20,956**	**21,690**

In determining the recoverability of a tax or other sovereign receivables, the Government uses information about the extent to which the tax or levy payer is contesting the assessment and experience of the outcomes of such disputes, from lateness of payment, and other information obtained from credit collection actions taken. Due to the size of the tax base, the concentration of credit risk is limited and this is not a risk that is managed.

The Government does not hold any collateral or any other credit enhancements over receivables which are past due.

All sovereign receivables are denominated in New Zealand dollars.

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Tax Receivables		
Gross tax receivable	11,666	11,248
Impairment of tax receivables	(4,409)	(4,144)
Total tax receivables	**7,257**	**7,104**
Gross Tax Receivable		
Current	6,262	6,138
Past due	5,404	5,110
Total gross tax receivable	**11,666**	**11,248**
% past due	46%	45%
Impairment of Tax Receivables		
Opening balance	4,144	3,920
Impairment losses recognised during the year	1,114	1,009
Amounts written off as uncollectible	(849)	(785)
Closing balance	**4,409**	**4,144**

Note 14: Receivables (continued)

The Inland Revenue Department (IRD) administers the majority of the tax receivable portfolio. The recoverable amount of the portfolio is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current market rate.
If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.

	Actual	
	30 June 2012 $m	30 June 2011 $m
The estimated recoverable amount of this portfolio and key assumptions underpinning the valuation are:		
Recoverable amount of tax receivables (current)	6,242	6,102
Recoverable amount of tax receivables (past due)	1,015	1,002
Discount rate	5.60%	6.10%
Impact on recoverable amount of a 2% increase in discount rate	(18)	(16)
Impact on recoverable amount of a 2% decrease in discount rate	20	17

Tax receivables are classified as past due when any outstanding tax is not paid by the taxpayer's due date. Due dates will vary depending on the type of tax outstanding (eg, GST, income tax, PAYE) and the taxpayer's balance date. Past due debt includes debt collected under instalment, debt under dispute, default assessments and debts of taxpayers who are bankrupt, in receivership or in liquidation. IRD has debt management policies and procedures to actively manage the collection of past due debt.

	Actual	
	30 June 2012 $m	30 June 2011 $m
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	884	982
Between six months and one year	453	467
Between one year and two years	899	1,014
Greater than two years	3,168	2,647
Tax receivables past due	**5,404**	**5,110**

The carrying amount of tax receivables provides a reasonable approximation of their fair value.

Note 14: Receivables (continued)

	Actual 30 June 2012 $m	30 June 2011 $m
Levies, Fines and Penalty Receivables		
Gross ACC levy receivables	3,072	3,251
Gross other levies, fines and penalty receivables	2,286	2,205
Total gross levies, fines and penalty receivables	**5,358**	**5,456**
Impairment of ACC levy receivables	(122)	(79)
Impairment of other levies, fines and penalty receivables	(1,969)	(1,937)
Total impairment of receivables	**(2,091)**	**(2,016)**
Total levies, fines and penalty receivables	**3,267**	**3,440**
Impairment of ACC Levy Receivables		
Opening balance	79	80
Impairment losses recognised during the year	14	11
Amounts written off as uncollectible	-	(12)
Impairment losses reversed	29	-
Closing balance	**122**	**79**
Collective impairment allowance	122	79
Individual impairment allowance	-	-
Impairment of ACC Levy Receivables	**122**	**79**
Impairment of other Levies, Fines and Penalty Receivables		
Opening balance	1,937	1,729
Impairment losses recognised during the year	145	370
Amounts written off as uncollectible	-	-
Impairment losses reversed	(113)	(162)
Closing balance	**1,969**	**1,937**
Collective impairment allowance	1,969	1,937
Individual impairment allowance	-	-
Impairment of other Levies, Fines and Penalty Receivables	**1,969**	**1,937**
Ageing of Levies, Fines and Penalty Receivables Past Due But Not Impaired		
Less than six months	-	-
Between six months and one year	-	-
Greater than one year	-	-
Total levies, fines and penalty receivables past due but not impaired	**-**	**-**

The ACC levy receivables are short term, so their carrying amount provides a reasonable approximation of their fair value. Of the other levies, fines and penalties receivables, the majority is in the debtor portfolio administered by the Ministry of Justice (ie, court fines, associated court fees and enforcement fees) with a carrying value of $213 million (2011: $226 million). Their carrying amount provides a reasonable approximation of their fair value. The recoverable amount of these Justice receivables is calculated using discounted cash flows (net of estimated service costs).

Note 14: Receivables (continued)

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Social Benefit Receivables		
Gross social benefit receivables	1,130	1,050
Impairment of social benefit receivables	(628)	(570)
Total social benefit receivables	**502**	**480**
Impairment of Social Benefit Receivables		
Opening balance	570	521
Impairment losses recognised during the year	69	60
Amounts written off as uncollectible	(11)	(11)
Closing balance	**628**	**570**
Collective impairment allowance	628	570
Individual impairment allowance	-	-
Impairment of Social Benefit Receivables	**628**	**570**
Ageing of Social Benefit Receivables Past Due But Not Impaired		
Less than six months	70	78
Between six months and one year	28	23
Greater than one year	-	-
Total social benefit receivables past due but not impaired	**98**	**101**

Social benefit receivables comprise benefit overpayments, advances on benefits and recoverable special needs grants primarily administered by the Ministry of Social Development with a carrying value of $490 million (2011: $466 million). The recoverable amount of social benefit receivables is determined by discounting the expected future cash flows (net of estimated service costs).

Their carrying amount provides a reasonable approximation of their fair value.

	30 June 2012 $m	30 June 2011 $m
Recoveries from Deposit Guarantee Scheme receiverships		
Opening balance of recoveries expected from receiverships	739	13
Recoveries expected from entities defaulting during the year	-	1,104
Revision of expected recoveries	90	(236)
Transfer of non-cash assets from South Canterbury Finance receivership into Crown Asset Management Limited[1]	(92)	-
Payments received from receivers	(467)	(142)
Closing balance	**270**	**739**
Total payments to depositors under the Guarantee scheme	34	1,897

As a consequence of payments made to depositors of failed finance companies under the deposit guarantee scheme, the Crown has inherited the beneficial interest in the proceeds that can be recovered from the secured assets of the receiverships. The reported receivables represent the receivers' best prudent estimates of likely recoveries from the receiverships. However the eventual return to the Crown is dependent upon the value that can be realised from these entities' assets and the timing of receipts. A range of outcomes for eventual recoveries is possible. The Crown monitors the receiverships to obtain assurance that optimal proceeds are realised as soon as possible.

In addition to Retail Deposit Guarantee Scheme, the Government operated an opt-in wholesale scheme from November 2008 to April 2010. As at 30 June 2012, 15 guarantee certificates remained in place (value of $3.7 billion). No provision is made for losses under this scheme as the probability of loss is considered remote.

1. During the year the remaining assets of South Canterbury Finance Limited were transferred to a newly established Government reporting entity, Crown Asset Management Limited.

Note 14: Receivables (continued)

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Trade and Other Receivables		
Gross trade and other receivables	9,753	10,009
Impairment of trade and other receivables	(93)	(82)
Total trade and other receivables	**9,660**	**9,927**
Impairment of Trade and Other Receivables		
Opening balance	82	65
Impairment losses recognised during the year	20	33
Amounts written off as uncollectible	(14)	(15)
Impairment losses reversed	5	(1)
Closing balance	**93**	**82**
Collective impairment allowance	69	68
Individual impairment allowance	24	14
Impairment of Trade and Other Receivables	**93**	**82**
Ageing of Trade and Other Receivables Past Due But Not Impaired		
Less than six months	248	175
Between six months and one year	5	9
Greater than one year	2	5
Total trade and other receivables past due but not impaired	**255**	**189**

Trade and other receivables include $5,003 million relating to reinsurance receivables in Southern Response and EQC (2011: $5,381 million). The rest of the trade and other receivables are short term, with $4,273 million (2011: $4,310 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Reinsurance receivable		
Opening balance	5,381	-
Reinsurance recognised during the year	407	4,269
Reinsurance acquired through business combination	-	1,147
Reinsurance received during the year	(785)	(35)
Closing balance	**5,003**	**5,381**

Credit risk associated with reinsurance receivables is managed by ensuring the risk is spread across a number of different reinsurers with appropriate credit ratings.

Note 15: Marketable securities, deposits and derivatives in gain

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
36,065	34,716	Marketable securities	38,682	39,214
2,047	1,888	Long term deposits	2,422	2,259
2,394	4,989	Derivatives in gain	5,032	5,415
2,528	2,228	IMF financial assets	2,249	2,168
43,034	**43,821**	**Total marketable securities, deposits and derivatives in gain**	**48,385**	**49,056**
		By maturity		
31,184	30,718	Expected to be realised within one year	34,451	36,448
11,850	13,103	Expected to be held for more than one year	13,934	12,608
43,034	**43,821**	**Total marketable securities, deposits and derivatives in gain**	**48,385**	**49,056**
		By source		
32,356	33,069	Core Crown	37,330	39,686
16,847	18,122	Crown entities	18,713	16,939
2,811	2,684	State-owned enterprises	2,607	2,651
(8,980)	(10,054)	Inter-segment eliminations	(10,265)	(10,220)
43,034	**43,821**	**Total marketable securities, deposits and derivatives in gain**	**48,385**	**49,056**

Marketable securities comprise bonds, commercial paper, debentures and similar tradable financial assets held by the Government for the purposes of realising capital gains or interest revenue. Marketable securities and derivatives in gain are reported at their fair value. Fair value is either based on quoted market price or using a valuation model if there is no active market. The valuation models used generally calculate the expected cash flows under the terms of each specific contract and then discounts these values back to present value.

Long-term deposits are instruments with maturities greater than three months that are not traded in an active market. Long-term deposits are measured at amortised cost. Their carrying amount provides a reasonable approximation of their fair value.

Further information on the management of risks associated with these financial assets is provided in note 33.

Note 16: Share Investments

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By maturity		
9,331	6,702	Expected to be realised within one year	6,388	8,284
6,764	7,768	Expected to be held for more than one year	7,997	5,964
16,095	**14,470**	**Total share investments**	**14,385**	**14,248**
		By source		
8,227	6,704	Core Crown	6,341	6,879
7,852	7,744	Crown entities	7,806	7,198
57	57	State-owned enterprises	264	207
(41)	(35)	Inter-segment eliminations	(26)	(36)
16,095	**14,470**	**Total share investments**	**14,385**	**14,248**

Share investments are reported at fair value. The fair value of listed share investments is based on quoted market prices. The fair value of unlisted share investments is determined from the initial cost of the investment and adjusted for performance of the business and changes in equity market conditions since purchase.

Further information on the management of risks associated with these financial assets is provided in note 33.

Note 17: Advances

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
7,822	8,238	Student loans	8,291	7,460
13,493	12,637	Kiwibank mortgages	12,445	11,495
1,118	1,216	Other advances	1,030	1,612
22,433	**22,091**	**Total advances**	**21,766**	**20,567**
		By source		
12,875	13,465	Core Crown	13,580	12,447
373	280	Crown entities	325	368
13,904	13,089	State-owned enterprises	12,765	12,382
(4,719)	(4,743)	Inter-segment eliminations	(4,904)	(4,630)
22,433	**22,091**	**Total advances**	**21,766**	**20,567**

Further information on the management of risks associated with these financial assets is provided in note 33.

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Student Loans		
12,909	12,982	Nominal value	12,969	12,070
(5,087)	(4,744)	Write-down on initial recognition and impairment	(4,678)	(4,610)
7,822	**8,238**	**Total student loans**	**8,291**	**7,460**
		Gross carrying value	9,242	8,697
		Impairment of student loans	(951)	(1,237)
		Total student loans	**8,291**	**7,460**
		By maturity		
		Expected to be repaid within one year	930	787
		Expected to be outstanding for more than one year	7,361	6,673
		Total student loans	**8,291**	**7,460**
		Movement During the Year		
7,325	7,460	Opening balance	7,460	6,790
1,590	1,607	Amount lent in the current year	1,586	1,564
(707)	(714)	Less initial write-down to fair value	(701)	(713)
(834)	(859)	Repayments made during the year	(877)	(802)
534	537	Interest unwind	526	484
(110)	194	Impairment losses (recognised)/reversed during the year	286	125
24	13	Other movements	11	12
7,822	**8,238**	**Closing balance student loans**	**8,291**	**7,460**
		Impairment of Student Loans		
		Opening balance	1,237	1,362
		Impairment losses recognised during the year	-	-
		Amounts written off as uncollectible	-	-
		Impairment losses reversed	(286)	(125)
		Closing balance	**951**	**1,237**

Note 17: Advances (continued)

Student loans are recognised initially by writing the amount lent down to fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest rate method, less any impairment loss. Fair value on initial recognition of student loans is determined by projecting forward expected repayments required under the scheme and discounting them back at an appropriate discount rate. The difference between the amount lent and the fair value on initial recognition is expensed on initial recognition. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the Crown's interest income across the life of the loan and determines the loan's carrying value at each reporting date.

	Actual	
	30 June 2012 $m	**30 June 2011 $m**
Significant assumptions behind the carrying value are:		
Effective interest rate - current year	7.4%	8.1%
Effective interest rate - weighted average	7.2%	7.1%
Interest rate applied to loans for overseas borrowers	4.6%-6.7%	6.6%-6.7%
CPI	1.8%-2.5%	2.5%-2.8%
Future salary inflation	3.2%-3.5%	3.5%-3.8%

In contrast with the amortised cost approach described above, fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2012. It is determined by discounting the cash flows at an appropriate discount rate.

	Actual	
	30 June 2012 $m	**30 June 2011 $m**
Fair value of the student loan portfolio	8,527	7,221
Impact on fair value of a 1% increase in discount rate	(396)	(416)
Impact on fair value of a 1% decrease in discount rate	432	475

The fair value differs from the carrying value due to changes in market interest rates at reporting date. The carrying value is not adjusted for such changes as it is valued using the effective interest rate determined when the loan was initially drawn. However, the fair value was calculated on a discount rate that was current at 30 June 2012. At that date the fair value was calculated on a discount rate of 6.6% (2011: 7.6%) whereas a weighted average effective interest rate of 7.2% was used for the carrying value.

Through the everyday operations of the student loan scheme the Government is exposed to the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid. The student loan scheme does not require borrowers to provide any collateral or security to support their borrowings. As the total sum advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk. The credit risk is reduced by collection of repayments through the tax system.

The Student Loan Scheme Annual Report contains more information on the student loan scheme.

Note 17: Advances (continued)

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Kiwibank Mortgages		
		By maturity		
1,263	1,137	Expected to be repaid within one year	1,036	1,028
12,230	11,500	Expected to be outstanding for more than one year	11,409	10,467
13,493	**12,637**	**Total Kiwibank mortgages**	**12,445**	**11,495**
		Impairment of Kiwibank Mortgages		
		Opening balance	87	20
		Impairment losses recognised on mortgages	45	56
		Amounts written off as uncollectible	(31)	12
		Impairment losses reversed	(10)	(1)
		Closing balance	**91**	**87**
		Collective impairment allowance	50	37
		Individual impairment allowance	41	50
		Impairment of Kiwibank Mortgages	**91**	**87**
		Ageing of Kiwibank Mortgages Past Due But Not Impaired		
		Less than six months	202	185
		Between six months and one year	-	-
		Greater than one year	-	-
		Total Kiwibank mortgages past due but not impaired	**202**	**185**

Kiwibank mortgages are primarily measured at amortised cost. This amortisation is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses. The fair value of Kiwibank mortgages is $12,497 million (2011: $11,555 million).

The maximum loss due to default on Kiwibank mortgages is the carrying value reported in the statement of financial position. Collateral is obtained to mitigate any risk of loss, which in the case of Kiwibank mortgages are primarily in the form of properties. The fair value of the collateral provided is sufficient to ensure that the Crown will recover the entire amount owing over the life of the mortgage and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

Note 17: Advances (continued)

Forecast 30 June 2012 Budget 11 $m	Budget 12 $m		Actual 30 June 2012 $m	30 June 2011 $m
		Other Advances		
		By maturity		
61	473	Expected to be repaid within one year	480	763
1,057	743	Expected to be outstanding for more than one year	550	849
1,118	**1,216**	**Total other advances**	**1,030**	**1,612**
		Impairment of Other Advances		
		Opening balance	190	84
		Impairment losses recognised during the year	39	141
		Amounts written off as uncollectible	(80)	(33)
		Impairment losses reversed	(1)	(2)
		Closing balance	**148**	**190**
		Collective impairment allowance	140	134
		Individual impairment allowance	8	56
		Impairment of Other Advances	**148**	**190**
		Ageing of Other Advances Past Due But Not Impaired		
		Less than six months	7	-
		Between six months and one year	-	-
		Greater than one year	-	-
		Total other advances past due but not impaired	**7**	**-**
		Measurement Basis for Other Advances		
956	950	Other advances measured at amortised cost	790	1,367
162	266	Other advances measured at fair value	240	245
1,118	**1,216**	**Total other advances**	**1,030**	**1,612**

The NZS Fund, Public Trust and a number of SOEs manage the majority of these advances.

Other advances measured at fair value are those that are managed and performance is evaluated on a fair value basis. As they are designated at fair value through profit and loss, the value of these instruments will be affected by changes in interest rates. Changes to interest rates may arise from features specific to these assets (ie, changes to credit risk on these assets) and broader market sentiment changes.

Their carrying amount provides a reasonable approximation of their fair value.

In addition to these other advances, the Government has entered into commitments to provide advances through two facilities. The Crown has agreed to make available to the Auckland Council, a loan facility to enable the Council to develop the Auckland metro rail network. The loan facility amount is $500 million of which $440 million is undrawn as at 30 June 2012. The Crown has also agreed to make available to the New Zealand Local Government Funding Agency (NZLGFA) a New Zealand dollar revolving credit facility for 10 years (to February 2022). This facility is only to be utilised to meet exceptional and temporary liquidity shortfalls affecting the NZLGFA. The facility is for $500 million with the possibility for this to be increased to $1 billion by February 2015. As at 30 June 2012 the facility has not been utilised.

Note 18: Inventory

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
		Inventories held for sale	102	100
		Military inventories	293	317
		Other consumables	839	891
1,380	**1,301**	**Total inventory**	**1,234**	**1,308**
		By maturity		
1,136	1,018	Expected to be sold or consumed within one year	952	1,112
244	283	Expected to be sold or consumed after one year	282	196
1,380	**1,301**	**Total inventory**	**1,234**	**1,308**
		By source		
478	432	Core Crown	399	450
196	162	Crown entities	183	180
706	707	State-owned enterprises	652	678
-	-	Inter-segment eliminations	-	-
1,380	**1,301**	**Total inventory**	**1,234**	**1,308**

Note 19: Other Assets

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
412	492	Prepayments	499	467
65	55	Investment property	58	56
702	778	Agricultural assets	640	759
379	368	Investment in supranational organisations	367	360
104	310	Other	570	354
1,662	**2,003**	**Total other assets**	**2,134**	**1,996**
		By maturity		
540	842	Expected to be realised within one year	1,086	859
1,122	1,161	Expected to be held for more than one year	1,048	1,137
1,662	**2,003**	**Total other assets**	**2,134**	**1,996**
		By source		
1,117	1,234	Core Crown	1,233	1,241
162	155	Crown entities	228	199
411	652	State-owned enterprises	713	611
(28)	(38)	Inter-segment eliminations	(40)	(55)
1,662	**2,003**	**Total other assets**	**2,134**	**1,996**

Note 20: Property, Plant and Equipment

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Net Carrying Value		
		By class of asset		
36,055	35,341	Land	33,626	35,111
25,232	24,980	Buildings	25,046	24,539
18,913	18,391	State highways	17,546	17,713
14,915	14,900	Electricity generation assets	14,400	14,439
3,553	3,412	Electricity distribution network	3,476	2,690
3,377	3,273	Specialist military equipment	3,220	3,331
2,636	2,483	Specified cultural and heritage assets	2,514	2,456
2,587	2,066	Aircraft (excluding military)	2,250	1,805
7,106	7,244	Rail network [1]	856	7,100
6,812	5,918	Other plant and equipment	5,650	5,670
121,186	**118,008**	**Total property, plant and equipment**	**108,584**	**114,854**
		By source		
30,594	29,686	Core Crown	29,377	29,549
50,949	49,797	Crown entities	49,939	48,480
39,643	38,525	State-owned enterprises	29,268	36,825
-	-	Inter-segment eliminations	-	-
121,186	**118,008**	**Total property, plant and equipment**	**108,584**	**114,854**
		By holding		
958	1,343	Leasehold	1,833	1,316
120,228	116,665	Freehold	106,751	113,538
121,186	**118,008**	**Total property, plant and equipment**	**108,584**	**114,854**
		Property, plant and equipment pledged to secure borrowing	**1,680**	1,246

Property, plant and equipment pledged to secure borrowing is owned by State-owned enterprises.

Under Section 55 of the Public Finance Act 1989, borrowing by the Crown is a charge on the revenue of the Crown equally and rateably. Therefore, no property, plant and equipment owned by the core Crown has been pledged as security for liabilities. Government-owned property, plant and equipment is, however, subject to a significant number of legislative and policy restrictions with respect to its use and disposal.

These carrying values critically depend on judgements of useful lives to determine depreciation and the assumptions used in revaluations. Depreciation rates are affirmed to be appropriate each year by those responsible for managing the assets, whereas assurance on the assumptions used in valuations is provided by the use of independent valuers as noted below.

The value of the land underneath state highways and the rail network, as well as land set aside for cultural and heritage purposes (ie, national parks, forest parks, conservation areas and recreational facilities) is included in the Land category. This was not previously the case; such land was included as a component of the value of those separate classes of assets. Comparatives have been restated to reflect the changed classification of these types of land.

1. During the year the valuation methodology for the rail network (excluding metro-only assets) changed from optimised depreciated replacement cost to recoverable amount resulting in a significant impairment. Details of the rail network asset can be found on page 86.

Note 20: Property, Plant and Equipment (continued)

For the year ended 30 June 2012	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Aircraft (excluding military) $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2011	**126,601**	36,022	26,652	16,802	14,455	3,547	4,038	2,836	1,821	7,508	12,920
Additions	**6,514**	152	1,337	1,123	344	927	110	38	611	269	1,603
Disposals	**(941)**	(209)	(109)	1	(8)	(13)	(8)	(8)	(20)	-	(567)
Net revaluations	**(9,793)**	(2,168)	(303)	(380)	54	-	(12)	47	(116)	(6,915)	-
Other	**(664)**	(171)	(26)	-	(131)	(8)	25	(1)	(30)	(2)	(320)
Total gross carrying amount	**121,717**	**33,626**	**27,551**	**17,546**	**14,714**	**4,453**	**4,153**	**2,912**	**2,266**	**860**	**13,636**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2011	**11,747**	-	2,113	-	16	857	707	380	16	408	7,250
Eliminated on disposal	**(634)**	-	(28)	-	-	(17)	(6)	(6)	(15)	-	(562)
Eliminated on revaluation	**(3,415)**	-	(717)	(432)	(116)	-	(1)	2	(120)	(2,031)	-
Impairment losses charged to operating balance	**1,884**	-	1	-	29	-	-	-	-	1,409	445
Depreciation expense	**3,803**	-	1,174	432	388	137	237	21	153	223	1,038
Other	**(252)**	-	(38)	-	(3)	-	(4)	1	(18)	(5)	(185)
Total accumulated depreciation	**13,133**	**-**	**2,505**	**-**	**314**	**977**	**933**	**398**	**16**	**4**	**7,986**
Carrying value as at 30 June 2012	**108,584**	**33,626**	**25,046**	**17,546**	**14,400**	**3,476**	**3,220**	**2,514**	**2,250**	**856**	**5,650**
By holding											
Leasehold	**1,833**	-	263	-	-	-	-	-	1,518	-	52
Freehold	**106,751**	33,626	24,783	17,546	14,400	3,476	3,220	2,514	732	856	5,598
	108,584	**33,626**	**25,046**	**17,546**	**14,400**	**3,476**	**3,220**	**2,514**	**2,250**	**856**	**5,650**

For the year ended 30 June 2011	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Aircraft (excluding military) $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2010	**123,941**	36,892	26,051	16,193	13,816	2,993	3,889	2,962	1,743	6,986	12,416
Additions	**6,644**	185	1,570	1,351	366	484	198	59	671	577	1,183
Disposals	**(1,283)**	(186)	(157)	(1)	(6)	(7)	(42)	(8)	(16)	(55)	(805)
Net revaluations	**(2,471)**	(898)	(702)	(756)	633	-	6	(177)	(578)	-	1
Other	**(230)**	29	(110)	15	(354)	77	(13)	-	1	-	125
Total gross carrying amount	**126,601**	**36,022**	**26,652**	**16,802**	**14,455**	**3,547**	**4,038**	**2,836**	**1,821**	**7,508**	**12,920**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2010	**10,611**	-	2,032	-	174	742	476	367	12	198	6,610
Eliminated on disposal	**(830)**	-	(118)	-	(9)	(32)	(42)	(6)	(6)	11	(628)
Eliminated on revaluation	**(1,884)**	-	(902)	(408)	(414)	-	1	-	(161)	-	-
Impairment losses charged to operating balance	**29**	-	3	-	-	-	-	-	-	-	26
Depreciation expense	**3,698**	-	1,077	408	374	147	272	19	171	210	1,020
Other	**123**	-	21	-	(109)	-	-	-	-	(11)	222
Total accumulated depreciation	**11,747**	**-**	**2,113**	**-**	**16**	**857**	**707**	**380**	**16**	**408**	**7,250**
Carrying value as at 30 June 2011	**114,854**	**36,022**	**24,539**	**16,802**	**14,439**	**2,690**	**3,331**	**2,456**	**1,805**	**7,100**	**5,670**
By holding											
Leasehold	**1,316**	-	216	-	2	-	-	-	1,040	-	58
Freehold	**113,538**	36,022	24,323	16,802	14,437	2,690	3,331	2,456	765	7,100	5,612
	114,854	**36,022**	**24,539**	**16,802**	**14,439**	**2,690**	**3,331**	**2,456**	**1,805**	**7,100**	**5,670**

Note 20: Property, Plant and Equipment (continued)

Revaluation details

Revaluations are carried out for a number of classes of property, plant and equipment as detailed in the accounting policies on page 51. Information about the significant valuations within each of the revalued classes of assets is provided below.

Land and buildings

Independent valuations of the Government's land and buildings have been performed by a number of valuers to determine their fair value. The valuations, which conform to International Valuation Standards, were determined by reference to prices for similar properties and in some cases by reference to discounted cash flows or optimised depreciated replacement cost (ODRC).

Breakdown of land and buildings (total valuation over $500m)	Land 30 June 2012 $m	Land 30 June 2011 $m	Buildings 30 June 2012 $m	Buildings 30 June 2011 $m	Actual Total 30 June 2012 $m	Actual Total 30 June 2011 $m
Housing stock	8,744	8,423	6,406	6,579	15,150	15,002
School property	2,726	2,724	7,887	7,519	10,613	10,243
State highway corridor land	8,353	8,324	12	13	8,365	8,337
Conservation estate	5,454	5,691	46	88	5,500	5,779
Hospitals	616	616	3,916	3,506	4,532	4,122
Rail network corridor land	3,260	5,641	-	-	3,260	5,641
Prisons and Department of Corrections office buildings	212	216	1,769	1,841	1,981	2,057
Defence Force land and buildings	674	708	1,176	1,143	1,850	1,851
Landcorp farmland and buildings	1,032	1,062	120	114	1,152	1,176
Ministry of Justice land and buildings	418	504	463	503	881	1,007
Police stations	168	169	503	558	671	727
Other	1,969	1,944	2,748	2,675	4,717	4,619
Land and buildings	**33,626**	**36,022**	**25,046**	**24,539**	**58,672**	**60,561**

Description	Valuer/Reviewer	Approach	Timing
Housing stock	Quotable Value NZ Limited	Valuations based on market evidence or adjusted current rating valuations.	Annual valuation with the latest completed as at 30 June 2012
School property	Darroch Limited or experienced staff (reviewed by Darroch)	Valuations based on market evidence where possible, but predominantly valued using ODRC.	Annual valuation with the latest completed as at 30 June 2012
State highway corridor land and held properties	Darroch Limited	Valued using opportunity cost based on adjacent use as an approximation to fair value.	Annual valuation with the latest completed as at 30 June 2012
Conservation estate (national parks, forest parks, conservation areas, reserves)	Council assessments conducted in accordance with the Rating Valuation Act 1998 reviewed by Logan Sloane Limited	Valued based on rateable valuations where possible. Land not matched to a rateable valuation was assessed using a conservancy average per hectare rate.	Annual valuation with the latest completed as at 30 June 2012

Note 20: Property, Plant and Equipment (continued)

Description	Valuer/Reviewer	Approach	Timing
Hospitals	Each District Health Board uses an independent valuer	Land values were based on market evidence while buildings were valued at ODRC. The largest DHB is Auckland DHB, which was valued at $761 million (2011: $754 million) in 2012 by Telfer Young.	Annual valuation with the latest completed as at 30 June 2012
KiwiRail rail corridor land	Darroch Limited	Land associated with the rail corridor was valued using an opportunity cost based on adjacent use, as an approximation to fair value.	Two-year cycle with the latest full valuation completed as at 30 June 2012
Prisons and Department of Corrections office buildings	Darroch Limited	Valued based on market evidence, except for prison buildings, which were valued at ODRC.	Two-year valuation cycle with the latest full valuation completed as at 30 June 2011
NZ Defence Force Land and Buildings	Darroch Limited	Valued using a market based approach unless reliable market evidence was unavailable, in which case ODRC was used to calculate fair value.	Valuations completed at least once every five years with the latest being as at 30 June 2010
Landcorp's farmland and associated buildings	Darroch Limited	The valuations take into account general factors that influence farm land prices and recent farm sales in the relevant regions and specific encumbrances over the land.	Annual valuation with the latest completed as at 30 June 2012
Police stations and national headquarters	Reviewed by Beca Valuations Limited	The internal valuation performed by experienced staff was based on market evidence where possible, or ODRC.	Three-year cycle with the latest full valuation completed as at 30 June 2012
Ministry of Justice locations (including courtrooms)	Beca Valuations Limited	Based on market evidence where possible, or ODRC.	The valuations are performed on a rolling basis over three years

Note 20: Property, Plant and Equipment (continued)

Rail network

	Recoverable amount $m	ODRC $m	Carrying value $m
Freight only network	144	4,552	144
Dual use network	10	483	10
Metro only network	10	499	499
Total rail infrastructure	164	5,534	653
Buildings			142
Capital work in progress			61
Rail network			**856**

Description	Valuer/Reviewer	Approach	Timing
Buildings, bridges, tunnels, tracks, level crossings signals and electrification. All these assets are held on freehold basis.	Buildings – Darroch Limited	Non-specialised building assets not on the rail corridor were valued based on market evidence using comparable sales. Specialised building assets and buildings on rail corridor land were valued using optimised depreciated replacement cost (ODRC).	Three-year cycle with the latest full valuation completed as at 30 June 2012
	Other Rail Network Assets – Ernst and Young	Railway infrastructure used for freight services (freight only and dual use lines) has been valued using the recoverable amount, being scrap value less costs to sell. Railway infrastructure used for metro only has been valued using ODRC reflecting the public benefit nature of these assets.	

The rail network comprises a total of 4,192 kilometres of track and is used primarily for freight transport. In addition to freight, the network is used by KiwiRail for long distance passenger transport and access is provided to two regional authorities, Greater Wellington Regional Authority and Auckland Transport for metro passenger services. Some tracks are dual purpose (ie, used for both freight and metro), however there are a number of tracks which serve metro transport only (eg, the Johnsonville line). The rail infrastructure earns revenue from freight and long distance passenger charges. In addition, network access charges are collected from the two regional authorities in relation to the metro services.

Following the Government decision, announced on 27 June 2012, to restructure KiwiRail as a profit oriented entity, the rail network infrastructure used for freight services is measured at fair value, reflecting the amount that could be expected to be received from a third party in an orderly transaction. As a result of this decision, rail-related assets have been valued on a commercial basis resulting in a net devaluation of $6,293 million. Of this devaluation, $1,409 million has been recognised as an impairment loss charged to statement of financial performance, while the remaining $4,884 million resulted in a reduction to the property revaluation reserve. The metro-only asset continues to be reported in these financial statements at an optimised depreciated replacement cost basis, as the community benefits enabled by this investment do not provide a return at the whole-of-Government level.

Previously the total rail network infrastructure was measured on an optimised depreciated replacement cost basis reflecting the previous focus on it as a non-cash generating asset. If the value of the rail network was still measured using that approach, then a notional depreciation of $223 million can be calculated, representing an estimate of the amount of "wear-and-tear" or consumption of the network asset over the year. This estimated "wear-and-tear" compares to the total maintenance and renewal expenditure of $240 million on the rail network during the year.

All valuations have been undertaken in accordance with the standards issued by the New Zealand Property Institute.

Note 20: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

There are difficulties associated with obtaining an objective valuation for the specified cultural and heritage assets of the Government. Details of the valuations of the most significant assets within this class are discussed in the following table:

Carrying value of specified cultural and heritage assets	**Actual**	
	30 June 2012 $m	**30 June 2011 $m**
National Library	846	844
Te Papa	824	776
National Archives	446	440
Conservation	350	344
Parliamentary Library	28	29
Other	20	23
	2,514	**2,456**

Description	**Valuer/Reviewer**	**Approach**	**Timing**
National Library collections	Internal valuation	Valued by experienced staff in accordance with guidelines released by the New Zealand Library Association.	Three-year valuation cycle with the latest full valuation completed as at 30 June 2011
Te Papa collections	Art *Art & Objects* Philatelic *Mowbray Collectables Ltd;* Archive History *Webbs Auckland* Ceramic *Peter Wedde*	All collections are valued by based on market value by independent valuers.	Valuations completed at least once every three years with the latest valuations for all collections completed as at 30 June 2012
National archives	Dunbar Sloane	The collection was divided into categories by format and age to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature.	Three year cycle with the latest full valuation completed as at 30 June 2011
Conservation estate visitor buildings	Internal valuation reviewed by Loganstone Limited	Revaluations use output indices, verification by site visits and independent evaluation by Loganstone Limited to determine fair value.	Annual valuation with the latest completed as at 30 June 2012
Parliament Library collection	Internal valuation	Valued by experienced staff in accordance with guidelines released by the New Zealand Library Association. ODRC was used to value current use collections while permanently retained collections were valued at estimated market value using sources such as auction records and book dealers' catalogues.	Annual valuation with the latest completed as at 30 June 2012

Note 20: Property, Plant and Equipment (continued)

Other asset classes subject to revaluation

The details of valuations for each class of property, plant and equipment are in the table below:

Carrying value of other asset classes subject to revaluation	Actual 30 June 2012 $m	Actual 30 June 2011 $m
State highways	17,546	16,802
Electricity generation assets	14,400	14,439
Specialist military equipment	3,220	3,331
Aircraft (excluding military)	2,250	1,805
	37,416	**36,377**

Description	Valuer/Reviewer	Approach	Timing
State highways			
Roads, bridges, culverts, tunnels, underpasses including the formation works, road structure, drainage works and traffic facilities.	Opus International Consultants Limited	State highways are valued using depreciated replacement cost which derives the estimated present cost of constructing the existing assets by the most appropriate method of construction, reduced by factors for the age and condition of the asset.	Annual valuation with the latest completed as at 30 June 2012
Electricity generation assets			
Meridian Energy: Hydro stations and wind and solar farms	Pricewaterhouse Coopers (PwC)	Based on both the capitalisation of earnings methodology, applied to Meridian as a whole, and the discounted cash flow methodology.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2011
Mighty River Power: Hydro and Geothermal stations and gas-fired generation plants	PwC	Based on net present value of future earnings of the assets on an existing use basis excluding disposal and restoration costs.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2012
Genesis Power: Thermal and Hydro stations and Wind farms	Internal valuation independently reviewed by PwC	Based on the net present value of future cash flows associated with the assets on an existing use basis excluding disposal and restoration costs.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2011
Specialist military equipment			
Specialist Military Equipment	Valuations were independently reviewed by Beca Valuations Limited	Valuations use a market based approach unless reliable market evidence is not available, in which case optimised depreciated replacement cost (ODRC) is used to calculate fair value.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2010
Aircraft			
Aircraft and spare engines and flight simulators	The Aircraft Value Analysis Company	An external valuation is obtained to ascertain indicative market values of each aircraft on a stand-alone basis.	Annual valuation with the latest completed as at 30 June 2012

Note 21: Equity Accounted Investments

Forecast 30 June 2012 Budget 11 $m	Budget 12 $m		Actual 30 June 2012 $m	30 June 2011 $m
8,178	8,133	Tertiary Education Institutions	7,915	7,968
1,435	1,623	Other	1,568	1,333
9,613	**9,756**	**Total equity accounted investments**	**9,483**	**9,301**

Tertiary Education Institutions (TEIs)

TEIs are Crown entities, and the Government has a number of legislative powers with respect to them in the interests of public accountability and has some significant reserve controls in the event of an institution facing financial risk. However, the Government does not determine the operating and financing policies of TEIs, if they are not at financial risk, but rather is committed to safeguarding their academic freedom and autonomy. By so doing, the Government obtains the benefits of an effective tertiary education sector. Their relationship to the Crown is managed by a plan agreed between them and the Tertiary Education Commission.

The applicability of the test for consolidation in accounting standards as it applies to TEIs and the Government is unclear, and is still under consideration by the relevant accounting authorities. In the interim the TEIs have been included in the accounts as a 100% equity accounted investment.

The financial year of TEIs is the academic year ending 31 December. Half-year information is used to incorporate TEI information into the financial statements. All other associates have a 30 June balance date.

Summarised financial information in respect of TEIs is set out below:

Forecast 30 June 2012 Budget 11 $m	Budget 12 $m		Actual 30 June 2012 $m	30 June 2011 $m
		Operating Results		
2,206	2,217	Revenue from Crown	2,203	2,200
1,954	2,227	Other revenue	2,316	2,217
(3,954)	(4,275)	Expenses	(4,386)	(4,249)
206	**169**	**Net surplus**	**133**	**168**
		Net worth		
		Assets		
1,435	1,450	Financial assets	1,355	1,450
8,071	8,031	Property, plant and equipment	8,024	7,867
290	323	Other assets	307	322
9,796	**9,804**	**Total assets**	**9,686**	**9,639**
		Liabilities		
242	228	Borrowings	238	228
1,376	1,443	Other liabilities	1,533	1,443
1,618	**1,671**	**Total liabilities**	**1,771**	**1,671**
8,178	**8,133**	**Net worth**	**7,915**	**7,968**

Local Government Funding Agency (LGFA)

The Government holds $5 million of the $25 million paid-up capital of LGFA. The investment has been classified as an equity accounted investment as, although the Government does not have direct representation on the LGFA Board of Directors, it may solely appoint, remove and replace one member of the Shareholders' Council, which, in turn makes recommendations to Shareholders as to the appointment, removal, re-election, replacement and remuneration of Directors. The Government is not a guarantor of the LGFA and has no share of any contingent liabilities of the LGFA.

For the year ended 30 June 2012, LGFA recognised revenue of $10.9 million and a deficit of $4.2 million. The Agency's assets and liabilities were $943.0 million and $922.3 million respectively.

Note 22: Intangible Assets and Goodwill

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
		Computer software	1,375	1,266
		Net Kyoto position	202	291
		Goodwill	746	485
		Other intangible assets	382	352
2,714	**2,430**	**Total intangible assets and goodwill**	**2,705**	**2,394**
		By maturity		
		Expected to be sold or consumed within one year	412	398
		Expected to be sold or consumed after one year	2,293	1,996
		Total intangible assets and goodwill	**2,705**	**2,394**
		By source		
1,498	1,160	Core Crown	1,112	1,157
500	455	Crown entities	494	430
716	815	State-owned enterprises	1,099	807
-	-	Inter-segment eliminations	-	-
2,714	**2,430**	**Total intangible assets and goodwill**	**2,705**	**2,394**

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2012 $m	30 June 2011 $m
Computer Software		
Internally-Generated Computer Software		
Cost		
Opening balance	2,332	2,148
Additions	345	225
Disposals	(87)	(121)
Other movements	(32)	80
Total cost	**2,558**	**2,332**
Accumulated Amortisation		
Opening balance	1,551	1,393
Eliminated on disposal	(64)	(102)
Impairment losses charged to operating balance	28	4
Amortisation	244	235
Other movements	(63)	21
Total accumulated amortisation	**1,696**	**1,551**
Carrying value of internally-generated computer software	**862**	**781**
Purchased Computer Software		
Cost		
Opening balance	1,503	1,526
Additions	196	178
Disposals	(65)	(202)
Other movements	11	1
Total cost	**1,645**	**1,503**
Accumulated Amortisation		
Opening balance	1,018	1,021
Eliminated on disposal	(50)	(172)
Impairment losses charged to operating balance	7	(2)
Amortisation	168	163
Other movements	(11)	8
Total accumulated amortisation	**1,132**	**1,018**
Carrying value of purchased computer software	**513**	**485**
Total computer software	**1,375**	**1,266**

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Net Kyoto Position		
Opening net asset/(provision)	291	212
Change in the price of carbon and foreign exchange rate	(177)	(123)
Change in net projected emission units	88	202
Closing net asset	**202**	**291**

	30 June 2012 Emission Units million tonnes (Mt)	30 June 2011 Emission Units million tonnes (Mt)
Net Kyoto Position		
Kyoto target (assigned amount units)	309.6	309.6
Less AAUs allocated to emission reducing projects	4.5	3.4
Total commitment target	**305.1**	**306.2**
Projected emission units		
Agriculture	170.5	170.1
Energy (incl. transport) and industrial processes	184.9	183.6
Waste	10.0	9.9
Solvent and other product use	0.2	0.1
Total projected emission units	**365.6**	**363.7**
Removals via forest	92.2	89.3
Deforestation emissions	(6.4)	(6.6)
Less net removals via forests	85.8	82.7
Net projected emission units	**279.8**	**281.0**
Less net transfers of AAUs	2.2	3.4
Add Kyoto compliant units surrendered under ETS	12.3	-
Surplus units	**35.4**	**21.8**

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases over 2008-2012 (the first commitment period of the Kyoto Protocol or CP1) is reduced to 1990 gross emissions levels or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions with carbon removed by forests. New Zealand's Kyoto Protocol compliance over the first commitment period will not be finalised until 2015 when the annual submission covering the period 1990 to 2012 is submitted and internationally reviewed. These financial statements report on the New Zealand Government's obligations for the first commitment period, but not for future commitment periods which are currently being negotiated.

New Zealand's net Kyoto position as at 30 June 2012 of $NZ202 million (2011: $NZ291 million) is based on the projected surplus of 35.4 million Kyoto Protocol emission units. This surplus includes 12.3 million Kyoto compliant units surrendered by the emitters under the Emissions Trading Scheme. The carbon price of €3.60 per unit has been used. The carbon price in New Zealand dollars equates to $NZ5.70 (2011: $NZ13.31), using the 30 June 2012 exchange rate of €0.6319 = $NZ1 (30 June 2011: €0.5734 = $NZ1, and a carbon price of €7.63 per unit).

The carbon price has been determined by the Ministry for the Environment based on a report commissioned from Point Carbon on the international market transactions that have occurred in the AAU markets.

Note 22: Intangible Assets and Goodwill (continued)

Net Kyoto Position (continued)

The projected balance of Kyoto Protocol units (the net position) is compiled by the Ministry for the Environment using sectoral projection reports from across government. This includes reports on agriculture emissions and net removals from eligible forests from the Ministry of Agriculture and Forestry; energy emissions (including transport) and industrial processes emissions from the Ministry of Economic Development, and emissions from the waste sector from the Ministry for the Environment. Details of the net position can be found on the Ministry for the Environment's website: www.mfe.govt.nz. The sectoral reports from other departments can also be found by following links on this website. The projections use the latest information from the national inventory of greenhouse gas emissions and removals submitted to the United Nations Framework Convention on Climate Change secretariat on 15 April 2012.

No liability for periods beyond 2012 has been recognised, as New Zealand currently has no specific obligations beyond the first commitment period. However, a view about the outcome of negotiations for future periods is intrinsic to the market price for carbon that has been used to measure the position.

Beyond 2012, the financial impact of New Zealand’s climate change response will depend on the global stabilisation goal, the global cap/emission reducing strategy, the rules regarding which activities can be used to achieve emission reductions and the target that New Zealand signs up to.

Within New Zealand, the Emissions Trading Scheme (ETS) will transfer a price of carbon through the economy. Determinations as to when sectors are covered under the ETS and how much free allocation is made to these sectors will therefore also impact the financial statements of government. Foresters opt-in to the ETS and are allocated units. Because units are allocated free-of-charge, the Crown incurs an expense. The outstanding balance of these units is reported as the provision for ETS credits in note 27 of these financial statements. When the forests are harvested, the foresters may use the units to meet their carbon obligations.

During the first commitment period, the Ministry for the Environment estimate that 92.2 million tonnes of credits will be generated by carbon removals via forests (2011: 89.3 million tonnes). Of this amount, 30.9 million tonnes has been allocated to foresters through the ETS as at 30 June 2012 (2011: 14.4 million tonnes). To the extent that these forests are harvested (in subsequent commitment periods), and a future international agreement is negotiated, there will be an associated liability generated that will need to be repaid. As the forestry credits have been incorporated when calculating the current position for the first commitment period, the associated obligation of the Crown in respect of future commitment periods has been reported as a separate contingent liability (refer note 32). Using the carbon price for measuring the net Kyoto position as at 30 June 2012, this contingent liability can be measured at $NZ349 million (ie, 61.3 million tonnes x $NZ5.70) (2011: $997 million). This contingent liability is also subject to the overall costs imposed by any commitment taken by New Zealand and the associated rules for calculating emissions including for forestry.

The measurement of the Kyoto position is, by its nature, more uncertain than a number of other items in the statement of financial position. Fluctuations in the value of the estimate may occur through changes in the assumptions underlying the quantum, movements in the price of carbon, the exchange rate with the European currency unit, and government policy changes.

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Goodwill		
Cost		
Opening balance	707	706
Additions	280	4
Disposals	(1)	-
Other movements	(1)	(3)
Total cost	**985**	**707**
Accumulated Impairment		
Opening balance	222	219
Eliminated on disposal	(1)	-
Impairment losses charged to operating balance	17	-
Reversals of impairment losses charged to operating balance	-	-
Amortisation charge	-	2
Other movements	1	1
Total accumulated impairment	**239**	**222**
Carrying value of goodwill	**746**	**485**

Goodwill in relation to Air New Zealand of $258 million (2011: $258 million) has been tested for impairment at June 2012 based on a value in use discounted cash flow valuation. Cash flow forecasts were prepared for five years using the Air New Zealand board reviewed business plans. Key assumptions include exchange rates, jet fuel costs, passenger load factors and route yields. These assumptions have been based on historical data and current market information. The cash flow forecasts are particularly sensitive to fluctuations in fuel prices and exchange rates and are extrapolated using an average nominal growth rate of approximately 1.5%. The cash flow projections are discounted using post-tax discount rate scenarios of 10 - 10.5%. The 2012 valuation confirmed that there was no impairment required to the goodwill asset.

During the year, New Zealand Post Group acquired Gareth Morgan Investments Limited, Express Couriers Limited and Couriers Please Holding Limited. The total goodwill arising from these acquisitions was $275 million. The amount for goodwill on these purchases is currently provisional as a detailed fair value analysis has not been performed.

Note 23: Payables

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
6,161	9,564	Accounts payable	8,255	7,337
3,442	3,302	Taxes repayable	3,349	3,762
9,603	**12,866**	**Total payables**	**11,604**	**11,099**
		By maturity		
9,304	12,225	Expected to be settled within one year	11,309	10,721
299	641	Expected to be outstanding for more than one year	295	378
9,603	**12,866**	**Total payables**	**11,604**	**11,099**
		By source		
6,371	6,796	Core Crown	7,139	6,997
4,663	6,618	Crown entities	5,642	5,587
4,917	5,302	State-owned enterprises	4,968	4,779
(6,348)	(5,850)	Inter-segment eliminations	(6,145)	(6,264)
9,603	**12,866**	**Total payables**	**11,604**	**11,099**

Government entities have financial internal control procedures in place to ensure that accounts payable are settled accurately and on a timely basis. The carrying value is a reasonable approximation of the fair value for accounts payable, as they are typically short-term in nature.

Taxes repayable represent refunds due to the taxpayer as a result of assessments being filed. Refunds are issued to taxpayers once account and refund reviews are complete. The carrying value is a reasonable approximation of the fair value for taxes repayable.

Note 24: Borrowings

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
52,145	53,293	Government stock[1]	52,895	46,018
7,707	8,371	Treasury bills	8,954	7,028
270	251	Government retail stock	229	261
6,736	6,244	Settlement deposits with Reserve Bank	5,917	6,276
1,559	2,553	Derivatives in loss[2]	2,807	2,767
1,492	1,596	Finance lease liabilities	1,515	1,176
31,474	29,158	Other borrowings	28,217	26,719
101,383	**101,466**	**Total borrowings[3]**	**100,534**	**90,245**
		By source		
83,194	85,761	Core Crown	84,510	76,827
5,351	5,436	Crown entities	5,325	5,123
26,642	25,441	State-owned enterprises	25,374	23,099
(13,804)	(15,172)	Inter-segment eliminations	(14,675)	(14,804)
101,383	**101,466**	**Total borrowings**	**100,534**	**90,245**
		By maturity		
48,254	46,606	Expected to be settled within one year	43,195	39,983
53,129	54,860	Expected to be outstanding for more than one year	57,339	50,262
101,383	**101,466**	**Total borrowings**	**100,534**	**90,245**
		By guarantee		
74,900	76,445	Sovereign-guaranteed debt[4]	75,701	67,765
26,483	25,021	Non-sovereign debt	24,833	22,480
101,383	**101,466**	**Total borrowings**	**100,534**	**90,245**

This note constitutes a Statement of Borrowings as required by the Public Finance Act 1989.

All principal, interest and other money payable in relation to money borrowed by the core Crown is a charge on, and payable out of, the revenues of the core Crown equally and rateably with all other general borrowing obligations of the core Crown.

The Government is not liable to contribute towards the payments of debts of Government entities, their subsidiaries or any entity in which the Government has an interest or that is controlled or wholly owned by the Government. Exceptions to this rule only occur for items the Government is liable for under any Act, any guarantee given by the Government, by virtue of an action a creditor has against the Government, or liability the Government has to a creditor of the Reserve Bank.

Further information on the management of risks associated with these financial liabilities is provided in note 33.

1. Government stock includes $395 million of infrastructure bonds (2011: $395 million).
2. Derivatives are included in either borrowings or marketable securities depending on their gain or loss position at balance date. This treatment leads to fluctuations in individual items primarily due to exchange rate movements.
3. Total borrowings are the total borrowings (both sovereign-guaranteed and non-sovereign guaranteed) of the total Crown. This equates to the amount in the total Crown statement of financial position and represents the complete picture of whole-of-Crown debt obligations to external parties.
4. Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by State-owned enterprises and Crown entities are not explicitly guaranteed by the Crown.

Note 24: Borrowings (continued)

Government Stock

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Government stock measured at amortised cost	50,061	42,971
Government stock measured at fair value	2,834	3,047
Total Government stock	**52,895**	**46,018**

Government stock is measured at amortised cost, unless it is managed and its performance is evaluated on a fair value basis. Where it is evaluated on a fair value basis it is reported at fair value with movements in fair value reported in the statement of financial performance.

The fair value of government stock measured at amortised cost is $55,224 million (2011: $47,244 million). This valuation is based on observable market prices. The reduction in interest rates since the government stock was issued results in a fair value greater than amortised cost.

The valuation of government stock reported at fair value is also based on observable market prices. During the year Standard and Poor's and Fitch Ratings downgraded New Zealand's foreign currency credit rating from AA+ (negative outlook) to AA (stable outlook). The credit rating from Moody's remained unchanged at Aaa (stable outlook).

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Government stock measured at fair value		
Carrying value	2,834	3,047
Amount payable on maturity	2,446	2,808
Fair value impact from changes in credit risk for the year	-	-
Cumulative fair value impact from changes in credit risk	-	-

Treasury Bills

Treasury bills are reported at either amortised cost or fair value, with fair value based on observable market price. As these are short-term sovereign-issued instruments, the carrying value is not materially affected by changes in Sovereign credit risk and the carrying value approximates the amount payable at maturity.

Note 24: Borrowings (continued)

Settlement Deposits with Reserve Bank

Settlement deposits with the Reserve Bank represent the level of money deposited with the Reserve Bank by commercial banks. They represent a liquidity mechanism used to settle wholesale obligations amongst the banks and provide the basis for settling most of the retail transactions that occur every working day between corporates and individuals.

Settlement deposits with the Reserve Bank are technically a form of borrowing by the Reserve Bank, where the liability is matched by a corresponding financial asset (reported as an element of marketable securities and deposits – refer note 15). Settlement deposits are reported at fair value, which is equivalent to the amount payable to depositors given the short term (ie, overnight) nature of these liabilities.

Settlement accounts are administered through the Exchange Settlement Account System (ESAS). ESAS account holders generally receive interest at the Official Cash Rate on their end-of-day balances. The Reserve Bank provides collateralised overnight borrowing facilities for banks, at an interest rate set at a margin over the Official Cash Rate.

Finance Lease Liabilities

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By source		
10	13	Core Crown	17	16
57	49	Crown entities	47	49
1,430	1,539	State-owned enterprises	1,456	1,115
(5)	(5)	Inter-segment eliminations	(5)	(4)
1,492	**1,596**	**Total finance lease liabilities**	**1,515**	**1,176**
		Undiscounted Minimum Lease Payments		
		No later than one year	199	136
		Later than one year and not later than five years	766	581
		Later than five years	739	596
		Total undiscounted minimum lease payments	**1,704**	**1,313**
		Present Value of Minimum Lease Payments		
		No later than one year	170	120
		Later than one year and not later than five years	668	518
		Later than five years	678	541
		Total present value of minimum lease payments	**1,516**	**1,179**
		Future finance charges	**188**	**134**

Finance leases relate to aircraft. The Government entities entering into finance leases generally have options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Government's obligations under finance leases are secured by the lessors' title to the leased assets.

The fair value of finance lease liabilities is approximately equal to their carrying value.

Note 24: Borrowings (continued)

Other Borrowings

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
18,588	22,265	Other borrowings measured at amortised cost	22,105	20,999
12,886	6,893	Other borrowings measured at fair value	6,112	5,720
31,474	**29,158**	**Total other borrowings**	**28,217**	**26,719**

Other borrowings are reported at fair value with movements in fair value reported in the statement of financial performance when they are held for trading or they are managed and performance is evaluated on a fair value basis.

The fair value of other borrowings measured at amortised cost is $22,295 million (2011: $20,688 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets are determined by reference to quoted market prices. Where such prices are not available use is made of estimated discounted cash flows models with reference to market interest rates.

For those other borrowings designated at fair value through profit and loss, the value of these instruments will be affected by changes in interest rates due to credit risk and broader market influences.

Of these borrowings, $6,560 million (2011: $7,179 million) is sovereign-issued debt administered by the Reserve Bank and NZDMO. While there has been a change in the international credit rating for Sovereign debt there has been no value change attributable to credit risk for these borrowings.

The remaining borrowings of $21,657 million (2011: $19,540 million) comprise non-sovereign-issued debt of Crown entities and State-owned enterprises. The following table identifies the difference between the carrying amount and amount payable at maturity as well as the extent that fair value movements have resulted from changes in credit risk of the issuing entity. The carrying value can differ to the amount actually payable on maturity where the effect of discounting cash flows is material.

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Other borrowings measured at fair value		
Carrying value	6,112	5,720
Amount payable on maturity	5,032	6,424
Fair value impact from changes in credit risk for the year	(9)	121
Cumulative fair value impact from changes in credit risk	(146)	(311)

Note 25: Insurance Liabilities

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By entity		
27,687	29,433	ACC liability	30,648	26,939
2,785	8,643	EQC property damage liability	8,877	10,570
-	1,764	Southern Response (formerly AMI insurance)	2,062	2,082
61	65	Other insurance liabilities	48	59
-	-	Inter-segment eliminations	(449)	(336)
30,533	**39,905**	**Total insurance liabilities**	**41,186**	**39,314**
		By component		
		Outstanding claims liability	38,695	36,422
		Unearned premium liability	2,293	2,572
		Unearned premium liability deficiency	198	320
		Other	-	-
		Total insurance liabilities	**41,186**	**39,314**
		By maturity		
8,152	9,425	Expected to be settled within one year	8,850	8,880
22,381	30,480	Expected to be outstanding for more than one year	32,336	30,434
30,533	**39,905**	**Total insurance liabilities**	**41,186**	**39,314**
		Assets arising from insurance obligations are:		
		Receivables for premiums	**2,898**	3,101
		Reinsurance claim recoveries	**5,003**	5,381

Information on insurance expenses can be found in note 11. Additional information on the risks and uncertainties in relation to the Canterbury earthquakes can be found in note 30.

The Crown acquired effective control of AMI on 7 April 2011. On 5 April 2012 the on-going insurance business was sold to IAG while Southern Response continues to hold claims in relation to the Canterbury earthquakes.

The objectives, policies and procedures for managing these risks are set out in the governing statutes and policy documents of each entity.

All assets held by the three insurance entities are considered available to back present and future claims obligations. There are no deferred acquisition costs (eg, marketing costs) in respect of insurance obligations at the reporting date.

Analysis of insurance liabilities

The remainder of the note provides a detailed analysis of the ACC, EQC and Southern Response insurance liabilities. Further information on these liabilities may also be found in the annual reports of each of these entities and on their respective websites. The analysis includes a breakdown of the outstanding claims liability, unearned premium liability, and the unearned premium liability deficiency.

The outstanding claims liability is the present value of the central estimate of expected payments for claims incurred plus a risk margin.

The unearned premium liability represents premiums received in advance of the insured period.

The unearned premium liability deficiency is the extent that the unearned premium liability is insufficient to cover expected future claims (ie, payments for future injuries within the period covered by the premiums received).

Note 25: Insurance Liabilities (continued)

Analysis of ACC insurance liability

ACC's insurance obligations arise primarily from the accident compensation scheme provision of personal injury cover for all New Zealand citizens, residents and temporary visitors to New Zealand.

An independent actuarial estimate by PricewaterhouseCoopers, consulting actuaries, has been made of the future expenditure relating to injuries which occurred prior to balance date , whether or not the claims have been reported to or accepted by ACC. The PricewaterhouseCoopers actuarial report was signed by Mr Paul Rhodes and Mr Ross Simmonds, Fellows of the Institute and Faculty of Actuaries (UK), and Mr Chris Latham, a Fellow of the Institute of Actuaries of Australia. Mr Rhodes, Mr Simmonds and Mr Latham are also Fellows of the New Zealand Society of Actuaries.

The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
The ACC liability comprises:		
ACC outstanding claims liability	28,396	24,510
ACC unearned premium liability	2,183	2,429
ACC unearned premium liability deficiency	69	-
Total ACC liability	**30,648**	**26,939**
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	73,151	74,895
Discount adjustment	(47,997)	(53,174)
Risk margin	3,242	2,789
Total outstanding ACC claims liability	**28,396**	**24,510**
Expected future claims payments - central estimate	23,497	20,374
Claims handling expenses	1,657	1,347
Outstanding claims liability before risk margin	25,154	21,721
Risk margin	3,242	2,789
Total outstanding ACC claims liability	**28,396**	**24,510**
Movement in Outstanding ACC Claims Liability		
Opening balance	24,510	24,430
Claims incurred for the year	3,234	3,652
Claims paid out in the year	(2,918)	(2,896)
Discount rate unwind	727	832
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	(1,933)	(1,966)
- change in discount rate	5,084	862
- change in inflation rate	(209)	108
- change in other economic assumptions	-	-
Other movements	(99)	(512)
Closing outstanding ACC claims liability	**28,396**	**24,510**
Movement in ACC Unearned Premium Liability		
Opening balance	2,429	2,462
Earning of premiums previously deferred	(2,429)	(2,462)
Deferral of premiums on current year contracts	2,183	2,429
Other	-	-
Closing ACC unearned premium liability	**2,183**	**2,429**

Note 25: Insurance Liabilities (continued)

Claims development historical analysis

The following table shows the development of ACC's undiscounted claims cost estimates for the seven most recent accident years.

	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	30 June 2012 $m
Estimate of ultimate claims costs:								
At the end of the accident year	3,200	3,873	5,502	7,103	7,035	7,517	**6,877**	
One year later	3,613	4,868	6,709	6,733	6,739	**6,288**	-	
Two years later	4,358	5,860	6,470	6,714	**5,939**	-	-	
Three years later	5,034	5,944	6,412	**6,045**	-	-	-	
Four years later	5,207	6,230	**5,736**	-	-	-	-	
Five years later	5,186	**5,768**	-	-	-	-	-	
Six years later	**4,925**	-	-	-	-	-	-	
Current estimate of cumulative claim costs	4,925	5,768	5,736	6,045	5,939	6,288	6,877	41,578
Cumulative payments	(1,472)	(1,643)	(1,725)	(1,592)	(1,267)	(1,093)	(699)	(9,491)
Outstanding claims undiscounted	**3,453**	**4,125**	**4,011**	**4,453**	**4,672**	**5,195**	**6,178**	**32,087**
Discount								(22,130)
Claims handling costs								1,866
2005 and prior claims								16,558
Short tail outstanding claims								15
Total outstanding ACC claims liability								**28,396**

	Actual 30 June 2012 $m	30 June 2011 $m
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	2,183	2,429
Adjusted for unearned premium relating to residual claims and premium liabilities without deficiency	(339)	(2,429)
Adjusted ACC unearned premium liability	**1,844**	**-**
Central estimate of discounted cash flows for future claims	1,636	-
Central estimate of discounted future reinsurance recoveries	-	-
Risk margin	277	-
Present value of expected cash flows for future accident claims	**1,913**	**-**
Total ACC unearned premium liability deficiency	**69**	**-**

Unearned premiums relating to residual claims are excluded from this calculation as they relate to accidents that occurred prior to 1999.

Note 25: Insurance Liabilities (continued)

Key Assumptions

The key assumptions and the methodology applied in the valuation of the outstanding ACC claims obligation are as follows:

(i) Risk-free discount rates
The projected cash flows were discounted using a series of forward discount rates at the balance date derived from the yield curve for New Zealand government bonds. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is a short term discount rate of 4.52% (2011: 5.61%) and a long term discount rate of 6.00% beyond 23 years (2011: 6.00% beyond 17 years).

(ii) Risk margin
The outstanding claims liability includes a risk margin that relates to the inherent uncertainty in the central estimate of the present value of expected future payments. The overall risk margin is intended to achieve a 75% probability of sufficiency in meeting the actual amount of liability to which it relates.

(iii) Inflation and indexation
ACC claims and costs are subject to inflation. Some costs are assumed to increase faster than the general rate of inflation (referred to as superimposed inflation) due to factors such as innovation in medical treatment.

(iv) Case management and the 'tail' of claims
Assumptions for the incidence of settlements and claims closures are primarily based on investigations of previous experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

(v) Liability adequacy test
An unearned premium liability deficiency is recognised when the amount of the present value of expected future claim cash outflows, plus a risk margin, exceeds the unearned premium liability.

Note 25: Insurance Liabilities (continued)

	30 June 2012 Next Year	30 June 2012 Beyond Next Year	30 June 2011 Next Year	30 June 2011 Beyond Next Year
Summary of assumptions				
Average weighted term to settlement from reporting date	15 years 10 months		14 years 7 months	
Weighted average risk margin	12.9%		12.8%	
Probability of adequacy of liability	75.0%		75.0%	
Risk margin for liability adequacy test	18.0%		18.0%	
Probability of adequacy of liability to cover unearned premiums	75.0%		75.0%	
Risk-free discount rate[1]	2.4%	2.5% to 6.0%	2.8%	3.8% to 6.2%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	3.0%	3.3% to 3.5%	3.8%	3.5%
Impairment benefits	1.1%	2.1% to 2.5%	4.5%	2.5% to 2.9%
Social rehabilitation benefits (serious and non serious injury)	2.2%	2.5% to 2.7%	3.0%	2.7%
Hospital rehabilitation benefits	2.2%	2.5% to 2.7%	3.0%	2.7%
Medical costs	2.2%	2.5% to 2.7%	3.0%	2.7%
Superimposed inflation:				
Social rehabilitation benefits (serious injury)	2.0%	2.3% to 5.3%	1.7%	2.9% to 4.9%
Social rehabilitation benefits (non-serious injury)	3.3%	2.0% to 3.3%	2.5%	2.0% to 2.5%
Hospital rehabilitation benefits	5.0%	4.0% to 5.0%	5.0%	4.0% to 5.0%
Medical costs (GP's & physiotherapists)	1.7% to 2.0%	1.7% to 5.0%	2.0%	2.0% to 3.0%
Medical costs others (specialists)	1.8%	1.8% to 4.0%	1.8%	1.8% to 2.5%

1. The risk-free discount rate beyond 23 years is 6.0% (2011: the rate beyond 17 years was 6.0%).

Note 25: Insurance Liabilities (continued)

Sensitivity Analysis

The present value of the ACC claims obligation is sensitive to underlying assumptions such as the discount rate, inflation rates and expected medical costs. These assumptions are closely linked. For example, a change to the discount rate may have implications on the inflation rate used. Therefore, when calculating the present value of claims it is unlikely that an assumption will change in isolation.

If the assumptions described above were to change in isolation, this would impact the measurement of the ACC claims obligation as per the table below:

	Change	Impact on liability Actual 30 June 2012 $m	Impact on liability Actual 30 June 2011 $m
Sensitivity of assumptions			
Average weighted term to settlement from reporting date	+1 year	(855)	(735)
	-1 year	882	758
Risk-free discount rate	+1%	(3,792)	(3,005)
	-1%	5,000	3,937
Inflation rates (including superimposed inflation)	+1%	5,131	4,085
	-1%	(3,946)	(3,163)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	1,055	741
	-1%	(800)	(719)
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims	+1%	2,554	1,904
	-1%	(1,883)	(1,415)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $25,154 million (2011: $21,721 million) represents the net present value of estimated cash flows associated with this obligation. The following table represents the timing of future undiscounted cash flows for claims to 30 June 2012. These estimated cash flows include the effects of assumed future inflation.

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
No later than 1 year	1,793	1,834
Later than 1 year and no later than 2 years	1,366	1,378
Later than 2 years and no later than 5 years	3,629	3,728
Later than 5 years and no later than 10 years	5,745	5,884
Later than 10 years and no later than 15 years	5,648	5,800
Later than 15 years and no later than 20 years	5,695	5,842
Later than 20 years and no later than 25 years	5,807	5,952
Later than 25 years and no later than 30 years	5,893	6,034
Later than 30 years and no later than 35 years	5,871	5,996
Later than 35 years and no later than 40 years	5,738	5,845
Later than 40 years and no later than 45 years	5,464	5,567
Later than 45 years and no later than 50 years	5,042	5,136
Later than 50 years	15,460	15,899
Undiscounted outstanding claims liability	**73,151**	**74,895**

Note 25: Insurance Liabilities (continued)

Analysis of EQC insurance liability

EQC covers the following types of hazard: earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami, as well as fire caused by any of the above.

The actuarial valuation report for 2012 was prepared by Craig Lough of Melville Jessup Weaver. Craig Lough is a Fellow of the New Zealand Society of Actuaries. Craig Lough considered that overall the information and data supplied to them was adequate and appropriate for the purposes of his valuation.

EQC recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. A risk margin is applied to a central estimate to increase to 75% the likelihood that claims will be settled within this amount.

	Actual	
	30 June 2012 $m	**30 June 2011 $m**
The EQC liability comprises:		
EQC outstanding claims liability	8,638	10,204
EQC unearned premium liability	110	46
EQC unearned premium liability deficiency	129	320
Total EQC liability	**8,877**	**10,570**
By type		
Property damage claims in relation to Canterbury earthquakes	8,625	10,151
Other insurance liabilities	252	419
Total EQC liability	**8,877**	**10,570**
Analysis of Outstanding EQC Insurance Liability		
Undiscounted outstanding claims liability	8,298	10,535
Discount adjustment	(270)	(891)
Risk margin	610	560
Total outstanding EQC insurance liability	**8,638**	**10,204**
Expected future claims payments - central estimate	7,456	9,035
Claims handling expenses	572	609
Outstanding claims liability before risk margin	8,028	9,644
Risk margin	610	560
Total outstanding EQC insurance liability	**8,638**	**10,204**
Movement in Outstanding EQC Insurance Liability		
Opening balance	10,204	12
Claims incurred for the year - Canterbury earthquakes	1,163	11,380
Claims incurred for the year - other	30	68
Claims paid out in the year	(2,754)	(1,256)
Other movements	(5)	-
Closing outstanding EQC insurance liability	**8,638**	**10,204**

Note 25: Insurance Liabilities (continued)

	Actual 30 June 2012 $m	30 June 2011 $m
Movement in EQC Unearned Premium Liability		
Opening balance	46	46
Earning of premiums previously deferred	(46)	(46)
Deferral of premiums on current year contracts	110	46
Other	-	-
Closing EQC unearned premium liability	**110**	**46**
Analysis of EQC unearned premium liability deficiency		
Unearned premium liability	**110**	**46**
Central estimate of discounted cash flows for future claims	264	313
Central estimate of discounted future reinsurance recoveries	(25)	(11)
Risk margin	-	64
Present value of expected cash flows for future claims	**239**	**366**
Total EQC unearned premium liability deficiency	**129**	**320**

Key Assumptions

The key assumptions and the methodology applied in the valuation of the outstanding EQC claims obligation are as follows:

(i) Weighted average term to settlement

The weighted average term to settlement varies by valuation groupings having regard to the estimated future patterns of gross claim payments for these groupings.

(ii) Claims inflation rate

The claims inflation rates have made some allowance for higher levels of claims inflation for the building claims. In addition, the risk margin implicitly allows for somewhat higher levels of claims inflation.

(iii) Risk-free discount rate

Where applicable, claims and recoveries have been discounted using a risk-free rate based on New Zealand government bonds and the payment profile of the underlying recovery payments.

(iv) Risk margin

The risk margins are derived directly from the claims distributions produced by the net incurred claims models. The risk margin is expressed as a percentage of the net discounted outstanding claims liability and is intended to achieve a 75% probability of adequacy in meeting the actual amount of liability to which it relates.

(v) Claims handling expenses ratio

Claims handling expenses are subdivided into event groups and estimated on a per-claim basis using per-claim assumptions derived from an analysis of expenses. Risk margins are also applied to claims handling expenses. The claims handling expenses ratio is expressed as a percentage of the gross undiscounted outstanding claims liability.

Note 25: Insurance Liabilities (continued)

Summary of assumptions	30 June 2012	30 June 2011
Weighted average term to settlement	1.3 years	0.3 to 1.9 years
Claims inflation rate	2.5%	2.5% to 5.0%
Risk-free discount rate	2.4% to 3.3%	2.8% to 6.2%
Risk margin	14.3%	10.4%
Claims handling expense ratio	7.7%	6.1%

Sensitivity Analysis

The value of the EQC claims liability is sensitive to underlying assumptions such as the construction inflation, nil claim rate and reinstatement percentage.

If the assumptions described above were to change in isolation, this would impact the measurement of the EQC claims liability as per the table below:

	Change	Impact on liability Actual	
Sensitivity of assumptions		30 June 2012 $m	30 June 2011 $m
Weighted average term to settlement	+ 0.5 years	14	31
	- 0.5 years	(35)	(35)
Claims inflation rate	+1%	75	105
	-1%	(75)	(107)
Risk-free discount rate	+1%	(75)	(125)
	-1%	76	143
Risk margin	+1%	43	54
	-1%	(43)	(54)
Claims handling expense ratio	+1%	67	59
	-1%	(78)	(59)

Note 25: Insurance Liabilities (continued)

Analysis of Southern Response (formerly AMI insurance) liability

Southern Response Earthquake Services Limited (Southern Response) holds Canterbury earthquake related claims.

Colin Brigstock of Finity Consulting Pty Limited (the Appointed Actuary) has prepared the independent actuarial estimate of the Southern Response claims liability as at 30 June 2012. Mr Brigstock is a Fellow of the Institute of Actuaries of Australia and the New Zealand Society of Actuaries. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual	
	30 June 2012 $m	**30 June 2011 $m**
The Southern Response liability comprises:		
Southern Response outstanding claims liability	2,062	1,985
Southern Response unearned premium liability	-	97
Southern Response unearned premium liability deficiency	-	-
Total Southern Response liability	**2,062**	**2,082**
By type		
Property damage claims in relation to Canterbury earthquakes	2,062	1,937
Other insurance liabilities	-	145
Total Southern Response liability	**2,062**	**2,082**
Analysis of Outstanding Southern Response Claims Liability		
Undiscounted outstanding claims liability	1,874	1,846
Discount adjustment	(56)	(95)
Risk margin	244	234
Total outstanding Southern Response claims liability	**2,062**	**1,985**
Expected future claims payments - central estimate	1,729	1,715
Claims handling expenses	89	36
Outstanding claims liability before risk margin	1,818	1,751
Risk margin	244	234
Total outstanding Southern Response claims liability	**2,062**	**1,985**
Movement in Outstanding Southern Response Claims Liability		
Opening balance	1,985	-
Claims liability acquired/(sold) through business combination	(189)	1,928
Claims incurred for the year - Canterbury earthquakes	449	95
Claims incurred for the year - other (discontinued operations)	143	42
Claims paid out in the year	(326)	(80)
Other movements	-	-
Closing outstanding Southern Response claims liability	**2,062**	**1,985**

Note 25: Insurance Liabilities (continued)

	Actual 30 June 2012 $m	30 June 2011 $m
Movement in Southern Response Unearned Premium Liability		
Opening balance	97	-
Claims liability acquired through business combination	-	96
Earning of premiums previously deferred		43
Deferral of premiums on current year contracts		(42)
Other	(97)	-
Closing Southern Response unearned premium liability	**-**	**97**

Key Assumptions

The valuation of the outstanding claims liability is based on detailed assumptions about the number of properties damaged, the mix and cost of rebuilds, repairs, and cash settlements, and the amount of damage which will be covered by EQC. In addition, the key assumptions made regarding future economic conditions are as follows:

(i) Average weighted term to settlement

Expected payment patterns have been used to determine the outstanding claims liability. The payment patterns adopted have been set based on the Actuary's best estimate of when the payments are likely to be made.

(ii) Inflation

The actuarial models adopted allows for any inflationary impact which is likely to affect future claims payments. An 8% inflation assumption (2011: 6%) has been made relating to building costs in Canterbury.

(iii) Discount rate

Where applicable, claims and recoveries have been discounted using a risk-free rate based on New Zealand government bonds and the payment profile of the underlying recovery payments.

(iv) Risk margin

The risk margin was determined at a line of business level, allowing for the uncertainty of the outstanding claims estimate for each line of business. Uncertainty was analysed for each portfolio, taking into account past volatility in general insurance claims, actuarial model and parameter error, and diversification between the lines of business. The risk margin is intended to achieve at least a 75% probability of adequacy for the outstanding claims.

Note 25: Insurance Liabilities (continued)

Summary of assumptions	30 June 2012	30 June 2011
Average weighted term to settlement from reporting date		
Earthquake related claims	1.8 years	2.6 years
Non-earthquake related claims	n/a	0.4 years
Inflation (earthquake related claims)		
Building costs	8.0%	6.0%
Other cover types	3.0%	3.0%
Risk-free discount rate	2.2% to 3.0%	2.7% to 4.6%
Weighted average risk margin		
Earthquake related claims	14.2%	14.2%
Non-earthquake related claims	n/a	9.0%
Probability of adequacy of liability	75.0%	75.0%
Risk margin for liability adequacy test	n/a	9.0%
Probability of adequacy of liability to cover unearned premiums	n/a	75.0%

Sensitivity Analysis

The value of the Southern Response claims liability is sensitive to underlying assumptions such as the discount rate, claims handling expense rate, and the risk margin.

If the assumptions described above were to change in isolation, this would impact the measurement of the Southern Response claims liability as per the table below:

Sensitivity of assumptions	Change	Impact on liability Actual 30 June 2012 $m	30 June 2011 $m
Inflation (earthquake related claims)	+1%	23	27
	-1%	(23)	(26)
Risk-free discount rate	+1%	(19)	(14)
	-1%	20	14
Weighted average risk margin	+1%	17	15
	-1%	(17)	(15)

Note 26: Retirement Plan Liabilities

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
8,891	11,883	Government Superannuation Fund (GSF)	13,539	10,152
4	3	Other funds	-	4
8,895	**11,886**	**Total retirement plan liabilities**	**13,539**	**10,156**
		By source		
8,892	11,884	Core Crown	13,548	10,154
1	1	Crown entities	2	1
1	-	State-owned enterprises	(10)	1
1	1	Inter-segment eliminations	(1)	-
8,895	**11,886**	**Total retirement plan liabilities**	**13,539**	**10,156**

The Government operates a defined benefit superannuation plan for qualifying employees who are members of the Government Superannuation Fund (GSF). The members' entitlements are defined in the Government Superannuation Fund Act 1956. Contributing members make regular payments to GSF and in return, on retirement, receive a defined level of income. GSF is closed to employees who were not members at 1 July 1992.

The GSF obligation has been calculated by GSF's actuary as at 30 June 2012. A Projected Unit Credit Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from the GSF in respect of past service to be estimated and then discounted back to the valuation date.

Amounts recognised in the statement of financial position in respect of GSF are as follows:

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Net GSF Obligation		
Present value of defined benefit obligation	16,557	13,311
Fair value of plan assets	(3,018)	(3,159)
Present value of unfunded defined benefit obligation	**13,539**	**10,152**
Present value of defined benefit obligation		
Opening defined benefit obligation	13,311	12,881
Expected current service cost	92	111
Expected unwind of discount rate	367	448
Actuarial losses/(gains)	3,686	733
Benefits paid	(897)	(863)
Other	(2)	1
Closing defined benefit obligation	**16,557**	**13,311**
Fair value of plan assets		
Opening fair value of plan assets	3,159	2,945
Expected return on plan assets	194	177
Actuarial gains/(losses)	(210)	159
Funding of benefits paid by Government	699	663
Contributions from other entities	23	23
Contributions from members	50	54
Benefits paid	(897)	(863)
Other	-	1
Closing fair value of plan assets	**3,018**	**3,159**

Note 26: Retirement Plan Liabilities (continued)

Amounts recognised in the statement of financial performance in respect of GSF are as follows:

Forecast 30 June 2012 Budget 11 $m	Budget 12 $m		Actual 30 June 2012 $m	30 June 2011 $m
		Personnel Expenses		
		Expected current service cost	92	111
		Expected unwind of discount rate on GSF obligation	367	448
		Expected return on plan assets	(194)	(177)
		Contributions from members and funding employers	(73)	(77)
		Past service cost	-	-
302	190	Total included in personnel expenses	192	305
		Net (Gains)/Losses on Non-Financial Instruments		
-	2,212	Actuarial losses recognised in the year	3,896	574
302	**2,402**	**Total GSF expense**	**4,088**	**879**

The Government expects to make a contribution of $705 million to GSF in the year ending 30 June 2013.

In addition to its obligations to past and present employees, because GSF is liable for income tax, the Crown will be required to make additional contributions equivalent to the tax on future investment income.

The principal assumptions used for the purposes of the GSF actuarial valuations are as follows:

	Actual 30 June 2012 %	30 June 2011 %
Summary of assumptions		
For following year		
Discount rate	2.4%	2.8%
Expected return on plan assets	6.3%	6.0%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation	2.1%	3.0%
Beyond next year		
Discount rates between 2 and 22 years	2.5% to 5.9%	3.8% to 6.2%
Discount rate from 23 years onwards	6.0%	6.0%
Expected return on plan assets	6.3%	6.0%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation for 2 years	2.4%	2.5%
Expected rate of inflation from 3 years onwards	2.5%	2.5%

The defined benefit obligation increased in the year to 30 June 2012 by $3,246 million, mainly due to a reduction in the discount rate and an increased allowance for mortality improvement.

Note 26: Retirement Plan Liabilities (continued)

The major categories of GSF plan assets at 30 June are as follows:

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Equity instruments	1,441	1,587
Other debt instruments	690	707
Property	137	150
Other	750	715
Fair value of plan assets	**3,018**	**3,159**

The expected rate of return on the plan assets of 6.25% (2011: 6.00%) has been calculated by taking the expected long term returns from each asset class, reduced by tax and investment expenses (using the current rates of tax and investment expenses).

The actual return on plan assets for the year ended 30 June 2012 was -0.54%, or -$16 million (2011: 11.63% or $336 million).

Sensitivity Analysis

The present value of the GSF obligation is sensitive to underlying assumptions such as the discount rate, inflation rates and expected salary increases. These assumptions are closely linked. For example, a change to the discount rate may have implications on the inflation rate used. Therefore, when calculating the present value of pension payments it is unlikely that an assumption will change in isolation.

If the discount rate was to change in isolation, this would impact the measurement of GSF obligation as per the table below:

	Change	Impact on obligation Actual 30 June 2012 $m	Impact on obligation Actual 30 June 2011 $m
Sensitivity of assumptions			
Discount rate	+ 1%	(1,785)	(1,236)
	- 1%	2,175	1,480

The plan's assets are exposed to share price risks arising from its holding of equity instruments. Equity instruments are reported at fair value. Movements in share prices therefore directly translate into movements in the value of the share investment portfolio.

The sensitivity analysis below has been determined based on GSF's exposure to share price risks at the reporting date.

	Impact on operating balance Actual		Impact on net worth Actual	
Change in share prices	30 June 2012 $m	30 June 2011 $m	30 June 2012 $m	30 June 2011 $m
Strengthen/weaken by 10%	144	159	144	159

The plan's sensitivity to share prices has not changed significantly from the previous year.

Note 26: Retirement Plan Liabilities (continued)

Historical Analysis

Actual gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred in the year) and the effects of changes in actuarial assumptions on valuation date. The history of the present value of the unfunded defined benefit obligation and experience adjustments is as follows:

		Actual		
	30 June 2012 $m	**30 June 2011 $m**	**30 June 2010 $m**	**30 June 2009 $m**
Present value of defined benefit obligation	16,557	13,311	12,881	11,792
Fair value of plan assets	(3,018)	(3,159)	(2,945)	(2,804)
Present value of unfunded defined benefit obligation	**13,539**	**10,152**	**9,936**	**8,988**
Experience adjustment - increase/(decrease) in plan liabilities	28	388	286	79
Experience adjustment - increase/(decrease) in plan assets	(210)	159	117	(806)
Total experience adjustments - (losses)/gains	(238)	(229)	(169)	(885)
Changes in actuarial assumptions	(3,658)	(345)	(1,062)	190
Actuarial (losses)/gains recognised in the year	**(3,896)**	**(574)**	**(1,231)**	**(695)**

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $16,557 million (2011: $13,311 million) represents the net present value of estimated cash flows associated with this obligation. The following table represents the timing of future undiscounted cash flows for entitlements to 30 June 2012. These estimated cash flows include the effects of assumed future inflation.

	30 June 2012 $m	**30 June 2011 $m**
No later than 1 year	913	866
Later than 1 year and no later than 2 years	910	875
Later than 2 years and no later than 5 years	2,818	2,655
Later than 5 years and no later than 10 years	4,900	4,489
Later than 10 years and no later than 15 years	4,908	4,371
Later than 15 years and no later than 20 years	4,634	4,001
Later than 20 years and no later than 25 years	4,119	3,400
Later than 25 years and no later than 30 years	3,396	2,607
Later than 30 years and no later than 35 years	2,587	1,804
Later than 35 years and no later than 40 years	1,799	1,121
Later than 40 years and no later than 45 years	1,132	620
Later than 45 years and no later than 50 years	631	298
Later than 50 years	440	168
Undiscounted defined benefit obligation	**33,187**	**27,275**

Note 27: Provisions

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		By type		
2,919	3,073	Provision for employee entitlements	3,253	3,050
1,241	889	Provision for ETS credits	375	612
925	911	Provision for National Provident Fund guarantee	1,076	983
-	280	Provision for Canterbury Red Zone support package	745	1,039
-	-	Provision for Infrastructure costs	530	-
687	358	Provision for weathertight services financial assistance package	189	567
3,157	1,256	Other provisions	1,338	1,335
8,929	**6,767**	**Total provisions**	**7,506**	**7,586**
		By source		
6,433	4,372	Core Crown	4,965	5,351
1,705	1,807	Crown entities	1,899	1,770
882	967	State-owned enterprises	1,103	1,028
(91)	(379)	Inter-segment eliminations	(461)	(563)
8,929	**6,767**	**Total provisions**	**7,506**	**7,586**
		By maturity		
2,946	3,133	Expected to be settled within one year	3,368	4,656
5,983	3,634	Expected to be outstanding for more than one year	4,138	2,930
8,929	**6,767**	**Total provisions**	**7,506**	**7,586**

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Provision for employee entitlements		
Opening provision	3,050	2,836
Additional provisions recognised	1,799	1,733
Provision used during the period	(1,518)	(1,464)
Reversal of previous provision	(71)	(64)
Unwind of discount rate	(7)	9
Closing provision	**3,253**	**3,050**

The provision for employee entitlements represents annual leave, accrued long service leave and retiring leave, and sick leave entitlements accrued by employees. Probability assumptions about continued future service affecting entitlements accrued as at reporting date have been made using previous employment data. For entitlements that vest over a period exceeding one year discount rates rising from 2% next year to 6% in later years.

Note 27: Provisions (continued)

	Actual	
	30 June 2012 $m	30 June 2011 $m
Provision for ETS credits		
Opening provision	612	74
New provision recognised during the period (ETS expenses)	334	860
Provision used during the period (ETS revenue)	(64)	(322)
(Gains)/losses on NZ Units	(507)	-
Closing provision	**375**	**612**

The Emissions Trading Scheme (ETS) was established to encourage a reduction in New Zealand's greenhouse gas emissions. The ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate freely. The allocation of NZ Units creates a provision (and an expense if allocated for free).
The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters. Emitters can also use international Kyoto units to settle their emission obligation, which might occur where obligations exceed the number of allocated NZ Units. These units are recognised as part of the Net Kyoto Position (refer to note 22). For further information on international Kyoto Units surrendered, refer to the Ministry for the Environment's Annual Report for the year ended 30 June 2012 and website www.climatechange.govt.nz.
In the ETS transition period to the end of 2012, emitters can also use the NZ$25 price option to settle their emission obligation.

Until the end of 2012, the Government's net position regarding its climate change obligations will be determined by the net Kyoto position and the provisions for ETS credits. After 2012, the net position will depend on any future international climate change commitments.

The carbon price used to calculate the ETS provision is based on the estimated current carbon price of €3.62
The carbon price in New Zealand dollars equates to $NZ5.73 (2011: $NZ20.28), using the 30 June 2012 exchange rate of €0.6319 =$NZ1 (30 June 2011: €0.5734 = $NZ1, and a carbon price of €11.63 per unit).

The carbon price for the ETS provision has been determined by the Ministry for the Environment based on international market transactions and spot prices that have occurred in the secondary certified emission reduction (sCER) markets as published by Point Carbon. Currently, the secondary CER market has been determined to be the most relevant market for determining the carbon price of NZ Units in the calculation of the provision for ETS credits. As the market for NZ Units develops the basis for determining this carbon price will be reviewed.

Note 27: Provisions (continued)

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Provision for National Provident Fund guarantee		
Opening provision	983	1,007
Additional provisions recognised	-	-
Provision used during the period	(74)	(75)
Reversal of previous provision	(12)	(22)
Unwind of discount rate and effect of changes in discount rate	179	73
Closing provision	**1,076**	**983**

The Government has guaranteed superannuation schemes managed by the National Provident Fund (NPF) (refer to note 32 for details of the guarantee). Included in the provision is the NPF's DBP Annuitants Scheme unfunded liability position of $1,076 million (2011: $981 million), represented by a gross estimated pension obligation of $1,115 million (2011: $1,020 million) with net investment assets valued at $39 million (2011: $39 million).

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Provision for Canterbury Red Zone support package		
Opening provision	1,039	-
Additional provisions recognised	614	1,039
Provision used during the period	(816)	-
Reversal of previous provision	(98)	-
Unwind of discount rate and effect of changes in discount rate	6	-
Closing provision	**745**	**1,039**
Net provision		
Provision for Red Zone properties	745	1,039
Estimated insurance proceeds from Red Zone Properties	565	386
Net provision for Red Zone properties	**180**	**653**

Estimated insurance proceeds are included in other revenue (note 5). Melville Jessup Weaver has prepared an independent actuarial valuation of both the estimated cost of purchasing the red zone properties and the estimated insurance proceeds from those properties as at 30 June 2012. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine these valuations.

Key Assumptions

The key assumptions and the methodology applied in the valuation of the red zone valuations are as follows:

Option choice

As at 30 June 2012, 78% of homeowners eligible for the red zone support package have chosen their preferred option. Where the option choice is unknown the valuation is based on actual experience to date that 75% of homeowners will choose option B (the Government purchases land and buildings along with the EQC claims for damage to land only) while 25% would opt for option A (the Government purchases land and buildings along with all insurance claims for damage to both the land and buildings).

Note 27: Provisions (continued)

Price of purchase

The price the Government has to pay to purchase properties under option A and B are the 2007 capital value rating and land value rating issued by the Christchurch City Council and Waimakariri District Council. An allowance has been made for subsequent improvements to properties since 2007.

Insurance recoveries

Insurance recoveries are based on current insurance policy settings (including coverage and excess limits). Individual policies may differ between insurers. Therefore a number of policies were reviewed to establish "typical" policy settings. Assumptions have also been made regarding the proportion of damage to red zone properties.

Discount rate

Due to the short term nature of the liabilities the impact of discounting is not generally material. Where applicable, claims and recoveries have been discounted using a risk-free rate based on New Zealand Government bonds and the payment profile of the underlying cash flows.

	Actual	
	30 June 2012 $m	**30 June 2011 $m**
Provision for Infrastructure costs		
Opening provision	-	-
Additional provisions recognised	554	-
Provision used during the period	(24)	-
Closing provision	**530**	**-**

The provision represents the Crown's contribution of 60% for recovery costs relating to essential three waters infrastructure (waste water, storm water and fresh water) and river management systems. The provision includes recovery costs for Christchurch City Council (CCC), Waimakariri District Council, Selwyn District Council and Environment Canterbury.

The provision has been estimated based on information provided by the councils.

For the Waimakariri District Council, Selwyn District Council and Environment Canterbury the costs are based on estimates provided by these councils included within their long-term plans. These estimates have generally been established by councils following detailed evaluations of assets, a scheduled repair work programme and expenditure forecasts which align to this work plan.

In the case of CCC a full underground assessment and a long term prioritised work programme is progressing but has yet to be completed. So the best information to estimate the provision is an analysis produced for CCC by an independent consultant and verified by internationally recognised quantity surveying specialists in September 2011. The detailed asset analysis presents the likely cost of repairs based on asset and catchment data available at the time.

The key risks to the estimate are damages may be more substantial than indicated by testing completed, programming and scheduling may lead to extended repair timeframes and there may be greater inflationary pressure on material and labour. As an indication, if recovery costs were 10% higher or lower the impact on the Crown's obligation would change by $54 million.

Note 27: Provisions (continued)

	Actual	
	30 June 2012 $m	30 June 2011 $m
Provision for weathertight services financial assistance package		
Opening provision	567	-
Additional provisions recognised	30	567
Reversal of previous provision	(408)	-
Closing provision	**189**	**567**

Provision for weathertight services financial assistance package

This provision represents the Government's obligation to contribute 25% of agreed repair costs to eligible owners of leaky homes under the Weathertight services financial assistance package. Melville Jessup Weaver has prepared an independent actuarial valuation of the obligation as at 30 June 2012. The valuation of the provision takes into account claim experience which was previously not available, which is the main reason for the decrease in the provision since last year.

Description of weathertight services financial assistance package (FAP)

The FAP offers qualifying homeowners a share of the agreed actual repair cost of repairing leaky homes. The Government and the Territorial Authority (if the Territorial Authority is participating in the FAP) each pay 25% of the agreed repair cost and the homeowner pays the remaining 50%. Under the FAP the homeowner agrees not to sue contributing Territorial Authorities and the Government, although homeowners can still pursue other liable parties such as builders, developers and manufacturers of defective products.

The FAP scheme became available to homeowners from 29 July 2011 and eligible homeowners must lodge claims with the Department of Building and Housing prior to 29 July 2016. The 10 year limitation on lodging a weathertight claim means that over time the forecast eligible claims will reduce.

Key assumptions

Due to the early stage of the claims process for this support package, there is considerable uncertainty attached to this provision and what the ultimate cost of the Government's contribution will be under the FAP.

The most critical assumption in estimating the Governments obligations under the FAP is the number of eligible claims (which can be derived from estimated weathertightness failures in New Zealand), recognising the requirement that houses must have been built or altered (if the alterations leak) within 10 years of the date of lodging a claim.

As at 30 June 2012, after the first 11 months of the scheme, the actuary has estimated the number of eligible claims based on actual claim information and knowledge across the sector. This calculation projected that 14,721 (2011: 14,939) dwellings would be eligible for the scheme.

The second most critical assumption is the take-up rate for the scheme. It is assumed take up of dwellings will be 3,544 (2011: 11,040).

The third critical assumption is the assumed cost of repair per eligible homes. The 30 June 2012 estimate has been split between single dwellings $336,741, and multi-unit dwellings at $134,696.

Note 27: Provisions (continued)

Sensitivity analysis

The sensitivity of the provision for FAP against the three critical assumptions described above is further described below:

	Change	Impact on Provision 30 June 2012 $m	Impact on Provision 30 June 2011 $m
Sensitivity of assumptions			
Number of eligible houses	+1,000	13	50
	-1,000	(13)	(50)
Take-up rates	+10%	18	79
	-20%	(35)	(148)
Repair costs	+10%	19	57
	-10%	(19)	(57)

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Other provisions		
Opening provision	1,335	1,319
Additional provisions recognised	307	294
Provision used during the period	(286)	(33)
Reversal of previous provision	(42)	(261)
Unwind of discount rate and effect of changes in discount rate	24	16
Closing provision	**1,338**	**1,335**

Note 28: Net Worth

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
14,463	7,573	Taxpayer funds	3,520	18,188
63,614	62,618	Property, plant and equipment revaluation reserve	56,001	62,690
69	69	Investment revaluation reserve	71	58
(223)	(276)	Cash flow hedge reserve	(195)	(310)
(53)	11	Foreign currency translation reserve	(49)	(47)
402	308	Net worth attributable to minority interests	432	308
78,272	**70,303**	**Total net worth**	**59,780**	**80,887**
		Taxpayer Funds		
21,720	18,188	Opening taxpayers funds	18,188	31,087
(7,293)	(10,642)	Operating balance excluding minority interest	(14,897)	(13,360)
36	27	Transfers from/(to) property, plant and equipment revaluation reserve	228	460
-	-	Other movements	1	1
14,463	**7,573**	**Closing taxpayer funds**	**3,520**	**18,188**
		Property, Plant and Equipment Revaluation Reserve		
63,600	62,690	Opening revaluation reserve	62,690	63,593
-	(47)	Net revaluations	(6,461)	(443)
14	(25)	Transfers from/(to) taxpayer funds	(228)	(460)
63,614	**62,618**	**Closing revaluation reserve**	**56,001**	**62,690**

The property, plant and equipment revaluation reserve arises on the revaluation of physical assets. Where revalued property, plant or equipment is sold, the portion of the property, plant and equipment revaluation reserve that relates to that asset, and is effectively realised, is transferred to taxpayer funds.

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Investment Revaluation Reserve		
63	58	Opening investment revaluation reserve	58	59
6	11	Increase arising on revaluation of available-for-sale financial assets	12	(1)
-	-	Cumulative (gain)/loss transferred to the statement of financial performance on sale of available-for-sale financial assets	1	-
69	**69**	**Closing investment revaluation reserve**	**71**	**58**

The investment revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in the statement of financial performance. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in the statement of financial performance.

Note 28: Net Worth (continued)

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Cash Flow Hedge Reserve		
(219)	(310)	Opening cash flow hedge reserve	(310)	(143)
3	56	Transfer into reserve	80	(279)
-	-	Transfer to the statement of financial performance	54	17
(7)	(22)	Transfer to initial carrying value of hedged item	(19)	95
(223)	**(276)**	**Closing cash flow hedge reserve**	**(195)**	**(310)**

The cash flow hedge reserve reports gains and losses in the value of derivatives entered into to reduce volatility in future cash flows. These gains and losses will either be used to adjust the cash flows as they occur, impacting either on the statement of financial performance if the cash flows relate to revenue or expenses, or the statement of financial position if the cash flows relate to assets or liabilities.

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Foreign currency translation reserve		
(47)	(47)	Opening foreign currency translation reserve	(47)	(10)
(6)	58	Arising from translation of foreign operations	(2)	(37)
(53)	**11**	**Closing foreign currency translation reserve**	**(49)**	**(47)**

The foreign currency translation reserve holds foreign exchange gains and losses arising from translating monetary items that form part of the net investment in a foreign operation into New Zealand dollars. It also includes foreign exchange gains and losses associated with translating non-monetary assets into New Zealand dollars if revaluations of those assets are reflected in another reserve rather than in the statement of financial performance.

Forecast 30 June 2012 Budget 11 $m	Forecast 30 June 2012 Budget 12 $m		Actual 30 June 2012 $m	Actual 30 June 2011 $m
		Net Worth Attributable to Minority Interests		
402	308	Opening minority interest	308	402
-	-	Operating balance attributable to minority interests	56	(101)
-	-	Transactions with minority interest	40	(20)
-	-	Other movements	28	27
402	**308**	**Closing minority interest**	**432**	**308**

Minority interest include the interests of minority holders of Air New Zealand shares. Transactions with minority interests include dividend payments and dividend reinvestments.

Note 29: Capital Objectives and Fiscal Policy

The Government's fiscal policy is pursued in accordance with the principles of responsible fiscal management set out in the Public Finance Act 1989:

- reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year

- once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues

- achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future

- managing prudently the fiscal risks facing the Government, and

- pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

Consistent with these principles, the Government seeks to strengthen its fiscal position to help manage future spending demands, particularly those arising from an ageing population by maintaining debt at prudent levels and accumulating assets through the New Zealand Superannuation Fund.

The Government's fiscal strategy can be expressed through its long term objectives and short term intentions for fiscal policy.

Further information on the Government's fiscal strategy can be found in the *Fiscal Strategy Report* published with the Government's budget.

Note 29: Capital Objectives and Fiscal Policy (continued)

Long Term Fiscal Intentions	
Fiscal Strategy Report 2011	**Fiscal Strategy Report 2012**
Debt Manage total debt at prudent levels. Over the short to medium term it is prudent to allow an increase in debt to deal with the current economic and fiscal shock. However, we need to ensure that this increase is eventually reversed and that we return to a level of debt that can act as a buffer against future shocks. We will do this by ensuring that net debt remains consistently below 35% of GDP, and is then brought back to a level no higher than 20% of GDP by the early 2020s. We will work towards achieving this earlier as conditions permit.	**Debt** Manage total debt at prudent levels. Over the short to medium term it is prudent to allow an increase in debt to deal with the current economic and fiscal shocks. However, we need to ensure that this increase is eventually reversed and that we return to a level of debt that can act as a buffer against future shocks. We will do this by ensuring that net debt remains consistently below 35% of GDP, and is then brought back to a level no higher than 20% of GDP by 2020. We will work towards achieving this earlier as conditions permit.
Operating balance Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective.	**Operating balance** Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective.
Operating expenses To meet the operating balance objective, the Government will control the growth in government spending so that over time, core Crown expenses are reduced to around 30% of GDP.	**Operating expenses** To meet the operating balance objective, the Government will control the growth in government spending so that over time, core Crown expenses are reduced to below 30% of GDP.
Operating revenues Ensure sufficient operating revenue to meet the operating balance objective.	**Operating revenues** Ensure sufficient operating revenue to meet the operating balance objective.
Net worth Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Over the medium term, net worth will continue to fall as the impact of the global financial crisis unfolds. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the demographic change expected in the mid-2020s.	**Net worth** Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Over the medium term, net worth will continue to fall as the impact of the global financial crisis unfolds. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the demographic change expected in the mid-2020s.

Note 29: Capital Objectives and Fiscal Policy (continued)

Short Term Fiscal Intentions		
Fiscal Strategy Report 2011	**Fiscal Strategy Report 2012**	**Fiscal Position 2012[1]**
Debt Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 37.2% of GDP in 2014/15. Core Crown net debt (excluding NZS Fund and advances) is forecast to be 29.6% in 2014/15.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 35.1% of GDP in 2015/16. Core Crown net debt (excluding NZS Fund and advances) is forecast to be 27.7% in 2015/16.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2012 was 41.1% of GDP (2011: 39.1%). Core Crown net debt (excluding NZS Fund and advances) at 30 June 2012 was 24.8% of GDP (2011: 20.3%).
Operating balance Based on the operating allowance for the 2011 Budget, the operating deficit is forecast to be 3.5% of GDP in 2011/12. The operating balance is forecast to be 1.9% of GDP in 2014/15. This is consistent with the long-term objective for the operating balance. The operating deficit (before gains and losses) is expected to be 4.7% in 2011/12.	**Operating balance** Based on the operating allowance for the 2012 Budget, the operating balance (before gains and losses) is forecast to be -3.6% of GDP in 2012/13. The operating balance (before gains and losses) is forecast to be 0.1% of GDP in 2014/15. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be -2.6% in 2012/13.	**Operating balance** The operating (before gains and losses) deficit for the year ended 30 June 2012 was 4.5% of GDP (2011: 9.3%). The operating deficit for the year ended 30 June 2012 was 7.3% of GDP (2011: 6.8%).
Expenses Total Crown expenses are forecast to be 40.5% of GDP in 2014/15. Core Crown expenses are forecast to be 31.3% of GDP in 2014/15. This assumes a new operating allowance of $0.8 billion per annum for Budgets 2012 and 2013, then returning to $1.19 billion, growing at 2% for Budgets thereafter (GST exclusive).	**Expenses** Core Crown expenses are forecast to be 30.2% of GDP in 2015/16. Total Crown expenses are forecast to be 39.6% of GDP in 2015/16. This assumes a new operating allowance of $800 million for Budget 2013, increasing to $1.19 billion in Budget 2014 and growing at 2% for Budgets thereafter (GST exclusive).	**Expenses** Core Crown expenses for the year ended 30 June 2012 were 33.8% GDP (2011: 35.6%). Total Crown expenses for the year ended 30 June 2012 were 45.3% of GDP (2011: 50.6%).
Revenues Total Crown revenues are forecast to be 41.0% of GDP in 2014/15. Core Crown revenues are forecast to be 31.0% of GDP in 2014/15. Core Crown tax revenues are forecast to be 27.8% of GDP in 2014/15.	**Revenues** Total Crown revenues are forecast to be 40.5% of GDP in 2015/16. Core Crown revenues are forecast to be 30.5% of GDP in 2015/16. Core Crown tax revenues are forecast to be 27.8% of GDP in 2015/16.	**Revenues** Total Crown revenues for the year ended 30 June 2012 were 40.8% of GDP (2011: 41.3%). Core Crown revenues for the year ended 30 June 2012 were 29.6% of GDP (2011: 29.1%). Core Crown tax revenues for the year ended 30 June 2012 were 26.9% of GDP (2011: 26.1%).
Net worth Total Crown net worth is forecast to be 34.1% of GDP in 2014/15. Core Crown net worth is forecast to be 7.9% of GDP in 2014/15.	**Net worth** Total Crown net worth is forecast to be 28.6% of GDP in 2015/16. Core Crown net worth is forecast to be 8.8% of GDP in 2015/16.	**Net worth** Total Crown net worth as at 30 June 2012 was 29.0% of GDP (2011: 40.8%). Core Crown net worth as at 30 June 2012 was 11.4% of GDP (2011: 17.7%).

1. GDP for the year ended 30 June 2012 was $204,551 million (2011: $197,699 million). Comparative GDP percentages have been updated to reflect restated Statistics New Zealand nominal GDP.

Note 30: Canterbury Earthquakes

These consolidated financial statements report both revenue and expenses in relation to the earthquakes and aftershocks that have occurred in the Canterbury region over the last two years. These fiscal impacts have been estimated based on the information available at the time these financial statements were produced. The largest and most complex valuations have been carried out by independent professional actuaries and represent a best estimate of the costs to date. However, the final costs of the Canterbury earthquakes will not be ascertained for some time and the actual, ultimate costs may differ from these estimates. As a result, information on key assumptions (along with the sensitivity of those assumptions) has been included in the relevant notes to these financial statements (eg, insurance liabilities).

Amounts recognised in the statement of financial performance in respect of the earthquakes are:

	Note	30 June 2012 $m	Actual 30 June 2011 $m	Total $m
EQC insurance claims	a	662	7,471	8,133
Share of local authority expenses	b	643	133	776
Red zone support package	c	258	653	911
Southern Response (formerly AMI) support package	d	156	355	511
Other earthquake costs	e	181	475	656
Net earthquake costs		**1,900**	**9,087**	**10,987**
Gross earthquake expenses		2,810	13,601	16,411
Earthquake related revenue (e.g. reinsurance)		(910)	(4,514)	(5,424)
Net earthquake costs		**1,900**	**9,087**	**10,987**

In addition to these net earthquake costs, the Government's assets have suffered damage and approximately $200 million (2011: $175 million) has been impaired against the asset revaluation reserve.

These results do not represent the total expense to the Government of the earthquakes as some expenditure is yet to be incurred, or will not be determined until significant policy decisions have been made, such as how best to reinstate health and education assets in the region. These decisions are likely to result in fiscal costs being incurred at a future time.

The costs outlined in this note do not include the impact on tax or other revenues as a result of the earthquakes.

Note a - Earthquake Commission (EQC) Insurance Claims

EQC covers damage to residential property caused by earthquake, landslip, tsunami, volcanic eruption, hydrothermal activity, storm or flood (land only), and fire following any of these events.

Residential property cover generally consists of dwellings (up to $100,000 + GST), contents (up to $20,000 + GST), the land under and immediately around the dwelling, main access-ways, and retaining walls (within certain limits).

EQC's obligation (and reinsurance recoveries) in relation to the earthquakes has been valued by an independent actuary (Melville Jessup Weaver). The key sources of uncertainty in estimating the obligation are:

- the impact of multiple events on the allocation of damage, EQC coverage and EQC's reinsurance coverage
- severe land damage and a very complex land claims environment from both engineering and legal perspectives, and
- the potential for construction cost inflation ("demand surge inflation") to differ from expectations.

Consequently there is a degree of unavoidable uncertainty regarding the future claims costs at this stage. Over time, as further assessments are completed and claims are settled, the reasonableness of the valuation and its assumptions can be tested against the emerging claims experience and the level of uncertainty will reduce.

Note 30: Canterbury Earthquakes (continued)

The key areas of estimation risk relate to claims that have been incurred but not reported or claims where the estimates are considered insufficient. The volatility of these claims is partially mitigated by the maximum settlement amounts for dwellings and contents. However, claims in relation to residential land are not subject to a monetary limit and are therefore subject to greater volatility.

These financial statements include EQC insurance costs (net of recoveries) of $662 million for the year ended 30 June 2012 (2011: $7,471 million). This figure represents the increase in EQC's expected cost of settling its outstanding Canterbury earthquake claims. The increase was driven by claims arising from the 23 December 2011 earthquake, as well as the revaluation of outstanding claims relating to the previous year.

Up to 30 June 2012, EQC had made cash payments of approximately $4.0 billion in total (2012: $2.8 billion, 2011: $1.2 billion) for settling approved claims, leaving an outstanding insurance liability estimate of $8.9 billion, some of which is expected to be offset by reinsurance proceeds.

Details of the calculation of EQC's claims obligation (including discussion on the sensitivity of assumptions) are provided in note 25 of these financial statements.

Note b – Share of Local Authority Expenses

Under the current government policy settings, as outlined in the National Civil Defence Emergency Management Plan ('the Plan') and Guide to the National Civil Defence Emergency Management Plan ('the Guide'), the Government is committed to a standard financial support package for the four local authorities in Canterbury (Christchurch City Council, Waimakariri District Council, Selwyn District Council and Environment Canterbury) that were adversely affected by the earthquakes. This support package covers certain types of response and recovery costs incurred as a result of the earthquakes.

Response Costs

The Government has recorded an expense of $89 million (2011: $133 million) in the current financial year for its share of response costs under the Guide. The majority of the costs in 2012 related to temporary repairs to essential infrastructure, carried out by the Christchurch City Council.

Recovery Costs

The Government's standard financial support under the Plan and Guide is to reimburse local authorities 60% of recovery repairs to essential infrastructure (waste water, storm water and fresh water) and river management systems. Recovery repairs are permanent repairs to restore the essential infrastructure to pre-emergency condition.

An initial estimate of $554 million for the Government's share of these recovery costs has been included, for the first time, in these financial statements. The majority of the recovery estimate provided relates to Christchurch City Council's essential infrastructure. While best available information has been used to provide this estimate, significant uncertainties remain with regard to:

1. the amount of damage to infrastructure under the ground, and
2. the basis for restoring the infrastructure, whether it is like-for-like, or some other method.

Details of the calculation of the estimate (including discussion on the sensitivity of assumptions) are provided in note 27 of these financial statements.

This obligation was disclosed as a contingent liability in the previous year, as the amount could not be estimated with sufficient reliability to record it in the statement of financial position at that time.

Note c – Red Zone Support Package

On the 23 June 2011 the Government announced zones of land damage in Christchurch and parts of the Waimakariri district. This land was mapped into four zones, with "Red Zone" land identified as being unlikely to be suitable for continued residential occupation for a prolonged period of time. For this reason, the Government instigated a process for purchasing insured residential land in the Red Zone on a voluntary basis.

Note 30: Canterbury Earthquakes (continued)

Following the initial zoning announcement on 23 June 2011, further zoning announcements were made during the year to 30 June 2012. Taking these additional announcements into account, along with the experience of the last 12 months, Melville Jessup Weaver (a firm of consulting actuaries) revalued the Crown's obligation and associated insurance recoveries as at 30 June 2012. The actuarial valuation resulted in an expense (net of insurance proceeds) for 2011/12 of $258 million being recorded. Details of the calculation of the estimate are provided in note 27 of these financial statements.

The provision for outstanding property settlements excludes any costs associated with the demolition and removal of red zone houses, salvage income, and any future sale or use of land that will be purchased. The impact of these exclusions will depend on future decisions regarding the use of any land acquired.

Also, these results do not include the impact of recent announcements regarding the Christchurch Central Recovery Plan, the Port Hills and zoning reviews as no obligation existed at 30 June 2012. As a result, the fiscal impact of these and any future offers to residents will be recorded in future periods. Refer to the Subsequent Events note for more information.

Note d – Southern Response Earthquake Services (Formerly AMI) Support Package

On 7 April 2011 the Government provided a financial support package for AMI to give policyholders certainty and to ensure an orderly rebuild of Christchurch. The financial support to AMI was provided via a Crown Support Deed (CSD) under which the Crown subscribed for $500 million of convertible preference shares which were called but unpaid. On 5 April 2012 IAG purchased the on-going insurance business of AMI. Immediately after completion of the sale, the Crown paid $100 million of the unpaid balance on the preference shares and took ownership of AMI's residual earthquake business. The earthquake business was renamed Southern Response Earthquake Services Limited (Southern Response).

As reported last year, upon acquisition of AMI on 7 April 2011, an initial cost of $335 million was recorded. With a further loss relating to the outstanding claims liability of $20 million being recognised at the end of that year, the total cost of the Crown's support to 30 June 2011 was estimated at $355 million. During the 2012 financial year further net costs of $401 million were recognised by the Crown, primarily relating to increases in the liability for earthquake-related claims. These losses were partly offset by a gain realised on the sale of the ongoing business of AMI of $245 million, resulting in a net cost of $156 million being recorded for the financial year.

While the potential cost of the Crown's support has been estimated at $511 million in total, which includes a risk margin, the ultimate cost is dependent on the financial performance of the company and the underlying emerging experience from the earthquake series such as further late notified claims in relation to the liability (and resulting reinsurance recoveries) arising from the Canterbury earthquakes. The liability in relation to the earthquakes has been valued by an independent actuary (Finity Consulting Pty Limited). Key assumptions around the valuation of the liability include the number of properties damaged, the mix and cost of rebuilds versus repairs versus cash settlements, where damage will exceed the EQC limits, future claims inflation, and the timing of claims payments.

The uncertainties regarding Southern Response's outstanding claims liability are similar to those of EQC (with the exception of risks associated with land claims). The details of the insurance liability at 30 June 2012 (including discussion on the sensitivity of assumptions) are outlined in note 25.

Note e – Other Earthquake Costs

Other costs (net of insurance proceeds) represent various other initiatives raised in support of Canterbury, including the operating costs of the Canterbury Earthquake Recovery Authority (CERA). The largest component relates to the ongoing repair of local roadways, at an expense of $86 million (2011: $62 million).

Other earthquake costs do not include costs associated with the future repair of local roadways. This exclusion reflects that the first call for funding these future expenses will be from dedicated ring-fenced revenue in the form of road user charges, fuel excise duties, and registration fees paid to the New Zealand Land Transport Fund. The Government has agreed that $50 million a year will be made available from the Fund. Should the Government's share of the costs associated with the future repair of local roadways exceed the amount available from that ring-fenced revenue, the Government has a number of options to allocate future revenue to this expense. The Crown's share of the costs for local roadways remains uncertain, as is the range of funding options available to the Government.

Note 31: Commitments

	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Capital Commitments		
Specialist military equipment	239	369
Land and buildings	697	701
Other property, plant and equipment	6,001	7,032
Other capital commitments	572	408
Tertiary Education Institutions	255	413
Total capital commitments	**7,764**	**8,923**
Operating Lease Commitments		
Non-cancellable accommodation leases	2,719	2,909
Other non-cancellable leases	3,549	3,171
Tertiary Education Institutions	282	366
Total operating lease commitments	**6,550**	**6,446**
Total commitments	**14,314**	**15,369**
Total Commitments by Segment		
Core Crown	15,685	18,223
Crown entities	7,753	7,656
State-owned enterprises	5,300	6,650
Inter-segment eliminations	(14,424)	(17,160)
Total commitments	**14,314**	**15,369**
By Term		
Capital Commitments		
One year or less	3,130	4,659
From one year to two years	1,451	1,297
From two to five years	2,727	2,687
Over five years	456	280
Total capital commitments	**7,764**	**8,923**
Operating Lease Commitments		
One year or less	1,789	1,299
From one year to two years	1,014	1,013
From two to five years	1,845	2,058
Over five years	1,902	2,077
Total operating lease commitments	**6,550**	**6,446**
Total commitments	**14,314**	**15,369**

Note 32: Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets involving amounts of over $10 million are separately disclosed. Any quantifiable contingencies less than $10 million are included in the "other quantifiable" total. Some contingencies of the Crown are not able to be quantified; these unquantifiable contingent liabilities and contingent assets are disclosed as at 30 June 2012 where they are expected to be material but not remote.

Contingent liabilities are:

- costs that the Crown will have to face if a particular event occurs, or
- present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liabilities).

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 was realised, or the amount becomes sufficiently reliable to record as a liability, 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.

Contingent assets are:

- possible assets that have arisen from past events but the amount of the asset, or whether it will eventuate, will not be confirmed until a particular event occurs.

	Note	Actual 30 June 2012 $m	Actual 30 June 2011 $m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	a	422	210
Uncalled capital	b	6,327	5,287
Legal proceedings and disputes	c	411	331
Other contingent liabilities	d	584	1,313
Total quantifiable contingent liabilities		**7,744**	**7,141**
Total Quantifiable Contingent Liabilities by Segment			
Core Crown		7,575	6,884
Crown entities		40	173
State-owned enterprises		90	84
Inter-segment eliminations		-	-
Total quantifiable contingent liabilities		**7,705**	**7,141**

a) Guarantees and Indemnities

Guarantees are legally binding promises made by the Crown to assume responsibility for a debt, or performance of an obligation of another party, should that party default. Guarantees generally relate to the payment of money but may require the performance of services. Indemnities are legally binding promises where the Crown undertakes to accept the risk of loss or damage that another party may suffer and to hold the other party harmless against loss caused by a specific stated event.

Guarantees given under Section 65ZD of the *Public Finance Act 1989* are disclosed in accordance with Section 26Q(3)(b)(i)(B) of the same Act and in accordance with *NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets.*

Note 32: Contingent Liabilities and Contingent Assets (continued)

	Note	Actual 30 June 2012 $m	30 June 2011 $m
a) Guarantees and indemnities			
Indemnification of touring exhibitions	i	220	-
New Zealand Export Credit Office	ii	92	132
Housing Corporation of New Zealand's Crown mortgage portfolio	iii	40	-
Air New Zealand's letters of credit and performance bonds	iv	26	34
Cook Island's Asian Development Bank loans	v	11	12
Terralink Limited's receivers and managers	vi	10	10
Transport Accident Investigation Committee	vii	10	10
Other guarantees and indemnities		13	12
Total guarantees and indemnities		**422**	**210**

i) Indemnification of touring exhibitions

The Crown has an indemnity relating to touring exhibitions (artworks, etc) against any damages and losses that may occur during the tour. This indemnity ceased on 7 July 2012, with no claim made against it.

ii) Export guarantees made by the New Zealand Export Credit Office

The New Zealand Export Credit Office (NZECO) provides a range of guarantee products to assist New Zealand exporters manage risk and capitalise on trade opportunities around the globe. The obligations to third parties are guaranteed by the Crown and are intended to extend the capacity of facilities in the private sector.

iii) Housing Corporation of New Zealand guarantee to Westpac Bank

The Housing Corporation sold a significant portion of its Crown mortgage portfolio to Westpac Banking Corporation from 1996 - 1999. As a condition of the sale, the Corporation on behalf of the Crown has agreed to indemnify Westpac against any future losses arising from default.

iv) Air New Zealand's letters of credit and performance bonds

The letters of credit are primarily given in relation to passenger charges and airport landing charges. The performance bonds are primarily given in respect to engineering contracts.

v) Guarantee for the Cook Island's loans with the Asian Development Bank (ADB)

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.

vi) Indemnification of receivers and managers of 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.

vii) Funding guarantee to the Transport Accident Investigation Committee

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.

Note 32: Contingent Liabilities and Contingent Assets (continued)

b) Uncalled Capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, and as a member country of these organisation, contributes capital by subscribing to shares in certain institutions:

- World Bank: International Bank for Reconstruction and Development
- European Bank for Reconstruction and Development
- International Monetary Fund (IMF), and
- Asian Development Bank (ADB).

The capital (when called) is typically used to raise additional funding for loans to member countries, or in the case of the quota contributions to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both "paid-in" capital and "callable capital or promissory notes".

	Note	Actual 30 June 2012 $m	30 June 2011 $m
b) Uncalled capital			
Asian Development Bank	i	2,988	2,995
International Monetary Fund - promissory notes	ii	1,174	1,254
International Monetary Fund - arrangements to borrow	iii	1,081	-
International Bank for Reconstruction and Development	iv	1,039	991
Bank for International Settlements	v	23	23
European Bank for Reconstruction and Development	vi	11	12
Other uncalled capital		11	12
Total uncalled capital		**6,327**	**5,287**

i) Asian Development Bank (ADB)

New Zealand was a founding-regional member of the ADB, their aim is to accelerate economic development in developing countries in Asia and the South Pacific. New Zealand is a regional member but as a donor is not entitled to borrow from the Bank. Accordingly, New Zealand is in a similar position to a non-regional member, and contributes to the ADB's resources only and as when required by ADB.

ii) IMF Promissory Notes

New Zealand's subscription to the IMF is partly paid in cash and partly in promissory notes (being uncalled capital). The respective levels of called and uncalled capital change when calls are made by the IMF under the Financial Transactions plan to provide loan packages to borrowing countries. Even though promissory notes are technically "at call", they are treated as contingent liabilities, as there are significant restrictions on the actual ability to call them, and there is no realistic estimate of either the amount or the timeframe of any call.

iii) IMF's arrangements to borrow

The Crown has agreed to make funds available to the IMF to support international financial systems in the event of a significant crisis. This is a contingent liability as it will depend upon uncertain trigger events occurring and the IMF calling the funds. In previous years this arrangement has been considered remote.

iv) International Bank for Reconstruction and Development (IBRD)

The IBRD is the main lending organisation of the World Bank Group. Each member state is a shareholder and the percentage of ownership share is determined by the size of its economy and the amount of capital contributed to support the Bank's borrowing activities among international capital markets.

Note 32: Contingent Liabilities and Contingent Assets (continued)

v) Bank for International Settlements

The Reserve Bank of New Zealand has uncalled and unpaid capital in respect of its shareholding in the Bank for International Settlement, the timing of which is dependent upon the Bank for International Settlement calling the funds.

vi) European Bank for Reconstruction and Development (EBRD)

The EBRD fosters transition to market economies in countries from central and eastern Europe to central Asia and north Africa. New Zealand has uncalled and unpaid capital in respect of its shareholding in the EBRD, the timing of which is dependent upon the funds being called.

c) 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. 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.

		Actual	
	Note	**30 June 2012 $m**	**30 June 2011 $m**
c) Legal proceedings and disputes			
Tax disputes	i	365	281
Healthcare litigation	ii	20	18
Other legal proceedings and disputes		26	32
Total legal proceedings and disputes		**411**	**331**

i) Tax disputes

When a taxpayer disagrees with an assessment issued following the dispute process, the taxpayer may challenge that decision by filing proceedings with the taxation Review Authority or the High Court. This contingent liability represents the outstanding debt of tax assessments raised against which an objection has been lodged and legal action is proceeding.

ii) Healthcare litigation

Claims have been lodged against the Crown in respect of alleged negligence for issues regarding treatment and care.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Other quantifiable contingent liabilities

	Note	Actual 30 June 2012 $m	30 June 2011 $m
d) Other quantifiable contingent			
Kyoto protocol units	i	349	997
Unclaimed monies	ii	79	55
Air New Zealand partnership	iii	39	77
Demonetised currency	iv	23	23
Transpower New Zealand Limited	v	15	-
OECD pension funds	vi	10	-
Crown Health Financing Agency		-	24
NZTA - Auckland City Council		-	10
Other contingent liabilities		69	127
Total other contingent liabilities		**584**	**1,313**

i) Kyoto protocol units

The Government has a contingent liability relating to 61.3 million forestry credits. During the first commitment period, the Net Kyoto Position of the Crown estimates that 92.2 million tonnes of carbon credits will be generated by carbon removals via forests. To the extent that these forests are harvested in subsequent commitment periods there will be an associated liability generated that will need to be repaid.

The New Zealand Emissions Trading Scheme transfers a portion of the potential future liability to forest owners. As at 30 June 2012, approximately 30.9 million tonnes has been transferred to forest owners in the form of New Zealand Units. The Crown's contingent liability is calculated as the remaining credits the Crown is potentially liable for (61.3 million tonnes). Using the carbon price as at 30 June 2012, this contingent liability can be measured at $349 million.

ii) Unclaimed monies

Under the Unclaimed Money Act 1971, entities (eg, financial institutions, insurance companies) hand over money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identification.

iii) Air New Zealand's partnership with Pratt and Whitney

The Air New Zealand Group has a partnership agreement with Pratt and Whitney in relation to the Christchurch Engineering Centre (CEC) in which it holds a 49 per cent interest. By the nature of the agreement joint and several liability exists between the two parties and the Crown has a contingent liability to the extent of the CEC's total liabilities of $39 million.

iv) Demonetised currency

The Crown has a contingent liability for the face value of currency in circulation that has been demonetised but not yet returned to the Bank. The contingent liability is to the extent that a liability has not been recorded in the statement of financial position. As at 30 June 2012 there was $81.6 million recorded in the statement of financial position (2011: $81.1 million).

v) Transpower New Zealand Limited's capital expenditure

Transpower has a contingent liability relating to capital expenditure that was not approved by the regulator. If this expenditure is not approved by the Commerce Commission, it cannot be recovered from customers. Another capital project will also exceed its approved amount, but at this stage the amount of any contingent liability cannot be quantified.

Note 32: Contingent Liabilities and Contingent Assets (continued)

vi) New Zealand's obligation to fund the OECD pension funds

The OECD has a significant liability for Pension Budget Reserve Fund (PBRF) and the OECD Post Employment Health Scheme (PEHL) liability. The OECD members' have an obligation to fund these liabilities in the event that the OECD cannot. This contingent liability represents New Zealand's share of the liability based on its membership percentage.

Unquantifiable Contingent Liabilities

This part of the statement provides details of those contingent liabilities of the Crown which cannot be quantified, excluding those that are considered remote.

Guarantees

Public Trust

Section 52 of the Public Trust Act 2001 provides for the Crown to meet any deficiency in the Public Trust's Common Fund in meeting lawful claims on the Fund. On 7 November 2008 the Minister of Finance guaranteed interest payable on estates whose money constitutes the Common Fund.

Reserve Bank of New Zealand

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

National Provident Fund

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 unfunded liability in the DBP Annuitants' Scheme (refer to note 27: Provisions).

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.

Indemnities

Air New Zealand

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.

Airways Corporation of New Zealand

The Crown has indemnified Airways Corporation of New Zealand Limited as contained in Airways' contract with New Zealand Defence Force for the provision of air traffic control services. The indemnity relates to any claim brought against Airways by third parties arising from military flight operations undertaken by the Royal New Zealand Air Force.

Note 32: Contingent Liabilities and Contingent Assets (continued)

AsureQuality Limited

The Crown has indemnified the directors of AsureQuality 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.

Contact Energy Limited

The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei. Those documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.

Housing New Zealand Corporation

The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL) 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. The Crown 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.

Justices of the Peace, Community Magistrates and Disputes Tribunal Referees

Section 197 of the Summary Proceedings Act 1957, requires the Crown to indemnify Justices of the Peace and Community Magistrates against damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.

Section 58 of the Disputes Tribunal Act 1988 confers a similar indemnity on Disputes Tribunal Referees.

Maui Mining Companies

Contracts in respect of which the Crown purchases gas from Maui Mining companies and sells gas downstream to Contact Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.

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.

New Zealand Aluminium Smelter and Comalco

The indemnity relates to costs incurred in removing aluminium dross and disposing of it at another site if 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.

New Zealand Local Authorities

The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is issued by the Director of Civil Defence Emergency Management (CDEM) under Section 9 of the Civil Defence Emergency Management Act 2002.

For details relating to reimbursements under the Guide as result of the Canterbury earthquakes refer to note 30: Canterbury Earthquakes.

Note 32: Contingent Liabilities and Contingent Assets (continued)

New Zealand Railways Corporation

The Crown has indemnified the directors of NZ Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor. The Crown has further indemnified the directors of NZ Railways Corporation against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities on 1 September 2004.

Section 10 of the Finance Act 1990 guarantees all loan and swap obligations of the New Zealand Railways Corporation.

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the Financial Markets Authority (formerly 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.

Synfuels-Waitara Outfall Indemnity

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

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

Westpac New Zealand Limited

Under the Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004, the Crown has indemnified Westpac:

- In relation to letters of credit issued on behalf of the Crown.

- For costs and expenses incurred by reason of third party claims against Westpac relating to indirect instructions, direct debits, third party cheques, departmental credit card merchant agreements, use of online banking products and IRD processing arrangements.

Under the Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2010, the Crown indemnified Westpac New Zealand Limited against certain costs, damages and losses to third parties resulting from unauthorised, forged or fraudulent payment instructions (excluding costs, damages and losses arising from Westpac's wilful default, negligence or breach of the agreement or other applicable legal obligation).

Canterbury Earthquakes

Earthquake Commission (EQC)

The Crown is liable to meet any deficiency in EQC's assets that may be needed to cover the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993). In the event of a major natural disaster the Crown may be called upon to meet any financial shortfall incurred by the Commission.

EQC's liabilities as at 30 June 2012 are consolidated in these financial statements, including the impact of the Canterbury earthquakes. EQC estimates that its total liabilities may exceed its current level of assets by $1,592 million (2011: $1,157 million). EQC's outstanding claims costs and reinsurance recoverable are included in this figure.

Note 32: Contingent Liabilities and Contingent Assets (continued)

EQC expects to have the necessary financing to meet its liabilities as they fall due over the next twelve months, hence a call on its Crown guarantee is not expected for the coming year. In the event EQC cannot meet its obligations, however, the Crown would need to finance any shortfall and the Crown's net debt position would increase as a result.

Land zones

On 23 June 2011 the Government announced zones of land damage in Christchurch and parts of the Waimakariri district. The land has been mapped into four zones:

- red (land repair would be prolonged and uneconomic at present)
- orange (further assessment required)
- green (repair/rebuild process can begin), and
- white (not yet mapped or not residential).

The Government also announced, on the same day, plans to purchase insured residential land in the Red zone on a voluntary basis. Following the initial zoning announcement on 23 June 2011, further announcements were made, reclassifying Orange and White zone areas as either Green or Red zone. A liability for the purchase of Red zone properties has been recognised in these financial statements along with a receivable for the assignment of insurance rights in the property. Refer to notes 27 and 30 for details.

No provision has been made in these financial statements for costs associated with the remaining White zones as no decision had been made at 30 June 2012 regarding any offer of purchase.

Any subsequent offer to residents in earthquake-affected zones to purchase property will result in increased costs to the Crown. The extent of these costs will depend on the details of such offers. Note 35 details announcements that have been made subsequent to 30 June 2012 in relation to the Red zone.

Legal claims and proceedings

There are numerous legal actions that have been brought against the Crown. However, in the majority of these actions it is considered a remote possibility that the Crown would lose the case, or if the Crown were to lose it would be unlikely to have greater than a $10 million impact. Based on these factors, not all legal actions are individually disclosed. The claims that are disclosed individually, while they cannot be quantified, have the potential to exceed $10 million in penalties.

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. Given the stage of proceedings and uncertainty as to outcomes of the cases, no estimate of the financial effect can be made.

Air New Zealand litigation

Air New Zealand has been named in five class actions. Two (one in Australia and the other in the United States) make allegations against more than 30 airlines of anti-competitive conduct in relation to pricing in the air cargo business. One class action (in the United States) alleges that Air New Zealand, together with many other airlines, conspired in respect of fares and surcharges on trans-Pacific routes. The likelihood of any liability in the other two cases is considered remote, so these are not disclosed.

In the event that a court determined, or it was agreed with a regulator, that Air New Zealand had breached relevant laws, the company would have potential liability for pecuniary penalties and third-party damages under the laws of the relevant jurisdictions.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Television New Zealand

The Company is subject to a number of legal claims. Given the stage of proceedings and uncertainty as to outcomes of the cases, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

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.

On occasion Māori claimants pursue the resolution of particular claims against the Crown through higher courts. There are currently two actions against the Crown, one being heard in the Court of Appeal and another action being heard in the High Court. Failure to successfully defend such actions may result in liability for historical Treaty grievances in excess of that currently anticipated.

Other contingent liabilities

Criminal Proceeds (Recovery) Act

The Ministry of Justice is responsible for administering the Criminal Proceeds (Recovery) Act 2009. The Act requires the Crown to give an undertaking as to damages or costs in relation to asset restraining orders. In the event that the Crown is found liable, payment may be required.

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 *NZ 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.

Landcorp Farming Limited

The Protected Land Agreement provides that the Crown will pay Landcorp any accumulated capital costs and accumulated losses, or Landcorp will pay the Crown any accumulated profits attributed to a Protected Land property required to be transferred to the Crown, or that the Crown releases for sale. The Crown will also be liable to pay Landcorp, at the time of sale or transfer, the amount of any outstanding equity payments on the initial value of the property.

Treaty of Waitangi claims – settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi 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 Ngāi 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 Ngāi Tahu.

In future years, additional costs may be incurred in accordance with the relativity mechanism as Treaty Settlements are reached; however no value can be placed on these at this point in time as there is uncertainty as to when each negotiation will settle, and the value of any settlement when reached.

Note 32: Contingent Liabilities and Contingent Assets (continued)

	Note	Actual 30 June 2012 $m	30 June 2011 $m
Quantifiable Contingent Assets			
Insurance claims - Canterbury earthquakes	a	166	-
Tax disputes	b	150	636
Suspensory loans to integrated schools	c	45	53
Transpower New Zealand Limited	d	24	-
Other contingent assets		25	15
Total quantifiable contingent assets		**410**	**704**
Quantifiable Contingent Assets			
Core Crown		224	702
Crown entities		162	2
State-owned enterprises		24	-
Inter-segment eliminations		-	-
Total quantifiable contingent assets		**410**	**704**

a) Insurance claims in respect of the Canterbury earthquakes

A number of Crown Reporting Entities have insurance proceeds receivable from claims in respect of the Canterbury earthquakes. Some of these have been quantified; however, there are other entities that have not yet been able to quantify these amounts.

b) Tax disputes

A contingent asset is recognised when the Inland Revenue has advised, or was about to advise, a taxpayer of a proposed adjustment to their tax assessment. The taxpayer has the right to dispute this adjustment and a disputes resolution process can be entered into. The contingent asset is based on the likely outcome of the disputes process based on experience and similar prior cases.

c) Suspensory loans to Schools

These loans were issued by the Ministry of Education to integrated schools; however, loan repayments were not due to begin until certain dates in the future. A contingent asset is recorded at the estimated value of payments until the point that the loans are called to be repaid.

d) Transpower New Zealand Limited's revenue recovery

Transpower has a contingent asset relating to a regulatory asset from historical under recoveries of revenue. The contingent asset relates to the future revenue that will be received as the regulatory asset is recovered over time from customers.

Note 33: Financial Instruments

The Government has devolved responsibility for the financial management of its financial portfolios to its sub-entities such as NZDMO, Reserve Bank, NZS Fund, Inland Revenue and ACC. The financial management objectives of each of these portfolios are influenced by the purpose and associated governance framework for which the portfolio is held. The purposes of a portfolio may cover:

- public policy considerations eg, the provision of student loans to support tertiary education policy
- liquidity management eg, Treasury bills and Government stock are the primary debt instruments for funding core Government operations, and
- long-term economic return eg, the function of the NZ Superannuation Fund.

These purposes are not mutually exclusive, with portfolios typically established for, or arising from, a public policy objective, such as pre-funding future superannuation expenses, but in doing so are managed to maximise economic returns consistent with the policy objective.

Reporting to Ministers on these portfolios is done on a portfolio-by-portfolio basis. The institutional frameworks and policy objectives of these portfolios are reviewed periodically. Otherwise, reporting on the consolidated financial management and performance of these portfolios is done in the context of the interim and annual Financial Statements of the Government and the forecasts reported in the *Half-Year* and *Budget Economic and Fiscal Updates.*

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in note 1 to the financial statements.

This note provides the following details of the Crown's financial instruments:

a) Analysis of financial instruments
    - Designation category
    - Fair value hierarchy
    - Fair value movements
    - Derivatives
    - Hedge accounted derivatives

b) Risk management policies

c) Market risk management
    - Interest rate risk management
    - Foreign currency risk management
    - Equity market risk management

d) Credit risk management
    - Concentration of credit risk by credit rating
    - Concentration of credit risk by geographical area
    - Concentration of credit risk by industry

e) Liquidity risk management

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments

Financial instruments are measured at either fair value or amortised cost. Financial instruments measured at fair value are further classified into three designations; available for sale, held for trading and fair value through profit and loss. Changes in the value of an instrument may be reported in the operating balance or directly in net worth depending on its designation. The following table details the value of financial assets and financial liabilities by class of instrument and by designation category, as defined in the accounting policies in note 1.

Financial Assets

Financial assets as at 30 June 2012	Note	Designation				
		Amortised cost $m	Available for sale $m	Held for trading $m	Fair value through P&L $m	Total $m
Cash and cash equivalents		10,686	-	-	-	**10,686**
Trade and other receivables	14	9,660	-	-	-	**9,660**
Long-term deposits	15	2,258	-	-	164	**2,422**
Derivatives in gain	15	-	-	5,032	-	**5,032**
Marketable securities	15	-	505	130	38,047	**38,682**
IMF financial assets	15	2,249	-	-	-	**2,249**
Share investments	16	26	100	-	14,259	**14,385**
Student loans	17	8,291	-	-	-	**8,291**
Kiwibank mortgages	17	12,401	-	-	44	**12,445**
Other advances	17	790	50	-	190	**1,030**
Total financial assets		**46,361**	**655**	**5,162**	**52,704**	**104,882**

Financial assets as at 30 June 2011	Note	Designation				
		Amortised cost $m	Available for sale $m	Held for trading $m	Fair value through P&L $m	Total $m
Cash and cash equivalents		9,801	-	-	-	9,801
Trade and other receivables	14	9,927	-	-	-	9,927
Long-term deposits	15	2,099	-	-	160	2,259
Derivatives in gain	15	-	-	5,415	-	5,415
Marketable securities	15	-	547	328	38,339	39,214
IMF financial assets	15	2,168	-	-	-	2,168
Share investments	16	30	73	-	14,145	14,248
Student loans	17	7,460	-	-	-	7,460
Kiwibank mortgages	17	11,047	-	-	448	11,495
Other advances	17	1,367	46	-	199	1,612
Total financial assets		43,899	666	5,743	53,291	103,599

As at 30 June 2012, the carrying value of financial assets that had been pledged as collateral was $1,512 million (2011: $1,100 million). These transactions are conducted under terms that are usual and customary to standard securities borrowing.

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Financial Liabilities

Financial liabilities as at 30 June 2012

	Note	Amortised cost $m	Designation Held for trading $m	Fair value through P&L $m	Total $m
Issued currency		4,457	-	-	**4,457**
Accounts payable	23	8,255	-	-	**8,255**
Borrowings:	24				
Government stock		50,061	-	2,834	**52,895**
Treasury bills		8,557	-	397	**8,954**
Government retail stock		229	-	-	**229**
Settlement deposits with Reserve Bank		-	-	5,917	**5,917**
Derivatives in loss		-	2,807	-	**2,807**
Finance lease liabilities		1,515	-	-	**1,515**
Other borrowings		22,106	189	5,922	**28,217**
Total borrowings		**82,468**	**2,996**	**15,070**	**100,534**
Total financial liabilities		**95,180**	**2,996**	**15,070**	**113,246**

Financial liabilities as at 30 June 2011

	Note	Amortised cost $m	Designation Held for trading $m	Fair value through P&L $m	Total $m
Issued currency		4,254	-	-	4,254
Accounts payable	23	7,337	-	-	7,337
Borrowings:	24				
Government stock		42,971	-	3,047	46,018
Treasury bills		6,605	-	423	7,028
Government retail stock		261	-	-	261
Settlement deposits with Reserve Bank		-	-	6,276	6,276
Derivatives in loss		-	2,767	-	2,767
Finance lease liabilities		1,176	-	-	1,176
Other borrowings		20,999	209	5,511	26,719
Total borrowings		72,012	2,976	15,257	90,245
Total financial liabilities		83,603	2,976	15,257	101,836

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Hierarchy

The following table details the basis for the valuation of financial assets and financial liabilities measured at fair value. This includes those financial assets and financial liabilities that are available for sale, held for trading, or fair value through profit and loss. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value may be determined using different methods depending on the type of asset or liability. Where possible, assets and liabilities are valued with reference to a quoted market price, or based on other observable current market transactions. Where this is not available, valuation techniques may be used to determine fair value. In these instances, fair value is generally based on the discounted value of future cashflows using applicable yield curves and adjusted for additional risks, including credit risks, where applicable. Maximum use is made of observable market data when selecting variables and developing assumptions for the valuation techniques. There have been no changes in valuation techniques during the year.

As at 30 June 2012	Quoted market price $m	Observable markets $m	Significant non-observable inputs $m	Total $m
Financial assets				
Long-term deposits	-	164	-	**164**
Derivatives in gain	17	4,812	203	**5,032**
Marketable securities	9,941	27,149	1,592	**38,682**
Share investments	13,677	33	649	**14,359**
Kiwibank mortgages	-	-	44	**44**
Other advances	-	133	107	**240**
Total financial assets at fair value	**23,635**	**32,291**	**2,595**	**58,521**
Financial liabilities				
Government stock	2,834	-	-	**2,834**
Treasury bills	-	397	-	**397**
Government retail stock	-	-	-	**-**
Settlement deposits with Reserve Bank	5,917	-	-	**5,917**
Derivatives in loss	7	2,558	242	**2,807**
Other borrowings	192	5,878	41	**6,111**
Total financial liabilities at fair value	**8,950**	**8,833**	**283**	**18,066**
Net financial assets at fair value	**14,685**	**23,458**	**2,312**	**40,455**

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Hierarchy (continued)

As at 30 June 2011	Quoted market price $m	Observable markets $m	Significant non-observable inputs $m	Total $m
Financial assets				
Long-term deposits	-	160	-	**160**
Derivatives in gain	1	5,213	201	**5,415**
Marketable securities	10,693	27,351	1,170	**39,214**
Share investments	13,701	38	479	**14,218**
Kiwibank mortgages	-	-	448	**448**
Other advances	-	200	45	**245**
Total financial assets at fair value	**24,395**	**32,962**	**2,343**	**59,700**
Financial liabilities				
Government stock	3,047	-	-	**3,047**
Treasury bills	-	423	-	**423**
Government retail stock	-	-	-	**-**
Settlement deposits with Reserve Bank	6,276	-	-	**6,276**
Derivatives in loss	1	2,478	288	**2,767**
Other borrowings	622	5,098	-	**5,720**
Total financial liabilities at fair value	**9,946**	**7,999**	**288**	**18,233**
Net financial assets at fair value	**14,449**	**24,963**	**2,055**	**41,467**

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Movements

The following table details movements in the fair value of financial instruments measured using significant non-observable inputs.

As at 30 June 2012	**Marketable securities $m**	**Share investments $m**	**Kiwibank mortgages $m**	**Other advances $m**	**Derivatives in gain/ (loss) $m**	**Other borrowings $m**	**Total $m**
Opening balance	1,170	479	448	45	(87)	-	**2,055**
Total gains/(losses) recognised in the statement of financial performance	29	(45)	(10)	(2)	(5)	(41)	**(74)**
Total gains/(losses) recognised in the statement of comprehensive income	4	-	-	-	45	-	**49**
Purchases	777	229	-	-	2	-	**1,008**
Sales	(126)	(14)	-	-	(24)	-	**(164)**
Issues	2	-	-	65	4	-	**71**
Settlements	(264)	-	(394)	(1)	26	-	**(633)**
Transfers	-	-	-	-	-	-	**-**
Closing balance	**1,592**	**649**	**44**	**107**	**(39)**	**(41)**	**2,312**

As at 30 June 2011	**Marketable securities $m**	**Share investments $m**	**Kiwibank mortgages $m**	**Other advances $m**	**Derivatives in gain/ (loss) $m**	**Other borrowings $m**	**Total $m**
Opening balance	1,154	112	1,236	40	(31)	-	**2,511**
Total gains/(losses) recognised in the statement of financial performance	14	349	(13)	-	(14)	-	**336**
Total gains/(losses) recognised in the statement of comprehensive income	(1)	-	-	2	(19)	-	**(18)**
Purchases	344	44	-	-	-	-	**388**
Sales	(130)	(10)	-	-	(13)	-	**(153)**
Issues	-	-	-	4	-	-	**4**
Settlements	(211)	(6)	(775)	(1)	(10)	-	**(1,003)**
Transfers	-	(10)	-	-	-	-	**(10)**
Closing balance	**1,170**	**479**	**448**	**45**	**(87)**	**-**	**2,055**

Total gains/(losses) included in the statement of financial performance in relation to those financial assets and financial liabilities held as at 30 June:

	Marketable securities $m	**Share investments $m**	**Kiwibank mortgages $m**	**Other advances $m**	**Derivatives in gain/ (loss) $m**	**Other borrowings $m**	**Total $m**
Year ended 30 June 2012	(7)	(72)	(10)	(1)	747	(41)	**616**
Year ended 30 June 2011	5	340	-	-	(9)	-	**336**

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Derivatives

Derivatives as at 30 June 2012	Carrying Value			Notional Value		
	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m
Foreign exchange contracts	607	213	**394**	17,520	10,059	**27,579**
Foreign exchange options	1	1	**-**	45	98	**143**
Cross currency swaps	2,585	368	**2,217**	20,966	5,441	**26,407**
Interest rate swaps	1,079	1,461	**(382)**	8,198	12,887	**21,085**
Interest rate options	-	15	**(15)**	65	165	**230**
Futures	17	-	**17**	4,702	3,245	**7,947**
Other derivatives	743	749	**(6)**	17,252	21,548	**38,800**
Total derivatives	**5,032**	**2,807**	**2,225**	**68,748**	**53,443**	**122,191**

Derivatives as at 30 June 2011	Carrying Value			Notional Value		
	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m
Foreign exchange contracts	1,268	475	793	23,658	12,766	36,424
Foreign exchange options	28	-	28	206	125	331
Cross currency swaps	2,831	705	2,126	19,272	6,481	25,753
Interest rate swaps	775	809	(34)	11,563	15,784	27,347
Interest rate options	1	9	(8)	85	190	275
Futures	4	1	3	1,632	1,227	2,859
Other derivatives	508	768	(260)	10,902	16,775	27,677
Total derivatives	5,415	2,767	2,648	67,318	53,348	120,666

Derivative financial instruments are used across the portfolios to manage exposure to interest rate, foreign currency and electricity sector risk including:

- Foreign exchange contracts and options to hedge exchange rate risk arising from foreign investments and liabilities as well as budgeted overseas purchases. Under foreign exchange contracts the Government agrees to exchange one currency for another at a future date using an exchange rate determined when the contract is entered into.

- Cross currency swaps. Cross currency swaps combine an interest rate swap and a currency swap whereby the interest rate in one currency is fixed, and the interest rate in the other is floating. In doing so, they manage both interest rate and currency risk.

- Interest rate swaps and options to manage interest rate risk. Under interest rate swap contracts, the Government agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Government to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt.

- Other derivatives include electricity derivatives. Electricity derivatives are typically “contracts for differences” entered into by the electricity generation State-owned enterprises to hedge against volatility in electricity prices.

- Futures. Futures are contracts stipulating the purchase or sale of currencies or securities of a specified quantity, at a specified price and on a predetermined date in the future.

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Hedge Derivatives

Some derivatives are reported using the hedge accounting approaches available under financial reporting standards. Changes in the fair value of hedging instruments designated as cash flow hedges are accumulated within equity and to the extent that the hedges are deemed effective. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in the statement of financial performance. A fair value hedge enables the hedged item to be adjusted by the effective portion of the fair value hedge and for this adjustment to be reported in the statement of financial performance.
The carrying values of hedge accounted derivatives were:

	Carrying value in gain $m	Carrying value in loss $m	Net carrying value $m
Hedge accounted derivatives as at 30 June 2012			
Derivatives hedging fair value	43	36	7
Derivatives hedging cash flows	173	357	(184)
Hedge accounted derivatives as at 30 June 2011			
Derivatives hedging fair value	16	89	(73)
Derivatives hedging cash flows	162	556	(394)

As a result of fair value hedge accounting, the hedged items were adjusted by a gain of $22 million (2011: gain of $81 million), which is included in the statement of financial performance along with the change in fair value of the hedging derivative.

The periods when cash flows are expected to occur from activities subject to cash flow hedge accounting and when they are expected to effect the operating balance are:

	<1 year $m	1-2 years $m	2-5 years $m	>5 years $m	Total $m
As at 30 June 2012					
Timing of cash flows	20	(7)	(11)	(57)	(55)
Effect on operating balance	6	(8)	(28)	(197)	(227)
As at 30 June 2011					
Timing of cash flows	(43)	(4)	(1)	4	(44)
Effect on operating balance	(12)	(8)	(19)	(138)	(177)

The same types of derivative instruments listed on the previous page are used for hedge accounting.

Note 33: Financial Instruments (continued)

(b) Risk management policies

Risk management policies are outlined for entities that hold significant portfolios of financial instruments. The size of these portfolios on an unconsolidated basis (ie, including cross-holdings of Government stock and other Crown instruments) are:

	30 June 2012		30 June 2011	
	Unconsolidated financial assets $m	Unconsolidated financial liabilities $m	Unconsolidated financial assets $m	Unconsolidated financial liabilities $m
ACC	22,377	1,970	18,396	1,490
Air New Zealand	1,817	2,102	1,520	1,828
EQC	7,196	32	9,286	85
Genesis Energy	367	1,370	286	1,523
Inland Revenue Department	9,740	288	7,791	234
Meridian Energy	650	2,398	672	2,050
Mighty River Power	694	1,911	474	1,544
New Zealand Debt Management Office (NZDMO)	21,644	78,702	26,104	72,331
NZ Post (including Kiwibank)	14,969	14,842	14,089	13,910
NZ Superannuation Fund	18,815	1,095	18,687	855
Public Trust	808	785	895	879
Reserve Bank	17,573	14,877	17,909	15,267
Southern Response (formerly AMI Insurance)	1,986	10	2,199	33
Transpower	478	3,151	460	2,415

The risk management policies applied by each of these entities are outlined below.

Manager	Financial Instrument Portfolio	Risk Management
Accident Compensation Corporation	ACC Reserves	The investment committee sets investment guidelines by requiring investment portfolio managers to manage their portfolios within defined market exposure limits. These limits include limits on percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment companies not represented in the benchmark; limits on the maximum investment in any individual company; ratings related credit limits on both a per-issuer and aggregate basis; duration limits relative to the duration of the benchmark; and maximum credit exposure to single entities. Compliance with the investment guidelines is reviewed by the internal auditors on a half-yearly basis.

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
Air New Zealand	Financial instruments arising from its business activity.	The Board of directors approve risk management policies. Compliance with these policies is reviewed and reported monthly to the Board and is included as part of the internal audit programme. Group policy is not to enter, issue, or hold financial instruments for speculative purposes.
Earthquake Commission	Assets in National Disaster Fund (NDF)	The NDF has a short-term time horizon in that the assets are being fully applied to meeting Canterbury earthquake damage claims. The Commission is managing the NDF to ensure both liquidity and stability of asset values. Its assets comprise only New Zealand Government bonds and commercial bank cash instruments.
Genesis Energy	Financial instruments arising from its business activity including: • interest rate swaps • foreign currency swaps and options • electricity swaps and options • oil price swaps and options.	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise financial risk to the Group. Trading in financial instruments, including derivatives, for speculative purposes is not permitted by the Board.
Inland Revenue Department	Student Loans	Risk is minimised by the collection of compulsory repayments from NZ-based borrowers through the tax system. In addition, advances are widely dispersed, reducing the concentration of credit risk.
Meridian Energy	Financial instruments arising from its business activity	Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the Group. The Group uses financial instruments to mitigate these risk exposures.
Mighty River Power	Financial instruments arising from its business activity	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to proactively manage these risks with the aim of protecting shareholder wealth. The Group uses financial instruments to hedge these risk exposures.
NZDMO	Financial assets and liabilities held to: • finance the Government's gross borrowing requirements • provide funds to Government entities, and • provide capital market services and derivative transactions to Government entities.	NZDMO operates within a risk management framework that is approved by the Minister of Finance. The framework specifies NZDMO's policies for managing market risk, credit risk, liquidity risk, funding risk and operational risk. The risk management framework is subject to continuous improvement.

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
New Zealand Post (including Kiwibank)	Financial instruments from its debt portfolio and investment activity. This includes activities as a financial intermediary and financial market participant.	The Board is responsible for risk management policies and procedures. This includes appointing a finance risk and investment committee to monitor risk management. In addition, the Asset-Liability Committee, the Executive Risk Committee and the Portfolio Governance Investment Committee have been formed to ensure bank-wide input and appropriate focus on specific risk matters.
The New Zealand Superannuation Fund (NZS Fund)	Investment Fund assets	The Guardians manage the NZS Fund's risks by adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the Fund. The objective is to: • avoid concentration of risk by ensuring there is adequate diversification between and within asset classes and geographically • carefully select and monitor managers to ensure the Guardians have sufficient conviction that each manager will maximise the probability that return expectations will be met • ensure that there are no unintended biases away from the intended investment strategy, and • perform rigorous measurement and management of market and manager risk.
Public Trust	Financial assets and liabilities	The Trust has an Investment Committee that reviews the investment policies, procedures, practices and investment performance.
The Reserve Bank of New Zealand	Financial assets and liabilities held for the purpose of effective foreign exchange intervention capability, wholesale banking liquidity and circulating currency.	The main financial risks to which the Bank is exposed include credit risk, foreign currency risk, interest rate risk and liquidity risk. The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risks.
Southern Response	Financial assets	The company's financial risk management activities focus on ensuring that the financial assets are managed in accordance with the investment strategy set out in the Crown Support Deed and that sufficient liquidity is maintained at all times to meet its insurance liabilities.
Transpower	Financial instruments arising from its business activity	The Board has approved policy and guidelines and authorised the use of various financial instruments. The policy adopted by the Board prohibits the use of financial instruments for speculative purposes. All derivatives must be directly related to underlying physical debt or firm capital commitments on Board approved projects.

Note 33: Financial Instruments (continued)

(c) Market risk management

The Government's activities expose it primarily to the financial risks of changes in interest rates, foreign exchange rates and equity markets. These risks are managed at portfolio level consistent with the policy purpose of the portfolio and risk management objectives. Detailed information on the exposure to market risk and policies for managing this risk are available in the separate financial statements prepared by the Manager for each portfolio.

The Government's exposure to market risk reflects the combination of these portfolio management practices. These practices include use of Value-at-Risk (VaR) limits and stop-loss limits to manage risk. While NZDMO and Reserve Bank's activities collectively manage the core Crown's exposure to foreign exchange, there is no other centralised management of market or other risk.

There has been no change to the manner in which the Government reporting entities that manage the Government's portfolios, manage and measure risks from previous year.

Derivative financial instruments are used across the portfolios to manage exposure to interest rate, foreign currency and electricity sector risk. Refer to section on derivatives in note 33(a) for further information on these derivatives.

Interest rate risk management

The Government is exposed to interest rate risk as entities in the government borrow and invest funds at both fixed and floating interest rates. The risk is managed at the entity level in accordance with their capital objectives and risk management policies. These objectives and policies include maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts, and by the use of Value-at-Risk and stop-loss limits. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

Interest rate sensitivity analysis

The following analysis of financial instruments shows how the operating balance and equity reserves would have been affected by a 100 basis point increase or decrease in New Zealand interest rates while holding all other variables constant. The effect on the operating balance is primarily from changes in interest revenue and interest expense on floating rate instruments and changes in the value of instruments measured at fair value through profit and loss. The Government does not have material exposure to foreign interest rates.

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. The effect of exposure to interest rates on the valuation of non-financial instruments, such as the ACC liability and GSF defined benefit plan, are provided in the relevant notes to the financial statements.

Movements in interest rates affect the financial results of the Government in the following manner:

- the resulting valuation changes for fixed interest instruments that are measured at fair value through profit and loss will affect the operating balance, while the valuation changes of fixed interest instruments designated as available-for-sale will affect equity reserves

- the resulting changes in interest expense and interest revenue on floating rate instruments will affect the operating balance, and

- where derivatives are designated as cash flow hedges of floating rate instruments, equity reserves will be affected by the resulting changes in the fair value of these derivatives.

Note 33: Financial Instruments (continued)

(c) Market risk management (continued)

If interest rates had been 100 basis points higher/(lower) at balance date and all other variables were held constant, the effect of financial instruments would increase/(decrease) the Government's financial results as outlined in the following table. The impact is net of any hedging by way of interest rate derivatives.

Change in New Zealand Interest Rates

	Impact on operating balance		Impact on net worth	
	2012 $m	2011 $m	2012 $m	2011 $m
Increase 1% (100 basis points)	(400)	(716)	(393)	(623)
Decrease 1% (100 basis points)	429	768	423	682

The Government's sensitivity to interest rates has decreased since last year. A large part of the decrease relates to EQC as they have reduced financial assets to pay out claims, and the reduction of financial assets as a result of the sale of the ongoing insurance business of AMI.

Foreign currency risk management

The Government undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. The carrying amounts of the Government's foreign currency denominated financial assets and financial liabilities translated to NZD at the reporting date are as follows:

Foreign currency risk management

As at 30 June 2012	Note	NZD NZ$m	USD NZ$m	Yen NZ$m	Euro NZ$m	Other NZ$m	Total NZ$m
Cash and cash equivalents		5,848	4,074	70	271	423	**10,686**
Trade and other receivables	14	9,035	442	9	10	164	**9,660**
Long-term deposits	15	2,041	181	18	23	159	**2,422**
Derivatives in gain	15	29,325	(14,744)	(1,141)	(4,092)	(4,316)	**5,032**
Marketable securities	15	9,651	19,757	1,689	4,178	3,407	**38,682**
IMF financial assets	15	-	-	-	-	2,249	**2,249**
Share investments	16	3,912	3,644	688	1,104	5,037	**14,385**
Student loans	17	8,291	-	-	-	-	**8,291**
Kiwibank mortgages	17	12,445	-	-	-	-	**12,445**
Other advances	17	834	119	-	-	77	**1,030**
Total financial assets		**81,382**	**13,473**	**1,333**	**1,494**	**7,200**	**104,882**
Issued currency		4,457	-	-	-	-	**4,457**
Accounts payable	23	7,503	299	162	32	259	**8,255**
Borrowings:	24						
Government stock		52,895	-	-	-	-	**52,895**
Treasury bills		8,954	-	-	-	-	**8,954**
Government retail stock		229	-	-	-	-	**229**
Settlement deposits with Reserve Bank		5,917	-	-	-	-	**5,917**
Derivatives in loss		2	2,761	1,200	(65)	(1,091)	**2,807**
Finance lease liabilities		642	678	194	-	1	**1,515**
Other borrowings		20,523	4,491	171	-	3,032	**28,217**
Total financial liabilities		**101,122**	**8,229**	**1,727**	**(33)**	**2,201**	**113,246**
Net financial currency holdings		**(19,740)**	**5,244**	**(394)**	**1,527**	**4,999**	**(8,364)**

Note 33: Financial Instruments (continued)

(c) Market risk management (continued)

Foreign currency risk management (continued)

As at 30 June 2011	Note	**NZD NZ$m**	**USD NZ$m**	**Yen NZ$m**	**Euro NZ$m**	**Other NZ$m**	**Total NZ$m**
Cash and cash equivalents		5,636	3,460	61	262	382	9,801
Trade and other receivables	14	8,518	1,220	6	24	159	9,927
Long-term deposits	15	2,082	39	2	14	122	2,259
Derivatives in gain	15	37,208	(25,075)	(692)	(2,808)	(3,218)	5,415
Marketable securities	15	9,526	20,696	1,174	4,671	3,147	39,214
IMF financial assets	15	-	-	-	-	2,168	2,168
Share investments	16	3,604	2,836	560	1,024	6,224	14,248
Student loans	17	7,460	-	-	-	-	7,460
Kiwibank mortgages	17	11,495	-	-	-	-	11,495
Other advances	17	1,249	238	-	-	125	1,612
Total financial assets		86,778	3,414	1,111	3,187	9,109	103,599
Issued currency		4,254	-	-	-	-	4,254
Accounts payable	23	6,841	297	12	11	176	7,337
Borrowings:	24						
Government stock		46,018	-	-	-	-	46,018
Treasury bills		7,028	-	-	-	-	7,028
Government retail stock		261	-	-	-	-	261
Settlement deposits with Reserve Bank		6,276	-	-	-	-	6,276
Derivatives in loss		2,713	(5,481)	800	2,320	2,415	2,767
Finance lease liabilities		708	468	-	-	-	1,176
Other borrowings		18,103	5,048	554	69	2,945	26,719
Total financial liabilities		92,202	332	1,366	2,400	5,536	101,836
Net financial currency holdings		(5,424)	3,082	(255)	787	3,573	1,763

Foreign currency sensitivity analysis

The following table details the Government's sensitivity to a 10% strengthening and weakening in the New Zealand dollar with all other variables held constant. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

The sensitivity analysis is net of hedging via foreign exchange derivatives, but does not include the impact on prices of goods and services purchased or sold in foreign currencies.

Change in New Zealand exchange rate

	Impact on operating balance		**Impact on net worth**	
	2012 $m	**2011 $m**	**2012 $m**	**2011 $m**
Strengthen by 10%	(907)	(932)	(903)	(857)
Weaken by 10%	881	903	884	822

The Government’s sensitivity to foreign currency has not changed significantly from the previous year.

Note 33: Financial Instruments (continued)

(c) Market risk management (continued)

Equity market risk management

The Government is exposed to share price risks arising from its holding of share investments.

Equity market sensitivity analysis

Share investments are reported at fair value. Movements in share prices therefore directly translate into movements in the value of the share investment portfolio.

The sensitivity analysis below has been determined based on the exposure of the NZS Fund, ACC and EQC to share price risks at the reporting date. These portfolios combined make up 97% of the Government's total share investments (2011: 98%).

Change in share prices	**Impact on operating balance**		**Impact on net worth**	
	2012 $m	**2011 $m**	**2012 $m**	**2011 $m**
Strengthen/weaken by 10%	1,392	1,390	1,392	1,390

The Government's sensitivity to share prices has not changed significantly from the previous year.

Note 33: Financial Instruments (continued)

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Government. The carrying value of financial assets equates to the maximum exposure to credit risk as at balance date. Credit risk is managed at the entity level in accordance with their capital objectives and risk management policies. These objectives and policies include limits to individual and industry counterparty exposure, collateral requirements, and counterparty credit ratings.

Of the financial assets held by the Government at 30 June 2012, the fair value of collateral held that could be sold or repurchased was $7,538 million (2011: $8,997 million).

Concentrations of credit exposure classified by credit rating, geography and industry of the counterparty are provided in the following tables. The credit exposure of financial assets that are neither past due nor impaired is not materially different to the total credit exposure of the Government.

Concentration of credit exposure by credit rating (using Standard & Poor's ratings)

As at 30 June 2012	Note	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**	**Total $m**
Cash and cash equivalents		230	9,251	1,139	32	34	**10,686**
Trade and other receivables	14	-	1,769	3,234	-	4,657	**9,660**
Long-term deposits	15	-	1,720	702	-	-	**2,422**
Derivatives in gain	15	-	2,646	1,928	271	187	**5,032**
Marketable securities	15	13,094	17,973	1,554	1,116	4,945	**38,682**
IMF financial assets	15	-	-	-	2,249	-	**2,249**
Share investments	16	57	315	1,197	8,816	4,000	**14,385**
Student loans	17	-	-	-	-	8,291	**8,291**
Kiwibank mortgages[1]	17	-	-	-	-	12,445	**12,445**
Other advances	17	-	246	122	1	661	**1,030**
Total credit exposure by credit rating		**13,381**	**33,920**	**9,876**	**12,485**	**35,220**	**104,882**

As at 30 June 2011	Note	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**	**Total $m**
Cash and cash equivalents		3,621	6,114	34	23	9	9,801
Trade and other receivables	14	-	2,370	3,021	-	4,536	9,927
Long-term deposits	15	43	1,913	282	21	-	2,259
Derivatives in gain	15	24	4,132	1,110	2	147	5,415
Marketable securities	15	25,803	6,426	1,297	1,191	4,497	39,214
IMF financial assets	15	-	-	-	2,168	-	2,168
Share investments	16	58	324	1,265	6,595	6,006	14,248
Student loans	17	-	-	-	-	7,460	7,460
Kiwibank mortgages[1]	17	-	-	-	-	11,495	11,495
Other advances	17	33	369	121	31	1,058	1,612
Total credit exposure by credit rating		29,582	21,648	7,130	10,031	35,208	103,599

Between the 2011 and 2012 years, there has been a significant movement in the value of assets with an AAA credit rating to an AA+/- credit rating. This is due principally to credit rating downgrades announced during the 2011/12 year for the governments of the United States and France.

1. Kiwibank mortgages consist mainly of residential lending. Therefore these financial assets have been classified as non-rated for the purposes of credit risk.

Note 33: Financial Instruments (continued)

(d) Credit risk management (continued)

Concentration of credit exposure by geographical area:

As at 30 June 2012

	Note	USA $m	Europe $m	Japan $m	Australia $m	New Zealand $m	Other $m	Total $m
Cash and cash equivalents		4,043	370	69	188	5,915	101	**10,686**
Trade and other receivables	14	992	1,500	3	464	4,269	2,432	**9,660**
Long-term deposits	15	126	23	18	133	2,041	81	**2,422**
Derivatives in gain	15	820	1,179	1	374	2,416	242	**5,032**
Marketable securities	15	8,826	12,699	1,680	2,651	9,332	3,494	**38,682**
IMF financial assets	15	-	-	-	-	-	2,249	**2,249**
Share investments	16	3,361	2,575	688	2,156	3,875	1,730	**14,385**
Student loans[1]	17	-	-	-	-	8,291	-	**8,291**
Kiwibank mortgages	17	-	-	-	-	12,445	-	**12,445**
Other advances	17	-	119	-	78	833	-	**1,030**
Total credit exposure by geography		**18,168**	**18,465**	**2,459**	**6,044**	**49,417**	**10,329**	**104,882**

As at 30 June 2011

	Note	USA $m	Europe $m	Japan $m	Australia $m	New Zealand $m	Other $m	Total $m
Cash and cash equivalents		3,434	311	42	160	5,720	134	9,801
Trade and other receivables	14	1,076	1,635	3	434	4,098	2,681	9,927
Long-term deposits	15	39	7	2	111	2,092	8	2,259
Derivatives in gain	15	633	1,101	-	785	2,816	80	5,415
Marketable securities	15	5,755	14,496	1,173	3,096	9,262	5,432	39,214
IMF financial assets	15	-	-	-	-	-	2,168	2,168
Share investments	16	3,252	2,791	657	2,118	3,539	1,891	14,248
Student loans[1]	17	-	-	-	-	7,460	-	7,460
Kiwibank mortgages	17	-	-	-	-	11,495	-	11,495
Other advances	17	77	101	-	120	1,314	-	1,612
Total credit exposure by geography		14,266	20,442	1,877	6,824	47,796	12,394	103,599

1. At 30 June 2012, 14.5% (2011: 15%) of student loan borrowers were overseas. As the total advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk.

Note 33: Financial Instruments (continued)

(d) Credit risk management (continued)

Concentration of credit exposure by industry:

As at 30 June 2012	Note	Sovereign issuers $m	Supra-national $m	NZ banking sector $m	Foreign banking sector $m	Individuals $m	Other $m	Total $m
Cash and cash equivalents		3,678	4	5,947	992	-	65	**10,686**
Trade and other receivables	14	-	-	-	-	-	9,660	**9,660**
Long-term deposits	15	56	-	2,037	326	-	3	**2,422**
Derivatives in gain	15	-	-	2,094	2,475	-	463	**5,032**
Marketable securities	15	14,330	2,245	3,171	7,948	-	10,988	**38,682**
IMF financial assets	15	-	2,249	-	-	-	-	**2,249**
Share investments	16	-	5	37	909	146	13,288	**14,385**
Student loans	17	-	-	-	-	8,291	-	**8,291**
Kiwibank mortgages[1]	17	-	-	-	-	12,445	-	**12,445**
Other advances	17	-	-	187	121	247	475	**1,030**
Total credit exposure by industry		**18,064**	**4,503**	**13,473**	**12,771**	**21,129**	**34,942**	**104,882**

As at 30 June 2011	Note	Sovereign issuers $m	Supra-national $m	NZ banking sector $m	Foreign banking sector $m	Individuals $m	Other $m	Total $m
Cash and cash equivalents		3,310	4	5,687	638	1	161	9,801
Trade and other receivables	14	-	-	-	-	-	9,927	9,927
Long-term deposits	15	-	-	2,084	167	-	8	2,259
Derivatives in gain	15	-	-	2,597	2,375	-	443	5,415
Marketable securities	15	10,220	3,414	2,839	12,786	-	9,955	39,214
IMF financial assets	15	-	2,168	-	-	-	-	2,168
Share investments	16	-	6	42	647	96	13,457	14,248
Student loans	17	-	-	-	-	7,460	-	7,460
Kiwibank mortgages[1]	17	-	-	-	-	11,495	-	11,495
Other advances	17	33	-	319	182	300	778	1,612
Total credit exposure by industry		13,563	5,592	13,568	16,795	19,352	34,729	103,599

In addition to the above financial assets, the Crown has entered into various financial guarantees totalling $422 million (2011: $210 million) which expose the Crown to credit risk. These guarantees are classified as contingent liabilities and are set out in note 32. The amount included is the maximum credit exposure the Crown is exposed to should the guarantee be called upon.

1. Kiwibank mortgages consist mainly of residential lending. Therefore these financial assets have been classified as individuals for the purposes of credit risk.

Note 33: Financial Instruments (continued)

(e) Liquidity risk management

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is managed on an individual entity basis generally by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows.

The following table details the Government's remaining contractual maturity for its financial liabilities. The table was compiled based on:

- the undiscounted cash flows of financial liabilities based on the earliest date on which the Government can be required to pay, and
- both interest and principal cash flows.

As at 30 June 2012	Note	Carrying value $m	Contractual cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Issued currency		4,457	4,457	4,457	-	-	-	-
Accounts payable	23	8,255	8,235	8,018	50	38	68	61
Borrowings:	24							
Government stock		52,895	68,050	13,231	2,419	16,324	33,176	2,900
Treasury bills		8,954	9,039	9,039	-	-	-	-
Government retail stock		229	235	176	29	30	-	-
Settlement deposits with Reserve Bank		5,917	5,917	5,917	-	-	-	-
Finance lease liabilities		1,515	1,704	199	188	578	739	-
Other borrowings		28,217	30,073	18,674	2,490	5,105	2,926	878
Total non-derivative liabilities		**110,439**	**127,710**	**59,711**	**5,176**	**22,075**	**36,909**	**3,839**
Derivatives in loss settled net			3,797	764	338	1,240	710	745
Derivatives in loss settled gross								
- inflow			48,206	31,774	3,954	9,095	2,424	959
- outflow			44,253	30,419	3,159	7,887	2,062	726
Other cashflows								
Loan commitments			1,628	1,628	-	-	-	-

In addition to the above financial liabilities, the Crown has entered into various financial guarantees totalling $422 million (2011: $210 million) which expose the Crown to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 32. For all these guarantees, the earliest period which the Crown would be required to pay if the guarantees are called upon is less than one year.

Note 33: Financial Instruments (continued)

(e) Liquidity risk management (continued)

As at 30 June 2011	Note	Carrying value $m	Contractual cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Issued currency		4,254	4,254	4,254	-	-	-	-
Accounts payable	23	7,337	7,345	7,160	54	34	57	40
Borrowings:	24							
Government stock		46,018	59,839	9,415	12,016	13,168	24,782	458
Treasury bills		7,028	7,095	7,095	-	-	-	-
Government retail stock		261	267	204	61	2	-	-
Settlement deposits with Reserve Bank		6,276	6,276	6,276	-	-	-	-
Finance lease liabilities		1,176	1,313	136	151	430	596	-
Other borrowings		26,719	28,485	19,173	1,177	4,792	2,449	894
Total non-derivative liabilities		99,069	114,874	53,713	13,459	18,426	27,884	1,392
Derivatives in loss settled net			3,444	646	219	680	1,001	898
Derivatives in loss settled gross								
- inflow			52,297	33,262	4,620	8,988	5,214	213
- outflow			47,625	31,652	3,859	7,325	4,581	208
Other cashflows								
Loan commitments			1,106	1,106	-	-	-	-

The Government has access to financing facilities, of which the total unused amount at 30 June 2012 was $993 million (2011: $1,441 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

Note 34: Related Parties

Related party relationships are a normal feature of commerce. Therefore, the Government will transact with related parties as a matter of course.

Related parties of the Government include:

- Ministers of the Crown, who are key management personnel because they have authority and responsibility for planning, directing and controlling the activities of the Government, directly or indirectly
- Ministers' spouses, children and dependants who are close family members of key management personnel, and
- private-sector entities owned or jointly controlled by Ministers, their spouses, children and dependants.

Given the breadth of Government activities these related parties transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment of taxes and user charges (such as purchase of electricity), and the receipt of entitlements and services (such as access to education). These transactions have not been separately disclosed in this note.

Other transactions with these related parties can include the employment of Ministers' spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and State-owned enterprises, receipt of grants from, or the purchase or sale of goods and services to, a Government entity by Ministers, their spouses, children and dependants, or private-sector entities they own or jointly control. These transactions have not been separately disclosed in this note, unless they have taken place within a Minister's portfolio.

Taking the above paragraphs into account, there are no related party transactions to be separately disclosed.

Note 35: Subsequent Events

The following policy decisions and events occurred after 30 June 2012 and prior to the financial statements being signed. No adjustments have been made to these financial statements. The nature and estimated financial commitment (where known) is noted below.

Canterbury Earthquakes

Christchurch Central Recovery Plan

On 30 July 2012, the Christchurch Central Recovery Plan was approved by Cabinet and publicly launched. The Plan defines the form of the central city, identifies the locations of the key anchor projects needed to boost the recovery, and outlines block plans showing what the central city could look like in the future.

The Crown has signalled that it will commit financial resources to land acquisition and to the development of certain anchor projects.

Zoning decision - Port Hills

On 17 August, a zoning decision was announced which resulted in the Crown committing to purchase 121 residential properties at risk of rock roll in the Port Hills. The estimated financial impact of this commitment to purchase properties is $66 million.

On 10 September, a zoning decision was announced which resulted in the Crown committing to purchase 37 residential properties at risk of rock roll in the Horotane Valley and adjacent to the Bridle Path Road in the Port Hills. The estimated financial impact of this commitment to purchase properties is $19 million.

The Crown is likely to receive insurance receivables relating to the purchased properties pursuant to the 17 August and 10 September decisions, but the exact quantum of these receivables is yet to be confirmed and is dependent on the settlement option selected and individual insurance policies.

Note 35: Subsequent Events (continued)

There is a working agreement between the Crown and the Council that all costs associated with rock roll in relation to zoning announcements on 29 June, 17 August and 10 September will be shared. There are a number of parameters to consider, and the proportion of each party's contribution has not yet been agreed to. Hence the residential red zone property provision as at 30 June 2012 includes the full value of settlement proceeds to be paid to property owners.

Zoning decision – Zoning reviews

On 24 August, and as a result of a zoning review, 3 properties changed from Red to Green Zone, and 101 properties changed from Green to Red Zone. The estimated financial impact of this commitment to purchase properties is $17 million. In addition, the Crown is likely to receive insurance receivables relating to the purchased properties, but the exact quantum of these receivables is yet to be confirmed and is dependent on the settlement option selected and individual insurance policies.

Zoning decision – Legal fees for Rapaki Bay freeholding

On 21 August, two properties that were zoned red in Rapaki Bay, Lyttleton were not general freehold titles. The Crown will contribute to the vendors' legal fees to transfer the property to general freehold.

Zoning decision–- Leased, Vacant, Uninsured and Commercial/Industrial Properties

On 3 September, a zoning decision was announced which resulted in the Crown committing to purchase 163 leased, vacant, uninsured and commercial/industrial properties in the red zone. The estimated financial impact of this commitment to purchase properties is $14 million. In addition, the Crown is likely to receive insurance receivables relating to the leased and commercial properties, but the exact quantum of these receivables is yet to be confirmed and is dependent on the settlement option selected and individual insurance policies.

Solid Energy

Subsequent to balance date Solid Energy undertook a comprehensive review in response to extremely challenging market conditions across the business and difficult underground mine development conditions due to complex geology.

As a result of that review, Solid Energy announced changes to the structure and capability and size of the organisation resulting in a number of their assets being impaired in these financial statements. Further costs relating to the restructure will be recognised in the following financial year but are not likely to be material to the Crown.

Meridian Energy

Meridian Energy Limited has been approached by Pacific Aluminium Pty Ltd, a business unit of Rio Tinto Ltd, the majority shareholder of New Zealand Aluminium Smelters Ltd (NZAS), to discuss potential changes to the electricity contract with the smelter. In 2007 Meridian renegotiated the contract conditions with NZAS and signed a new supply agreement, which takes effect in January 2013. Discussions are ongoing and remain confidential. The outcome of negotiations is unknown at this stage.