
NZ IFRS Transition – Budget 2007

Introduction

The impact of the change to New Zealand equivalents to International Financial Reporting Standards (New GAAP) on Budget 2007 are outlined in the *Fiscal Outlook* chapter (pages 80-114). The aim of this section is to provide additional detail on those impacts.

Significant impacts are summarised into two main categories:

- changes to the format of the main financial statements to enable easier comparatives with New GAAP format, and
- measurement and reclassification adjustments owing to changes in accounting policy under New GAAP.

The following pages describe the impact of these key format and measurement changes in:

- the *Statement of Financial Performance*
- the *Statement of Cash Flows*, and
- the *Statement of Financial Position*.

Each statement begins with the current “old” format used in previous forecasts. Changes to this format are then detailed separately resulting in the second “Old GAAP 2007 Forecast” column which agrees to the forecast financial statements presented in the *GAAP Series Tables* chapter (pages 157-184). Subsequent columns detail the measurement and reclassification adjustments owing to changes in accounting policy. These changes all sum together to give the New GAAP 2007 financial statements also presented in the *GAAP Series Tables* chapter. Detailed explanations for the adjustments are given in the notes at the end of the chapter.

Further details on the adoption and expected impact of moving to New GAAP on the Financial Statements of Government, including NZ IFRS accounting policies for the Government reporting entity are available at www.treasury.govt.nz/nzifrs/.

Forecast Statement of Financial Performance

for the year ended 30 June 2007

(\$ million)	Old format			New format							New GAAP 2007 Forecast (\$ million)	
	Old GAAP 2007 Forecast	Format changes note (i)	Old GAAP 2007 Forecast	GSF note (ii)	ACC note (iii)	NZS Fund note (iv)	Financial instruments note (v)	Reclass-ifications note (ix)	Other note (x)			
Revenue											Revenue	
Taxation revenue	51,539		51,539	117				..	2	51,658	Taxation revenue	
Levies, fees, fines and penalties	3,508		3,508				16	186	(19)	3,691	Other sovereign revenue	
Total Revenue Levied through the Crown's Sovereign Power	55,047	..	55,047	117	..	..	16	186	(17)	55,349	Total Revenue Levied through the Crown's Sovereign Power
Sales of goods and services	13,111		13,111			18	(16)	(536)	(14)	12,563	Sales of goods and services	
Investment income	5,807		5,807	(462)		(1,051)	(896)	(423)	97	3,072	Interest revenue and dividends	
Other revenue	2,238		2,238	(86)		4		300	(50)	2,406	Other revenue	
Total Revenue Earned through the Crown's Operations	21,156	..	21,156	(548)	..	(1,029)	(912)	(659)	33	18,041	Total Revenue Earned through the Crown's Operations	
Total Crown Revenue	76,203	..	76,203	(431)	..	(1,029)	(896)	(473)	16	73,390	Total Revenue (excluding gains)	
Expenses											Expenses	
By input type												
Subsidies and transfer payments	18,430	(155)	18,275					24	1	18,300	Social assistance and official development assistance	
Personnel expenses	15,352	321	15,673	(199)				(388)	(2)	15,084	Personnel expenses	
		3,099	3,099					(76)	..	3,023	Depreciation and amortisation	
Operating expenses	31,198	(2,944)	28,254				(6)	(79)	(37)	28,132	Other operating expenses	
Finance costs	3,023	40	3,063	5			(583)	95	200	2,780	Interest expenses	
Movement in total ACC liability	1,743		1,743		283			(1,072)	..	954	Insurance expenses	
Movement in total GSF liability	321	(321)	..						..	..	..
New operating spending up to Budget 2008	80		80						..	80	New operating spending up to Budget 2008	
Top-down expense adjustment	(500)		(500)						..	(500)	Top-down expense adjustment	
Net foreign-exchange (gains)/losses	40	(40)	..						..	..	..
Total Crown expenses	69,687	..	69,687	(194)	283	..	(589)	(1,496)	162	67,853	Total Expenses (excluding losses)	
Revenue less Expenses	6,516	..	6,516	(237)	(283)	(1,029)	(307)	1,023	(146)	5,537	Operating Balance before gains (losses)	
			..			1,029	294	314	7	1,644	Net gains/(losses) on financial instruments	
			..	291				(1,337)	99	(947)	Net gains/(losses) on non-financial instruments	
			291	..	1,029	294	(1,023)	106	697	Total Other Gains (Losses)
Net surplus of TEIs	52		52						44	96	Net surplus/(deficit) from associates and joint ventures	
	6,568	0	6,568	54	(283)	..	(13)	..	4	6,330	Operating Balance from continuing activities	
			..						(3)	(3)	Gain/(loss) from discontinued operations	
Operating balance (including minority interest)	6,568	..	6,568	54	(283)	..	(13)	..	1	6,327	Operating Balance (including minority interest)	
Minority interest									..	..	Attributable to minority interest in Air NZ
Operating Balance	6,568	..	6,568	54	(283)	..	(13)	..	1	6,327	Operating Balance	

Forecast Statement of Cash Flows

for the year ended 30 June 2007

(\$ million)	Old format		New format						New GAAP 2007 Forecast (\$ million)
	Old GAAP 2007 Forecast	Format changes note (i)	Old GAAP 2007 Forecast	GSF note (ii)	NZS Fund note (iv)	Financial instruments note (iv)	Reclass- ifications note (x)	Other note (x)	
Cash flows from operations									Cash flows from operations
Cash was provided from									Cash was provided from
Total tax receipts	51,823		51,823	94	112			(20)	52,009
Total other sovereign receipts	3,387		3,387					(74)	3,455
Sales of goods and services	13,357		13,357		19		(612)	31	12,795
Interest	2,148		2,148	(69)	152	(106)	(54)	..	2,071
Dividends	133		133		262			31	426
Other operating receipts	2,091		2,091	(90)				(68)	2,352
Total cash provided from operations	72,939	..	72,939	(65)	545	(106)	(105)	(100)	73,108
Cash was disbursed to									Cash was disbursed to
Subsidies and transfer payments	18,592		18,592					(20)	18,277
Personnel and operating payments	41,189		41,189	(282)	78	(191)	(2)	223	41,015
Finance costs	2,428		2,428			79	(20)	..	2,487
Forecast new operating spending	80		80					..	80
Top-down expense adjustment	(500)		(500)					..	(500)
Total cash disbursed to operations	61,789	..	61,789	(282)	78	(112)	(42)	(72)	61,359
Net cash flows from operations	11,150	..	11,150	217	467	6	(63)	(28)	11,749
Cash flows from investing activities									Cash flows from investing activities
Cash was provided from									Cash was provided from
Sale of physical assets	246	(246)	..	..	..	..	..	..	..
Total cash provided	246	(246)	..	..	..	..	..	..	..
Cash was disbursed to									Cash was disbursed to
Net purchase/(sale) of marketable securities, deposits and other equity investments	(9,656)		(9,656)	(181)	(184)	1,322	92	..	(8,607)
Purchase of physical assets	(6,782)	246	(6,536)					(71)	(6,607)
Net increase in advances	(2,409)		(2,409)			249	150	..	(2,010)
Top-down capital adjustment	200		200		(283)		(92)	(9)	(384)
Net cash flows from investing activities	(18,401)	..	(18,401)	(181)	(467)	1,571	150	(219)	(17,547)
Net Cash Flows from Operating and Investing Activities	(7,251)	..	(7,251)	36	..	1,577	87	(247)	(5,798)
Cash flows from financing activities									Cash flows from financing activities
Cash was provided from									Cash was provided from
Issues of circulating currency	272	1	273					..	273
Net (repayment)/issue of Government stock	(128)		(128)			(238)		..	(366)
Net (issue)/repayment of other New Zealand-dollar borrowing	6,693	(1)	6,692			(825)	(359)	1	5,509
Net (issue)/repayment of foreign currency borrowing	(272)		(272)			(204)	272	..	(204)
Net cash flows from financing activities	6,565	..	6,565	..	..	(1,267)	(87)	1	5,212
Net movement in cash	(686)	..	(686)	36	..	310	..	(246)	(586)
Opening Cash Balance	4,168		4,168	(36)		(310)		(146)	3,676
Foreign exchange gains/(losses) on opening cash	(4)		(4)					21	17
Closing Cash Balance	3,478	..	3,478	..	..	..	..	(371)	3,107

Forecast Statement of Financial Position

for the year ended 30 June 2007

(\$ million)	Old format		New format								New GAAP 2007 Forecast (\$ million)	
	Old GAAP 2007	Format changes	Old GAAP 2007	GSF	ACC	NPF	Receiv- ables	LINZ prop reval	Fin Inst	Other		
	Forecast	note (i)	Forecast	note (ii)	note (iii)	note (vi)	note (vii)	note (viii)	note (iv)	note (x)		
Assets												Assets
Cash and bank balances	3,478		3,478								(371)	3,107 Cash and cash equivalents
Receivables	12,246	(274)	11,972	(349)	1,441	(268)	(306)		(143)	(18)		12,329 Receivables
Marketable securities, deposits and equity instruments	52,015	(16,715)	35,300	(1,700)						153	(3,023)	30,730 Marketable securities and derivatives
		16,783	16,783	(2,412)							(250)	14,121 Share investments
Advances	10,195	221	10,416								3,423	13,839 Advances
Inventories	1,101		1,101								(160)	941 Inventory
		1,241	1,241								319	1,182 Prepayments and other assets
Commercial forests	550	(550)										
Property, plant and equipment	93,259	(417)	92,842					694		(866)		92,670 Property, plant and equipment
TEI investment	5,586		5,586								896	6,482 Equity accounted investments (including TEIs)
Intangible assets (including goodwill)	594		594								975	1,569 Intangible assets and goodwill
Top-down capital adjustment	(200)		(200)									(200) Top-down capital adjustment
Other investments	289	(289)										
Total Assets	179,113	..	179,113	(4,461)	1,441	(268)	(306)	316	10	925	176,770	Total Assets
Liabilities												Liabilities
Currency issued	3,551		3,551								1	3,552 Issued currency
Payables and provisions	14,728	(3,607)	11,121	(537)	(139)				(394)	(1,139)		8,912 Payables
										845		845 Deferred revenue
		7,523	7,523						377	(377)		.. Derivatives in loss
		34,844	34,844	84								7,523 Settlement deposits with the Reserve Bank
Borrowings - sovereign guaranteed	30,819	(30,819)								241	863	36,033 Other borrowings
Borrowings - non-sovereign guaranteed	11,548	(11,548)										
Provision for ACC outstanding claims liability	14,457		14,457		3,465						76	17,998 Insurance liabilities
Provision for GSF pension liability	15,554		15,554	(7,203)							12	8,363 Defined benefit retirement plan liabilities
		3,607	3,607								241	3,848 Provisions
Total Liabilities	90,657	..	90,657	(7,656)	3,326	..	..	..	224	522	87,074	Total Liabilities
Total Assets less Total Liabilities	88,456	..	88,456	3,195	(1,885)	(268)	(306)	316	(214)	403	89,696	Total Assets less Total Liabilities
Net Worth												Net Worth
Taxpayer funds	40,018		40,018	3,195	(1,885)	(268)	(306)	316	(214)	996	41,852	Taxpayer funds
Revaluation reserve	48,145		48,145							(686)	47,459	Revaluation reserve
										62	62	Cashflow hedge reserve
										13	13	Available for sale financial asset reserve
										17	17	Foreign exchange translation reserve
Total Net Worth attributable to the Crown	88,163	..	88,163	3,195	(1,885)	(268)	(306)	316	(214)	402	89,403	Total Net Worth attributable to the Crown
Minority interest	293		293								293	Net Worth attributable to minority interest in Air NZ
Net Worth	88,456	..	88,456	3,195	(1,885)	(268)	(306)	316	(214)	402	89,696	Total Net Worth

Notes to the NZ IFRS Transition

- i. Changes to the format to enhance comparability. Major reclassifications are:
 - a. depreciation and amortisation previously classified under operating expenses now separately disclosed
 - b. share investments previously classified under marketable securities now separately disclosed
 - c. settlement deposits with the Reserve Bank previously classified under borrowings – sovereign guaranteed now separately disclosed
 - d. separation of borrowings between sovereign guaranteed and non-sovereign guaranteed no longer in the statement of financial position (transferred to notes to the financial statements), and
 - e. payables and provisions previously classified as one category now split.

- ii. The reporting of the Government Superannuation Fund (GSF) has changed due to applying a specific standard for employee benefits, including pension schemes, under New GAAP. The main changes to the financial statements are:
 - a. a reduction of \$3.2 billion in the net liability of GSF due to valuing the liability on the basis that the Government meets its obligation on a pay-as-needed basis (rather than the amount to be invested today to fully fund future contributions under Old GAAP). This latter approach assumes the Fund would invest in assets that would generate revenue on which there would be an additional obligation to pay tax
 - b. a netting of GSF plan assets of \$4 billion against the pension liability (nil impact on net worth), and
 - c. the way the GSF is consolidated in the *Statement of Financial Performance* and the *Statement of Cash Flows*. Under New GAAP pension expense (the net of the expected current service cost, expected interest cost and the expected investment return on GSF assets) is reported as expenses, and actuarial gains and losses (experience adjustments and changes in valuation assumptions) are reported in gains and losses section of the *Statement of Financial Performance*. Under Old GAAP actual investment returns on GSF assets are reported as revenue; benefit payments to members are reported as personnel expenses; and other changes in the valuation of GSF are reported as the movement in GSF liability in the *Statement of Financial Performance*. Under New GAAP investment taxes actually paid by GSF are no longer eliminated in the consolidated financial statements.

- iii. The reporting of the ACC liability has changed owing to the new requirements under New GAAP. The main changes to the financial statements are:
 - a. the ACC liability has increased by \$1.9 billion (\$1.6 billion on transition to New GAAP at 1 July 2006 plus \$0.3 billion impact in 2006/07) due to adding an additional risk premium and liability adequacy test. The actuarially calculated liability under Old GAAP represents a mid-point estimate – that is, equal chance of actual payouts being greater than or less than the estimate. To that extent, it represents the most likely outcome. Introducing an

additional risk premium and liability adequacy test under New GAAP does not change the relative risk of ACC's activities; rather it simply changes how this risk is reported

- b. amounts separately reported as accounts receivable and payable (eg, levy prepayments and arrears) to be netted against the liability (nil impact on net worth).
- iv. Reclassification of the New Zealand Superannuation Fund (NZS Fund) into additional reporting lines.
- v. Cumulative effect of reclassifications of financial liabilities and assets, separate recognition of derivatives and impact of fair valuing some government stock. This includes the separation of gains and losses in the statement of financial performance.
- vi. Tax effect of valuing the National Provident Fund (NPF) liability on the basis of present valuing the possible payments to this scheme under the current arrangements, rather than the current approach which determines what payment would be required today to settle all future obligations.
- vii. Write down of receivables from taxes and fines due to accounting for time value of money and collection costs.
- viii. Some properties held by Land Information New Zealand (LINZ) have been reclassified from assets for sale to property, plant and equipment and as a result have been fair valued.
- ix. Significant reclassifications between reporting lines. Major items are:
 - a. interest and dividend income, interest expense and gains/losses on financial instruments
 - b. sales of goods and services and other revenue, and
 - c. official development assistance and operating expenses.
- x. Residual changes. Includes impact of:
 - a. reclassification from cash to advances due to a change of definition of cash and cash equivalents under New GAAP (including resulting cash flows)
 - b. reclassification of items previously reported as marketable securities and share investments to advances and equity accounted investments
 - c. reclassification of software assets from property, plant and equipment to intangibles
 - d. reclassification of items previously reported as payables and provisions mainly to deferred revenue but some borrowings and provisions, and
 - e. deemed cost adjustment on transition to New GAAP, re-setting some revaluation reserve to taxpayers funds.