



Financial Statements of the Government of New Zealand

for the Year Ended 30 June 2002

© Crown Copyright Reserved
ISBN 0-478-11834-1

Typeset by the Treasury
Printed and bound by PrintLink
A division of Blue Star Print Group Ltd
Wellington

Internet

This document will be made available on the New Zealand Treasury's
Internet site. The URL for this site is <http://www.treasury.govt.nz>

Contents

Statement of Responsibility	1
Ministerial Statement	3
Commentary on the Financial Statements	5
Overview	6
Financial Performance	7
Financial Position	10
Prior Year Comparison	13
Historical Information	15
Report of the Auditor-General	17
Financial Statements	21
Statement of Financial Performance	22
Statement of Financial Position	23
Statement of Movements in Equity	24
Statement of Cash Flows	25
Statement of Borrowings	30
Statement of Commitments	34
Statement of Contingent Liabilities and Assets	35
Statement of Unappropriated Expenditure, Expenses or Liabilities	46
Statement of Emergency Expenditure, Expenses or Liabilities	50
Statement of Trust Money	51
Statement of Accounting Policies	53
Notes to the Financial Statements	62
Supplementary Information	99
Crown Reporting Entity	100
Property, Plant and Equipment	102

Statement of Responsibility

These Financial Statements have been prepared by the Treasury in accordance with the provisions of the Public Finance Act 1989. The Financial Statements comply with generally accepted accounting practice.

The Treasury is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance that the transactions recorded are within statutory authority and properly record the use of all public financial resources by the Crown. To the best of my knowledge, this system of internal control has operated adequately throughout the reporting period.



Dr A E Bollard
Secretary to the Treasury

13 September 2002

I accept responsibility for the integrity of these Financial Statements, the information they contain and their compliance with the Public Finance Act 1989.

In my opinion, these Financial Statements fairly reflect the financial position of the Crown as at 30 June 2002 and its operations for the year ended on that date.



Hon Dr Michael Cullen
Minister of Finance

13 September 2002

Ministerial Statement

The financial statements for the year ended 30 June 2002 show an operating surplus result of \$2.3 billion. This is an improvement on the previous year.

Once the revaluation movements are stripped out, the more appropriate measure of underlying financial stewardship emerges. The OBERAC (operating balance excluding revaluations and accounting policy changes) was \$2.8 billion compared with \$2.1 billion last year. This reflects the continued economic growth during a period of international slowdown and the Government remaining true to its fiscal strategy.

The \$2.8 billion OBERAC was \$0.6 billion higher than Treasury forecasts in the 2002 Pre-election Economic and Fiscal Update. In addition, Crown debt has tracked down to 30.2%, which will see us meeting our long-term fiscal objective of gross debt below 30% of GDP in the coming year.

The results continue to emphasise how the Government is managing the Crown's overall finances in a prudent and responsible manner.

The Government's strategy of strengthening fiscal surpluses, investing in much needed capital projects, and setting aside an allowance for future superannuation pressures is being achieved.

We are positive that the Government is in a position to continue to contribute to social equity, economic development and restoring faith in the integrity of government.



Hon Dr Michael Cullen
Minister of Finance

13 September 2002



Commentary on the Financial Statements

Overview

The Crown financial statements show:

- a \$2.3 billion operating balance surplus and an OBERAC (operating balance excluding revaluations and accounting policy changes) of \$2.8 billion¹. Both indicators are stronger than last year, reflecting growth in the economy and the Government staying consistent with its fiscal policy approach. The Government's fiscal policy approach can be summarised as generating rising operating surpluses to contribute to the New Zealand Superannuation Fund, while meeting capital pressures and managing debt to prudent levels.
- the OBERAC was around \$550 million higher-than-forecast due mainly to delays in spending and higher tax revenues.
- substantial growth in net worth of \$6.8 billion from last year, largely reflecting revaluations of property, plant and equipment (physical assets) by Departments, state-owned enterprises and Crown entities (\$4.2 billion) and the operating balance surplus (\$2.3 billion).
- a reduction from 30 June 2001 to both gross Crown debt and net Crown debt of \$0.6 billion and \$0.7 billion respectively, largely reflecting the positive net cash flows from operations partially offset by increased investments (including Air New Zealand Limited and the New Zealand Superannuation Fund) and purchases of physical assets. Net Crown debt was around \$1 billion lower than forecast in the Pre-Election Economic and Fiscal Update (Pre-EFU) reflecting delays in cash payments of expenses and higher taxation receipts.

Financial summary	30 June 2002		30 June 2002		30 June 2001	
	Actual \$m	Ratio to GDP%	Estimated actual forecast \$m	Ratio to GDP%	Actual \$m	Ratio to GDP%
Operating balance	2,327	1.9%	2,419	2.0%	1,409	1.2%
OBERAC	2,751	2.3%	2,212	1.8%	2,107	1.8%
Net worth	18,256	15.2%	14,014	11.7%	11,463	10.0%
Gross Crown debt	36,202	30.2%	35,939	29.9%	36,761	32.1%
Net Crown debt	19,250	16.0%	20,223	16.8%	19,971	17.5%

(The basis for calculating GDP ratios is actual GDP data to March 2002.)

The 2001/02 operating balance surplus compared to 2000/01 reflects:

- growth in taxation revenue of 4.6% (which has been driven by growth in wages, employment and consumption) plus increases to other revenue types, resulting in growth in total revenue of 5.6%.
- total expenses (excluding liability valuation movements) grew by 4%, largely reflecting the additional policy spending introduced in the **2001 Budget** (consistent with the Government's spending intentions), demographic factors (for example in Health and Education) and benefit indexation.

1 The OBERAC is an additional fiscal indicator that strips out revaluation movements and accounting policy changes to provide a measure of underlying financial stewardship. The OBERAC is not a measure of the controllable portion of the operating balance. As such it does not isolate aspects of the operating balance (such as tax revenue and unemployment benefits) that arise from cyclical factors.

Financial Performance

This section compares the actual 2001/02 financial performance against the 2002 Pre-EFU estimated actual forecast and the original **2001 Budget** forecast.

The **operating balance** for the year ended 30 June 2002 was made up as follows:

	Actual \$m	Estimated actual forecast \$m	Variance against estimated actual \$m	2001 Budget forecast \$m	Variance against 2001 Budget forecast \$m
Operating balance					
Revenue	41,642	41,087	555	39,996	1,646
Expenses	39,699	39,173	(526)	39,365	(334)
SOEs and Crown entities surplus	384	505	(121)	745	(361)
Operating balance	2,327	2,419	(92)	1,376	951

The operating surplus was \$92 million lower than the **2002 estimated actual forecast**. Even though the operating surplus was close to forecast there were a number of offsetting factors; these include higher than expected expenses of \$526 million and other operating revenue being higher than anticipated by \$442 million.

Reconciling the operating balance to **OBERAC** for the year ended 30 June 2002:

	Actual \$m	Estimated actual forecast \$m	Variance against estimated actual \$m	Variance explanation
Operating balance	2,327	2,419	(92)	
GSF valuation movement	436	(368)	804	The liability movement was higher than forecast due to changes in the CPI assumption (from 1.5% in the long term to 2%), this has also had flow on effects to the salary growth assumption (from 2% to 3%). Also the recent drop in international equity prices have resulted in a decrease to the value of the GSF assets.
ACC valuation movement	43	42	1	The liability movement is marginal due to offsetting reasons (more exits lowering the liability offset by economic assumption changes increasing the liability).
Net foreign-exchange losses	75	119	(44)	Net foreign-exchange losses have decreased from forecast.
EQC devaluation of equity investments	130	-	130	EQC investment returns were lower than forecast as a result of their investment portfolio value being effected by the recent drop in international equity prices and the appreciation of the New Zealand dollar.
Maui gas valuation movement	(260)	-	(260)	This was a one-off gain associated with the revaluation of the Maui gas contract receivable.
OBERAC	2,751	2,212	539	

Taxation revenue

Tax revenue was \$113 million higher-than-forecast, with the variance spread over a number of tax types.

Other operating revenue

Other operating revenue was higher-than-forecast by \$442 million. The increase was largely a result of:

- higher-than-forecast revenue from the Maui gas contract of \$257 million. This represents a one-off gain of \$260 million associated with the revaluation of the Maui gas receivable. Previously the receivable was valued at historical cost, however it is now considered that market value is a more appropriate valuation method.
- United Nations East Timor deployment reimbursements of \$67 million (which were not included in the forecasts).

The remainder of the variance was spread over a number of revenue types, including compulsory fees, fines, penalties and levies (\$27 million) and interest income (\$25 million).

Expenses

The total higher-than-forecast expenses of \$526 million comprise of two components:

- a higher-than-forecast Government Superannuation Fund (GSF) unfunded liability movement of \$804 million (as explained in the OBERAC reconciliation table on the previous page)
- other functional expenses which were \$278 million lower than forecast.

The variance in functional expenses was spread over a number of expense classes, with the major variances being:

- Social security and welfare expenses which were lower-than-forecast by \$128 million; this primarily relates to improvements in benefit debt provisioning.
- Net foreign exchange losses which were lower-than-forecast by \$44 million (which as a matter of policy are not forecast).
- Transport and communications expenses which were lower-than-forecast by \$36 million. This was mainly due to higher than expected capitalisation of Transit expenditure on state highways.

The remainder of the variance was largely due to delays in spending by a number of Departments.

SOEs and Crown entities surpluses

The SOEs and Crown entities surpluses were lower-than-forecast by \$123 million. Within the SOEs and Crown entities results the only significant variance was the Earthquake Commission (EQC), which was lower-than-forecast by around \$130 million, primarily due to the recent drop in global equity prices impacting on the value of EQC's financial assets (\$100 million) and the appreciation of the New Zealand dollar (\$30 million).

Comparison to 2001 Budget forecasts

All of the above items also contributed to the variance against the original **2001 Budget** forecasts. The other significant influence driving the change in the operating balance was a total increase in tax revenue (compared with the **2001 Budget** forecast) of \$735 million.

This was due to:

- Goods and services tax which were \$540 million higher than forecast, due to stronger than forecast consumer confidence particularly driven by strong returns in the agriculture sector during the first half of the financial year.
- Source deductions which were \$242 million higher than forecast, largely reflecting growth in wages and employment.

The following table provides a breakdown of the movements from the budgeted results:

Operating balance changes

(\$ million)	2002 Pre-EFU	2001 Budget
2001/02 Operating balance per Pre-EFU and Budget	2,419	1,376
Revenue items		
Taxation revenue forecasts	113	735
Interest income	25	126
Unrealised gain on commercial forests	24	24
SOE and Crown entities (CE) dividend income ¹	(2)	193
Compulsory fees, fines, penalties and levies	27	102
Other operational revenue (Maui gas adjustment \$260m)	354	423
Other revenue items	14	43
	555	1,646
Expense items		
Reduction in subsidies and transfer payments	104	334
Increase in GSF unfunded pension liability	(804)	(487)
Provision for future initiatives in 2001 Budget ²	-	160
New policy initiatives included in baselines ³	-	(147)
Reduction in Treaty of Waitangi settlement expenses	-	81
Movement in doubtful debt provisions	(69)	(186)
Increase in depreciation expenses	(12)	(76)
(Increase)/decrease in finance expenses	(21)	71
Increase in foreign exchange gains/(losses)	44	(75)
Other items ⁴	232	(9)
	(526)	(334)
SOE and Crown entity items		
Movement in ACC outstanding claims liability	1	43
Other movements in net surplus of SOEs and Crown entities ¹	(122)	(404)
	(121)	(361)
Total change	(92)	951
Operating balance per 30 June 2002	2,327	2,327

1 Dividends from SOEs and CEs do not impact on the operating balance (as an increase in dividend income from SOEs and CEs is offset by a lower net surplus for SOEs and CEs). However, they do influence component sections of the Statement of Financial Performance.

2 This represents new policy spending provided for in the **2001 Budget** for the 2001/02 financial year.

3 The \$147 million represents forecast new spending identified in the *2001 December Economic and Fiscal Update* of \$104 million and a further \$43 million in the *2002 Budget Economic and Fiscal Update*. These amounts have been incorporated into departmental baselines and allocated to the appropriate functional classifications. While these items are forecast numbers, any difference between forecast and actual spending is unlikely to be material (any difference is reflected in the "other items").

4 Includes forecasting changes. Refer expenditure explanations for breakdown of "other items".

Financial Position

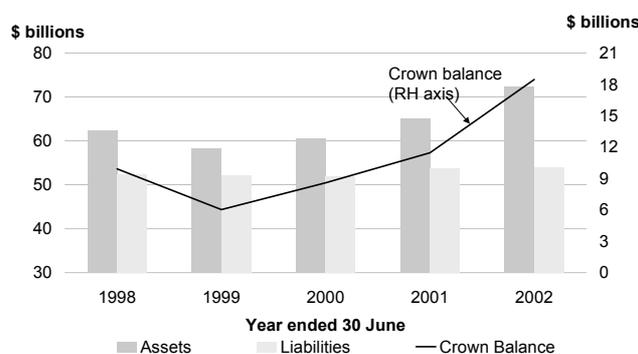
The **Statement of Financial Position** recording the Crown assets, liabilities and net worth for the year ended 30 June 2002 was made up as follows:

Statement of Financial Position	Actual \$m	Estimated actual forecast \$m	Variance against estimated actual \$m	2001 Budget forecast \$m	Variance against 2001 Budget forecast \$m
SOEs and Crown entities	17,815	15,371	2,444	15,114	2,701
Property, plant and equipment	17,290	16,180	1,110	16,076	1,214
Financial assets (excl NZS Fund)	16,952	15,716	1,236	14,368	2,584
Other assets (incl NZS Fund)	20,147	19,112	1,035	18,292	1,855
	72,204	66,379	5,825	63,850	8,354
Gross Crown debt	36,202	35,939	(263)	35,831	(371)
Pension liabilities	8,923	8,119	(804)	8,734	(189)
Other liabilities	8,823	8,307	(516)	7,328	(1,495)
	53,948	52,365	(1,583)	51,893	(2,055)
Crown balance (net worth)	18,256	14,014	4,242	11,957	6,299
Net Crown debt	19,250	20,223	973	21,463	2,213

Compared to the **2002 Pre-EFU estimated actual forecast**, net worth was higher than forecast, largely due to revaluations of physical assets of around \$4,200 million, which are not forecast as a matter of policy. The major contributors to the increase in the revaluation reserve were:

- state-owned enterprises revaluations of \$2,552 million. This was mainly due to Housing New Zealand Corporation changing its valuation methodology in accordance with Financial Reporting Standard 3: *Accounting for property, plant and equipment* (FRS-3) to highest and best use, rather than rental cash flows from properties in current use.
- land and buildings of \$850 million, primarily due to higher land values from the revaluation of schools and defence property.
- state highways network of \$736 million due to an increase in state highway corridor width used combined with increasing land prices.
- other assets of \$114 million due to higher adjacent land values since the conservation estate was last valued in 1999.

Figure 1.1 – Net worth components



Source: The Treasury

FRS-3 requires items of property, plant and equipment to be valued at fair value. This has required some properties to be revalued from an existing use valuation to a highest and best use valuation. This approach reduces the subjectivity in the valuation process as it is

less dependent on management intentions and increases the comparability of financial statements, as similar properties will be valued similarly, irrespective of how they are being used. A management benefit of this approach is to make more explicit to managers the cost associated with not making the best use of the property.

State-owned enterprises and Crown entities

The investment in SOEs and Crown entities has increased by \$2,444 million compared to the **2002 Pre-EFU estimated actual forecast**. This was largely due to two factors. Firstly, revaluations of physical assets within state-owned enterprises (\$159 million) and Crown entities (\$2,285 million) mainly Housing Corporation of New Zealand (refer previous page).

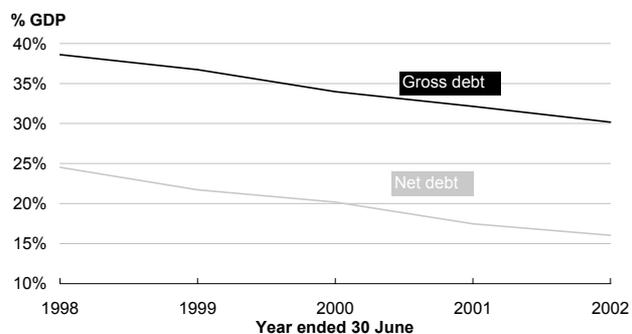
Offsetting the revaluations was lower than forecast surpluses of \$123 million mainly due to lower investment returns by the Earthquake Commission due to the recent drop in international equity prices and the appreciation of the New Zealand dollar.

Crown Debt

Gross Crown debt at 30 June 2002 was \$36,202 million, which was 30.2% of GDP and \$263 million above the **2002 estimated actual forecast**. This was largely due to higher-than-forecast retail stock liabilities due to the Farmers' equalisation account held by Inland Revenue. However, this is net debt neutral and is expected to unwind over the 2002/03 year.

Net Crown debt was \$19,250 million, which was 16% of GDP and \$973 million below the **2002 estimated actual forecast**. This largely reflects delays in cash payment of expenses of around \$570 million mainly due to timing of benefit payments (\$140 million) and other departmental spending (\$430 million). In addition, taxation receipts were higher than forecast by \$300 million.

Figure 1.2 – Crown debt



Source: The Treasury

Net Crown debt was \$2,213 million lower than forecast in the **2001**

Budget, primarily due to the difference in net cash flows from operations of \$2,302 million (essentially the cash flow impact of the improved OBERAC) and the improved starting net debt position (resulting from improved cash flows in 2000/01). Offsetting these variances were the net purchase of investments (primarily the recapitalisation of Air New Zealand Limited) which were higher by \$614 million. The reconciliation of net cash flows from operations with net cash proceeds from domestic bonds outlines the variance in more detail (refer pages 28 and 29).

Pension Liabilities

The GSF pension liabilities were \$804 million higher than the **2002 estimated actual forecast** due to changes in economic assumptions.

GSF Pension Liability

The GSF pension liability fluctuates from year to year due to changes in:

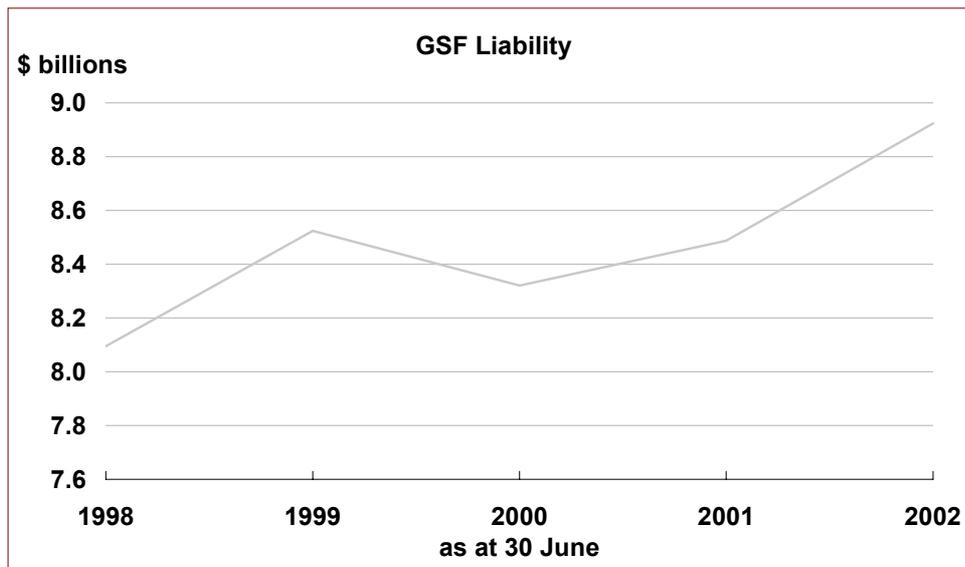
- economic assumptions (inflation, discount rates and salary growth)
- Fund experience (including rates of withdrawal, mortality, and actual investment returns)
- the interest cost associated with the liability.

Since the unfunded liability represents such a large component of the Crown Statement of Financial Position, relatively small movements in the liability can have a significant impact on the operating balance.

The unfunded liability, as at 30 June 2002, has been assessed at \$8,923 million. This is an increase of \$804 million from the 31 March 2002 valuation used in the 2002 Pre-election Economic Update and an increase of \$436 million on the 30 June 2001 liability.

The main drivers of the valuation are the economic assumptions of the discount rate and inflation rates. The Government actuary valuation for 30 June 2002 increased the long term inflation assumption to 2.0% (changed from 1.5% used in the Pre-EFU and 30 June 2001 valuation in line with the Aon Economists Survey), which increases the liability. This was partially offset by the discount rate, which increased to 4.9% after tax from 4.5% in the Pre-EFU and 30 June 2001. The change in economic assumptions account for \$500 million of the change from Pre-EFU.

In addition, since the Pre-EFU the GSF assets have reduced in value by around \$315 million due to decreasing global equity prices and the appreciation in the New Zealand dollar.



Prior Year Comparison

	30 June 2002 Actual \$m	30 June 2001 Actual \$m	Change	
			\$m	%
Statement of Financial Performance				
Total taxation revenue	38,420	36,738	1,682	4.6
Total non tax revenue	3,222	2,754	468	17.0
Total revenue	41,642	39,492	2,150	5.4
Social security and welfare	13,487	13,216	(271)	(2.1)
GSF pension expenses	1,153	855	(298)	(34.9)
Health	7,713	7,342	(371)	(5.1)
Education	7,124	6,690	(434)	(6.5)
Core government services	1,602	1,817	215	11.8
Other functional expenses	6,221	5,830	(391)	(6.7)
Finance costs	2,324	2,483	159	6.4
Net foreign exchange losses/(gains)	75	(47)	(122)	(259.6)
Total expenses	39,699	38,186	(1,513)	(4.0)
SOE and Crown entities net surplus	384	103	281	272.8
Operating balance	2,327	1,409	918	65.2
Statement of Financial Position				
SOEs and Crown entities	17,815	14,077	3,738	26.6
Property, plant and equipment	17,290	16,102	1,188	7.4
Other assets	20,147	18,112	2,035	11.2
	55,252	48,291	6,961	14.4
Net Crown debt	19,250	19,971	721	3.6
Other liabilities	17,746	16,857	(889)	(5.3)
	36,996	36,828	(168)	(0.5)
Crown balance (Net worth)	18,256	11,463	6,793	59.3

The **2001/02 operating balance** was significantly higher than the 2000/01 operating balance, mainly due to:

- A \$1,682 million increase in **taxation revenue** largely reflected the impact of growth in wages, employment and consumption experienced during the financial year.
- **Non-tax revenue** for 2001/02 included the one-off gain associated with the revaluation of the Maui gas contract receivable of \$260 million and also the recognition for the first time of United Nations East Timor deployment reimbursement (\$67 million) and residential care loans (\$66 million).
- Total **expenses** were higher than 2000/01 due to the combined impact of additional policy spending on initiatives from the **2001 Budget** allocation of around \$760 million, increases driven by demographic factors in health and education for example, benefit indexation and an increase in the GSF valuation movement of \$272 million from 2000/01.

Significant movements within **expenses** were:

- Higher **education** expenses of \$434 million (6.5%) largely due to:
 - a range of new policy initiatives including increases to school resources.
 - demographic increases.
- Higher **health** expenses of \$371 million (5.1%), which were largely due to:
 - increased funding to maintain and improve existing service levels, including more elective services.
 - demographic increases.
- Higher **social security and welfare** expenses of \$271 million (2.1%), which was largely due to the indexation of benefits on 1 April of each year.
- Lower **core government services** expenses of \$215 million, which was largely due to the National Provident Fund Crown guarantee increase in 2000/01 of \$253 million (2001/02: decrease of \$1 million).

The **SOE and Crown entities surpluses** were higher than last year by \$281 million, mainly due to a reduction in the ACC outstanding claims liability valuation movements compared to last year of \$377 million.

Net worth significantly improved from 2000/01 by \$6,793 million, reflecting:

- the flow on impacts of the operating balance of \$2,327 million for 2001/02
- total revaluation of property, plant and equipment of \$4,252 million (refer to section on financial position).

Net Crown debt was \$721 million lower than the previous year primarily due to favourable net cash flows from operations of \$3,774 million. This has been partially offset by additional investments (Air New Zealand Limited \$885 million and NZ Superannuation Fund \$600 million) and purchases of property, plant and equipment (\$1,329 million). The reconciliation of net cash flows from operations with net cash proceeds from domestic bonds outlines the variance in more detail (refer pages 28 and 29).

Historical Information

	2002	2001	2000	1999	1998
	\$m	\$m	\$m	\$m	\$m
Statement of Financial Performance					
Total taxation revenue	38,420	36,738	34,035	32,156	32,982
<i>% of GDP</i>	32.0%	32.1%	31.7%	31.6%	33.0%
Total non tax revenue	3,222	2,754	2,491	4,201	2,599
Total Revenue	41,642	39,492	36,526	36,357	35,581
<i>% of GDP</i>	34.7%	34.5%	34.0%	35.7%	35.6%
Social security and welfare	13,487	13,216	12,896	12,906	12,509
GSF pension expenses	1,153	855	478	1,132	494
Health	7,713	7,342	6,874	6,573	6,001
Education	7,124	6,690	6,310	5,899	5,714
Core government services	1,602	1,817	1,710	1,705	1,562
Other	6,221	5,830	5,592	5,141	5,114
Finance costs	2,324	2,483	2,373	2,516	2,804
Net foreign exchange losses/ (gains)	75	(47)	(62)	(47)	13
Total expenses	39,699	38,186	36,171	35,825	34,211
<i>% of GDP</i>	33.1%	33.4%	33.7%	35.2%	34.3%
SOE and Crown entities net surplus	427	523	575	1,245	1,164
ACC valuations movement	(43)	(420)	519	-	-
Operating balance	2,327	1,409	1,449	1,777	2,534
<i>% of GDP</i>	1.9%	1.2%	1.3%	1.7%	2.5%
OBERAC	2,751	2,107	884	246	2,191
<i>% of GDP</i>	2.3%	1.8%	0.8%	0.2%	2.2%
Statement of Financial Position					
SOEs and Crown entities	17,815	14,077	14,392	12,917	19,022
Property, plant and equipment	17,290	16,102	15,972	15,258	14,962
Other assets	37,099	34,902	30,059	30,048	28,372
Total assets	72,204	65,081	60,423	58,223	62,356
Gross debt	36,202	36,761	36,041	36,712	37,892
<i>% of GDP</i>	30.2%	32.1%	33.6%	36.0%	38.0%
Other liabilities	17,746	16,857	15,799	15,489	14,543
Total liabilities	53,948	53,618	51,840	52,201	52,435
Crown balance (Net worth)	18,256	11,463	8,583	6,022	9,921
<i>% of GDP</i>	15.2%	10.0%	8.0%	5.9%	9.9%
Net Crown debt	19,250	19,971	21,396	21,701	24,069
<i>% of GDP</i>	16.0%	17.5%	19.9%	21.3%	24.1%
GDP¹	120,021	114,374	107,344	101,892	99,831

¹ GDP for 2001/02 is based on data for the year to March 2002. Previous years' GDP figures have been restated where appropriate with updated data.



Report of the Auditor-General

To the Readers of the Financial Statements of the Government of New Zealand for the Year Ended 30 June 2002

We have audited the financial statements on pages 22 to 98. The financial statements provide information about the past financial performance of the Crown (referred to in this report as the Government of New Zealand, or the Government) and its financial position as at 30 June 2002. This information is stated in accordance with the accounting policies as set out on pages 53 to 61.

Responsibilities of the Government

Section 27 of the Public Finance Act 1989 requires the Treasury to prepare financial statements, in accordance with generally accepted accounting practice in New Zealand, that fairly reflect the financial position of the Government of New Zealand as at 30 June 2002 and the results of its operations and cash flows for the year ended on that date. Section 29 of the Public Finance Act 1989 places a responsibility on the Minister of Finance to form an opinion that those financial statements fairly reflect the financial position and operations of the Government for the reporting period.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and section 30 of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Government. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Government in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Government's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

The Auditor-General, as an Officer of Parliament, is constitutionally and operationally independent of the Government. Other than in exercising functions and powers under the Public Audit Act 2001 as the auditor of public entities, the Auditor-General has no relationship with or interest in the Government.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of the Government of New Zealand on pages 22 to 98:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Government's financial position as at 30 June 2002; and
 - the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 13 September 2002 and our unqualified opinion is expressed as at that date.

K B Brady
Controller and Auditor-General
Wellington
New Zealand



Financial Statements

Forecast			Actual	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m	Note	\$m	\$m
Revenue				
Levied through the Crown's Sovereign Power				
24,505	24,485		24,557	23,863
13,180	13,822		13,863	12,875
37,685	38,307		38,420	36,738
418	493		520	385
38,103	38,800		38,940	37,123
Earned through the Crown's Operations				
917	1,212		1,246	1,369
654	684		687	659
322	391		745	381
-	-		24	(40)
1,893	2,287		2,702	2,369
39,996	41,087		41,642	39,492
Expenses				
By functional classification				
13,826	13,615		13,487	13,216
667	339		1,153	855
7,684	7,713		7,713	7,342
7,056	7,150		7,124	6,690
1,552	1,611		1,602	1,817
1,640	1,761		1,755	1,560
1,153	1,188		1,197	1,267
1,027	1,156		1,120	1,026
1,225	1,187		1,157	1,141
456	500		474	424
320	327		315	287
90	95		93	50
114	109		110	75
2,395	2,303		2,324	2,483
-	119		75	(47)
160	-		-	-
39,365	39,173		39,699	38,186
631	1,914		1,943	1,306
Surplus of SOEs and Crown entities excluding				
953	950		828	844
-	(42)		(43)	(420)
(208)	(403)		(401)	(321)
745	505		384	103
1,376	2,419		2,327	1,409

The accompanying Notes and accounting policies are an integral part of these Statements.

Forecast			Actual	
2001	Estimated		30 June	30 June
Budget	Actual		2002	2001
\$m	\$m		\$m	\$m
			Note	
Assets				
45	185	Cash and bank balances		483
9,067	10,250	Marketable securities and deposits ¹	6	11,362
5,873	5,896	Advances	7	5,722
5,439	6,065	Receivables	8	6,237
280	220	Inventories		284
		State-owned enterprises and Crown		
15,114	15,371	entities ²	9	17,815
432	306	Other investments	10	286
16,076	16,180	Property, plant and equipment	11	17,290
359	310	Commercial forests	12	332
10,847	11,148	State highways	13	11,945
3	448	Intangible assets (including goodwill)	14	448
315	-	Forecast for future new capital spending		-
63,850	66,379	Total Assets		72,204
				65,081
Liabilities				
4,758	5,520	Payables and provisions	15	6,088
2,570	2,787	Currency issued		2,735
35,831	35,939	Borrowings		36,202
8,734	8,119	Pension liabilities	16	8,923
51,893	52,365	Total Liabilities		53,948
				53,618
11,957	14,014	Total Assets less Total Liabilities		18,256
				11,463
Crown Balance				
4,058	5,967	Accumulated operating balance		5,999
7,899	8,047	Revaluation reserve		12,257
11,957	14,014	Crown Balance	17	18,256
				11,463

¹Marketable securities and deposits

617	615	New Zealand Superannuation (NZS) Fund		615	-
8,450	9,635	Other marketable securities and deposits		10,747	12,060
9,067	10,250	Total marketable securities and deposits		11,362	12,060

² The equity investment in Air New Zealand Limited has been included for disclosure purposes as part of the state-owned enterprises grouping. Air New Zealand Limited is not a state-owned enterprise as defined in the State-owned Enterprises Act 1986.

The accompanying Notes and accounting policies are an integral part of these Statements.

Statement of Movements in Equity
(for the year ended 30 June 2002)

Forecast			Actual	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
10,581	11,463	Opening Crown Balance	11,463	8,583
-	103	Asset and liability recognition policy change ¹	214	1,650
10,581	11,566	Adjusted Opening Crown Balance	11,677	10,233
1,376	2,419	Operating balance for the period	2,327	1,409
-	29	Net revaluations	4,252	(179)
1,376	2,448	Total Recognised Revenues and Expenses	6,579	1,230
11,957	14,014	Closing Crown Balance	18,256	11,463

¹ Asset adjustments include Department of Conservation recreational facilities which have been included for the first time in the Crown financial statements at \$197 million. In addition, rail network land has been included at \$43 million. In accordance with Financial Reporting Standard 3: *Accounting for property, plant and equipment* (FRS-3), the net value of the assets have been included as an adjustment to equity (refer Note 12 - for further information on the nature of the Department of Conservation assets).

Recognition of liabilities in accordance with Financial Reporting Standard 15: *Accounting for Provisions, Contingent Liabilities and Contingent Assets* include \$26 million of previously disclosed contingent liabilities.

The accompanying Notes and accounting policies are an integral part of these Statements.

<i>Forecast</i>			<i>Actual</i>	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
Cash Flows from Operations				
Cash was Provided From				
<i>Direct Taxation</i>				
Individuals				
14,358	14,648	Source deductions	14,631	13,748
4,319	4,456	Other persons	4,500	4,221
(1,094)	(1,280)	Refunds	(1,243)	(1,175)
324	344	Fringe benefit tax	356	338
17,907	18,168	Total Individuals	18,244	17,132
Companies				
5,518	5,375	Gross companies	5,471	5,377
(701)	(753)	Refunds	(760)	(785)
679	621	Non-resident withholding tax	626	738
36	124	Foreign-source dividend withholding payment	144	98
5,532	5,367	Total Companies	5,481	5,428
1,046	1,013	Other withholding taxes	1,009	1,043
2	2	Other direct taxation	2	2
24,487	24,550	Total Direct Taxation	24,736	23,605
<i>Indirect Taxation</i>				
Goods and Services Tax				
14,754	16,037	Gross goods and services tax	16,167	14,604
(5,418)	(6,188)	Refunds	(6,194)	(5,657)
9,336	9,849	Total Goods and Services Tax	9,973	8,947
3,858	3,942	Other indirect taxation	3,932	3,698
13,194	13,791	Total Indirect Taxation	13,905	12,645
37,681	38,341	Total Taxation Receipts	38,641	36,250
349	327	Compulsory Fees, Fines, Penalties and Levies	318	324
Other Receipts				
755	1,204	Interest, profits and dividends	1,195	892
644	653	Sales of goods and services	677	622
301	370	Other operating receipts	460	383
1,700	2,227	Total Other Receipts	2,332	1,897
39,730	40,895	Total Cash Provided from Operations	41,291	38,471
Cash was Disbursed To				
5,040	5,173	Departmental outputs	4,967	4,749
16,610	16,835	Other outputs	16,576	16,008
2,402	2,240	Finance costs	2,300	2,499
181	147	Subsidies	126	133
Current transfers				
13,610	13,432	Social assistance grants	13,302	12,910
255	256	Other transfers	246	250
160	-	Contingency provision	-	-
38,258	38,083	Total Cash Disbursed to Operations	37,517	36,549
1,472	2,812	Net Cash Flows from Operations	3,774	1,922

The accompanying Notes and accounting policies are an integral part of these Statements.

Statement of Cash Flows (continued)
(for the year ended 30 June 2002)

<i>Forecast</i>			<i>Actual</i>	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
1,472	2,812	Subtotal (brought forward)	3,774	1,922
Cash Flows from Investing Activities				
Cash was Provided From				
91	124	Sale of property, plant and equipment	109	75
91	124	Total Cash Provided	109	75
Cash was Disbursed To				
1,318	1,264	Net increase in advances	1,115	617
294	1,217	Net purchase/(sale) of investments	1,223	(174)
(2,585)	(632)	Net purchase/(sale) of marketable securities and deposits ¹	327	1,001
1,288	1,271	Purchase of property, plant and equipment	1,329	1,205
315	-	Forecast for future new capital spending	-	-
630	3,120	Total Cash Disbursed	3,994	2,649
(539)	(2,996)	Net Cash Flows from Investing Activities	(3,885)	(2,574)
933	(184)	Net Cash Flows from Operating and Investing Activities	(111)	(652)
Cash Flows from Financing Activities				
Cash was Provided From				
-	248	Issue of circulating currency	196	303
391	746	Issue of Government stock	4,068	4,233
-	-	Other New Zealand-dollar borrowing ²	599	574
-	-	Borrowing in foreign currencies ²	1,819	3,884
391	994	Total Cash Provided	6,682	8,994
Cash was Disbursed To				
-	-	Repayment of Government stock	3,248	3,167
-	-	Repayment of other New Zealand-dollar borrowing ²	735	879
479	282	Repayment of foreign-currency borrowing ²	2,205	4,398
853	451			
1,332	733	Total Cash Disbursed	6,188	8,444
(941)	261	Net Cash Flows from Financing Activities	494	550
(8)	77	Net Movement in Cash	383	(102)
53	115	Opening Cash Balance	115	210
-	(7)	Foreign-exchange (losses)/gains on opening cash	(15)	7
45	185	Closing Cash Balance	483	115

¹ Net purchase/(sale) of marketable securities and deposits includes the purchases made on behalf of the New Zealand Superannuation Fund of \$600 million.

² Issues and repayments of other New Zealand-dollar borrowing and foreign-currency borrowing are forecast on a net basis. Actual issues and repayments are reported on a gross basis.

The accompanying Notes and accounting policies are an integral part of these Statements.

Forecast			Actual	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
Reconciliation Between Net Cash Flows from Operations and the Operating Balance				
1,472	2,812	Net Cash Flows from Operations	3,774	1,922
<i>Items included in the operating balance but not in net cash flows from operations</i>				
Valuation Changes				
51	368	(Increase)/decrease in pension liabilities	(436)	(164)
-	-	Revaluation of commercial forests	24	(40)
-	(72)	Unrealised net foreign-exchange (losses)/gains	(136)	100
-	-	National Provident Fund guarantee	1	(253)
51	296	Total Valuation Changes	(547)	(357)
Property, plant and equipment Movements				
(879)	(943)	Depreciation	(955)	(925)
-	(2)	Loss on sale of physical assets	(14)	(8)
(879)	(945)	Total property, plant and equipment Movements	(969)	(933)
Other Non-cash Items				
745	505	Net surplus of SOEs and Crown entities	384	103
-	-	Loss on writedown of defence equipment	-	(103)
(99)	(67)	Student Loans	(86)	(61)
-	(24)	Amortisation of goodwill	(23)	-
17	16	Other	(2)	55
663	430	Total Other Non-cash Items	273	(6)
Other Investing and Financing Items				
-	-	2GHz radio spectrum rights auction proceeds	-	140
-	(22)	Other	-	37
-	(22)	Total Other Investing and Financing Items	-	177
Movements in Working Capital¹				
25	1	(Decrease)/increase in taxes receivable	(261)	737
(84)	(133)	Increase/(decrease) in other receivables	301	(62)
66	27	Increase/(decrease) in inventories	91	(81)
62	(47)	(Increase)/decrease in payables	(335)	12
69	(152)	Total Movements in Working Capital	(204)	606
1,376	2,419	Operating Balance	2,327	1,409

¹ Only movements in working capital resulting from operations are included.

The accompanying Notes and accounting policies are an integral part of these Statements.

<i>Forecast</i>			<i>Actual</i>	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
Reconciliation of Net Cash Flows from Operations with Net Cash Proceeds from Domestic Bonds				
1,472	2,812	Net Cash Flows from Operations	3,774	1,922
Investing Flows				
<i>Net advances</i>				
(715)	(708)	Student loans	(681)	(668)
(479)	(474)	Housing New Zealand Corporation	(472)	(27)
(233)	(171)	District health boards and RHMU	(75)	27
69	70	Contact Energy Limited	70	-
43	18	Solid Energy New Zealand Limited	45	-
(3)	1	Other	(2)	51
(1,318)	(1,264)	Total Net Advances	(1,115)	(617)
(1,197)	(1,147)	Net purchase of physical assets	(1,220)	(1,130)
<i>Net investments</i>				
-	(885)	Air New Zealand Limited	(885)	-
(146)	(119)	District health boards and RHMU	(129)	(41)
(72)	(72)	New Zealand Post Limited	(72)	-
(43)	(42)	Housing New Zealand Corporation	(42)	-
7	7	At Work Insurance Limited	7	50
-	-	2GHz radio spectrum rights auction proceeds	-	140
(40)	(106)	Other	(102)	25
(315)	-	Forecast for future new capital spending	-	-
(609)	(1,217)	Net (purchase)/sale of investments	(1,223)	174
(1,652)	(816)	Available for debt repayment/(Required to be financed)	216	349
Financed by:				
<i>Net (purchase)/sale of marketable securities and deposits</i>				
2,585	632		(327)	(1,001)
933	(184)	Total Operating and Investing Activities	(111)	(652)
Used in:				
<i>Net repayment of other New Zealand-dollar borrowing</i>				
(479)	(282)		(136)	(305)
(853)	(451)	Net repayment of foreign-currency borrowing	(386)	(514)
8	(77)	Net (inflows)/outflow of cash	(383)	102
-	248	Issue of circulating currency	196	303
(1,324)	(562)		(709)	(414)
(391)	(746)	(Cash Proceeds from)/Net Repayments of Domestic Bonds	(820)	(1,066)

The accompanying Notes and accounting policies are an integral part of these Statements.

<i>Forecast</i>			<i>Actual</i>	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
		(Cash Proceeds from)/Net Repayments of		
(391)	(746)	Domestic Bonds (brought forward)	(820)	(1,066)
		Gross Cash Proceeds from Domestic Bonds		
3,570	3,703	Domestic bonds (market)	3,721	3,572
-	199	Domestic bonds (non market)	347	661
3,570	3,902	Total Gross Cash Proceeds from Domestic Bonds	4,068	4,233
(2,582)	(2,593)	Repayment of domestic bonds (market)	(2,594)	(2,651)
(597)	(563)	Repayment of domestic bonds (non market)	(654)	(516)
391	746	Net Cash Proceeds from/(Repayments of) Domestic Bonds	820	1,066

The accompanying Notes and accounting policies are an integral part of these Statements.

Forecast			Actual	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
Outstanding Debt¹				
New Zealand-Dollar Debt				
23,788	24,106	Government stock	24,172	23,331
5,388	5,405	Treasury bills	5,409	5,558
(763)	(374)	Loans and foreign-exchange contracts	(401)	(272)
475	512	Retail stock	669	498
28,888	29,649	Total New Zealand-Dollar Debt	29,849	29,115
Foreign-Currency Debt				
3,799	3,889	United States dollars	3,842	4,780
1,562	448	Japanese yen	447	1,432
1,582	1,953	European and other currencies	2,064	1,434
6,943	6,290	Total Foreign-Currency Debt	6,353	7,646
35,831	35,939	Total Outstanding Debt	36,202	36,761
Less				
Financial Assets				
Marketable Securities and Deposits²				
1,154	3,352	New Zealand dollars ³	4,205	3,971
3,909	3,889	United States dollars	4,060	5,093
1,775	487	Japanese yen	343	1,548
1,612	1,907	European and other currencies	2,139	1,448
8,450	9,635	Total Marketable Securities and Deposits	10,747	12,060
Advances and Cash				
Advances to state-owned enterprises and				
939	890	Crown entities	764	261
4,776	4,798	Student loans	4,749	4,143
158	208	Other advances	209	211
45	185	Cash	483	115
5,918	6,081	Total Advances and Cash	6,205	4,730
14,368	15,716	Total Financial Assets	16,952	16,790
21,463	20,223	Net Crown Debt	19,250	19,971
21,816	20,216	Net New Zealand-dollar debt	19,439	20,495
(353)	7	Net foreign-currency debt	(189)	(524)
21,463	20,223	Net Crown Debt	19,250	19,971

¹ For further information on the risk management policies of the Crown, including the treatment of net obligations and entitlements arising from forward exchange contracts and swaps, refer to Note 19.

² As at 30 June 2002 foreign currency securities with a face value of \$992 million (30 June 2001: \$963 million) had been transferred to counterparties as security for borrowings.

³ The New Zealand Superannuation Funds marketable securities and deposits as at 30 June 2002 of \$615 million are excluded from Marketable Securities Deposits for the purposes of the calculation of net Crown debt.

The accompanying Notes and accounting policies are an integral part of these Statements.

	30 June 2002		30 June 2001	
	Nominal value \$m	Current market value \$m	Nominal value \$m	Current market value \$m
Outstanding Debt				
New Zealand-Dollar Debt				
Government stock	24,259	24,438	23,356	23,588
Treasury bills	5,521	5,408	5,675	5,562
Loans and foreign-exchange contracts	(401)	(429)	(271)	(279)
Retail stock	669	666	498	497
Total New Zealand-Dollar Debt	30,048	30,083	29,258	29,368
Foreign-Currency Debt				
United States dollars	3,967	4,060	4,948	5,009
Japanese yen	501	504	1,512	1,575
European and other currencies	2,081	2,094	1,455	1,467
Total Foreign-Currency Debt	6,549	6,657	7,915	8,051
Total Outstanding Debt	36,597	36,741	37,173	37,419
Marketable Securities and Deposits				
New Zealand dollars	4,207	4,159	3,971	3,865
United States dollars	4,058	4,105	5,005	5,172
Japanese yen	343	343	1,492	1,555
European and other currencies	2,129	2,146	1,449	1,458
Total Marketable Securities and Deposits	10,737	10,753	11,917	12,050

The current market value has been determined using the present value of cash flows discounted at a rate derived from a market yield curve.

The New Zealand Superannuation Funds marketable securities and deposits as at 30 June 2002 of \$615 million are excluded from Marketable Securities and Deposits.

The accompanying Notes and accounting policies are an integral part of these Statements.

Statement of Borrowings (continued)
Maturity Profile as at 30 June 2002 – Book Values

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08- 2011/12	2012/13 and after	Total book value
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Outstanding Debt								
New Zealand-Dollar Debt								
Government stock	3,198	3,533	3,089	349	3,206	6,803	3,994	24,172
Treasury bills	5,409	-	-	-	-	-	-	5,409
Loans and foreign-exchange contracts	70	(112)	18	(124)	1	(254)	-	(401)
Retail stock	517	92	17	43	-	-	-	669
Total New Zealand-Dollar Debt	9,194	3,513	3,124	268	3,207	6,549	3,994	29,849
Foreign-Currency Debt								
United States dollars	1,699	409	852	207	236	160	279	3,842
Japanese yen	329	-	-	-	-	-	118	447
European and other currencies	526	331	275	277	245	401	9	2,064
Total Foreign-Currency Debt	2,554	740	1,127	484	481	561	406	6,353
Total Outstanding Debt	11,748	4,253	4,251	752	3,688	7,110	4,400	36,202
Marketable Securities and Deposits								
New Zealand dollars	3,996	146	14	3	23	23	-	4,205
United States dollars	3,867	(4)	7	3	49	138	-	4,060
Japanese yen	343	-	-	-	-	-	-	343
European and other currencies	1,513	334	83	73	56	59	21	2,139
Total Marketable Securities and Deposits	9,719	476	104	79	128	220	21	10,747

The maturities of Marketable Securities and Deposits in this Statement are based on the contractual maturity dates. The New Zealand Superannuation Funds marketable securities and deposits as at 30 June 2002 of \$615 million are excluded from Marketable Securities and Deposits.

The accompanying Notes and accounting policies are an integral part of these Statements.

	As at 1 July 2001 \$m	Net Increases/ (Decreases) \$m	Foreign Exchange Contracts \$m	Currency Realignment \$m	Unamortised Premiums/ Discounts \$m	As at 30 June 2002 \$m
Outstanding Debt						
By Type						
New Zealand-Dollar Debt						
Government stock	23,331	904	-	-	(63)	24,172
Treasury bills	5,558	(155)	-	-	6	5,409
Loans and foreign-exchange contracts	(272)	(130)	-	-	1	(401)
Retail stock	498	171	-	-	-	669
Total New Zealand-Dollar Debt	29,115	790	-	-	(56)	29,849
Foreign Currency-Debt						
United States dollars	4,780	(292)	-	(688)	42	3,842
Japanese yen	1,432	(787)	-	(224)	26	447
European and other currencies	1,434	696	-	(70)	4	2,064
Total Foreign-Currency Debt	7,646	(383)	-	(982)	72	6,353
Total Outstanding Debt	36,761	407	-	(982)	16	36,202
Less						
Financial Assets						
Marketable Securities and Deposits						
New Zealand dollars	3,971	7	228	-	(1)	4,205
United States dollars	5,093	(121)	(59)	(871)	18	4,060
Japanese yen	1,548	(1,175)	151	(181)	-	343
European and other currencies	1,448	1,028	(181)	(152)	(4)	2,139
Total Marketable Securities and Deposits	12,060	(261)	139	(1,204)	13	10,747
Advances and Cash	4,730	1,490	-	(15)	-	6,205
Total Financial Assets	16,790	1,229	139	(1,219)	13	16,952
Net Crown Debt	19,971	(822)	(139)	237	3	19,250

The accompanying Notes and accounting policies are an integral part of these Statements.

	As at 30 June 2002 \$m	As at 30 June 2001 \$m
By Type		
Capital Commitments		
Specialist military equipment	525	639
Land and buildings	487	383
Other plant and equipment	63	41
Investments	33	15
State-owned enterprises and Crown entities	895	619
Total Capital Commitments	2,003	1,697
Operating Commitments		
Non-cancellable accommodation leases	835	842
Other non-cancellable operating leases	1,998	1,713
Non-cancellable contracts for the supply of goods and services	1,195	367
Other operating commitments	813	2,213
State-owned enterprises and Crown entities	3,811	2,471
Total Operating Commitments	8,652	7,606
Total Commitments	10,655	9,303

By Term

Capital Commitments		
One year or less	1,030	967
From one year to two years	689	536
From two to five years	284	189
Over five years	-	5
Total Capital Commitments	2,003	1,697
Operating Commitments		
One year or less	2,863	2,651
From one year to two years	1,640	1,515
From two to five years	2,162	1,565
Over five years	1,987	1,875
Total Operating Commitments	8,652	7,606
Total Commitments	10,655	9,303

Commitments of the Reserve Bank of New Zealand, state-owned enterprises and Crown entities are included in the Statement of Commitments. Commitments to state-owned enterprises and Crown entities are excluded.

The accompanying Notes and accounting policies are an integral part of these statements.

Quantifiable Contingent Liabilities and Contingent Assets

	30 June 2002 \$m	30 June 2001 \$m
Guarantees and indemnities	121	371
Uncalled capital	3,068	3,594
Legal proceedings and disputes	342	499
Other contingent liabilities	1,672	2,037
Total Quantifiable Contingent Liabilities	5,203	6,501

Only contingent liabilities involving amounts of \$10 million or more in any one year are separately disclosed. Contingent liabilities below \$10 million are included in the “other quantifiable contingent liabilities” total. Comparatives have been adjusted where appropriate to align with the disclosure of new “material” contingent liabilities. The total amount of prior year contingent liabilities remains unchanged.

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

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

Contingent assets are potential assets dependent on a particular event occurring. As at 30 June 2002 the Crown had no quantifiable or unquantifiable contingent assets.

Guarantees and indemnities

Cook Islands – Asian Development Bank (ADB) Loans

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

\$22 million at 30 June 2002 (\$26 million at 30 June 2001).

Ministry of Transport – funding guarantee

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

\$10 million at 30 June 2002 (nil at 30 June 2001).

Indemnification of receivers and managers – Terralink Limited

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

\$10 million at 30 June 2002 (\$10 million at 30 June 2001).

Post Office Bank (PostBank) – guaranteed deposits

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

\$15 million at 30 June 2002 (\$16 million at 30 June 2001).

Guarantees and indemnities of state-owned enterprises and Crown entities

\$27 million at 30 June 2002 (\$243 million at 30 June 2001).

Other guarantees and indemnities

\$37 million at 30 June 2002 (\$76 million at 30 June 2001).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled capital at 30 June 2002 \$ million	Uncalled capital at 30 June 2001 \$ million
Asian Development Bank	1,375	1,553
European Bank for Reconstruction and Development	14	15
International Bank for Reconstruction and Development	1,679	2,026

Legal proceedings and disputes

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

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

Health – legal claims

Claims against the Crown in respect of people allegedly contracting hepatitis C through contaminated blood and blood products, claims arising from the Gisborne inquiry, and claims relating to the cervical screening inquiry.

\$121 million at 30 June 2002 (\$87 million at 30 June 2001).

Police – legal claims

Claims against the Police for alleged legal or administrative faults.

\$46 million at 30 June 2002 (\$56 million at 30 June 2001).

Tax in dispute

Represents 50% of the outstanding debt of those tax assessments raised, against which an objection has been lodged and legal action is proceeding.

\$64 million at 30 June 2002 (\$77 million at 30 June 2001).

Legal claims against state-owned enterprises and Crown entities

\$40 million at 30 June 2002 (\$29 million at 30 June 2001).

Other legal claims

\$71 million at 30 June 2002 (\$250 million at 30 June 2001).

Other quantifiable contingent liabilities

International finance organisations

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

	30 June 2002 \$ million	30 June 2001 \$ million
International Monetary Fund	1,429	1,810

Payment of the notes depends upon the operation of the rules of the organisation.

Reserve Bank – demonetised currency

The Crown has a contingent liability for the face value of the demonetised \$1 and \$2 notes issued which have yet to be repatriated.

\$23 million at 30 June 2002 (\$24 million at 30 June 2001).

Other quantified contingent liabilities of state-owned enterprises and Crown entities

\$157 million at 30 June 2002 (\$53 million at 30 June 2001).

Other quantifiable contingent liabilities

\$63 million at 30 June 2002 (\$150 million at 30 June 2001).

Unquantifiable Contingent Liabilities

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

Institutional guarantees and indemnities

The following institutional guarantees have been provided through legislation.

Air New Zealand Limited

The Crown indemnified the directors of Air New Zealand Limited against any liability arising from breaches of sections 135 and 136 of the Companies Act 1993. The indemnities expired on 18 January 2002, but it is possible that claims could arise retrospectively.

As part of the Air New Zealand Limited settlement with the Voluntary Administrator for the Ansett Group, the Minister of Finance provided the Voluntary Administrator with an indemnity that would be triggered if Air New Zealand Limited were liquidated within two years of the settlement and the settlement monies were sought by the liquidator at that time. The indemnity expires on 3 October 2003 and is for a maximum of AUD\$150 million.

Asure New Zealand Limited

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

At Work Insurance Ltd

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

Auckland Rail Lease

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

Commerce Commission – indemnity for damages

Under a Deed of Indemnity dated 12 November 1991, the Minister of Finance agreed to indemnify the Commission when it gives an undertaking as to damages when seeking injunctions under the Fair Trading and Commerce Acts, and subsequently the Court orders the Commission to pay damages. The sum payable under this Deed is limited to an amount up to \$40 million per case taken to Court. The Commerce Act was amended with effect from 26 May 2001, to remove the need for the Commission to provide such undertakings.

Crown research institutes (CRIs)

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

DFC New Zealand Limited (under statutory management) (DFC)

DFC and the National Provident Fund have been indemnified for certain potential tax liabilities.

District health boards (DHBs)

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

District Court Judges, Justices of the Peace, Coroners and Dispute Tribunals

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

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

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

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

Earthquake Commission

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

Electricity Corporation of New Zealand Limited (ECNZ)

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

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to Contact Energy. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited, and Genesis Power Limited.

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

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

- existing debt and swap obligations
- hedge contracts and obligations

any liabilities that arise out of the split itself.

Fletcher Challenge Limited (FCL)

Under the Sale and Purchase Agreement with FCL for the sale of the Forestry Corporation of New Zealand Limited, the Crown has indemnified FCL for the costs of cleaning up environmental contamination. In respect of on-site environmental costs and losses incurred up to settlement date (27 September 1996), FCL will pay the first \$30 million of any clean-up and half of the next \$20 million. The Crown will pay for half of any cost over \$30 million and for all costs over \$50 million. The on-site indemnity runs until 1 January 2020.

The Crown has also indemnified FCL in respect of off-site environmental costs and losses incurred up until settlement date. The off-site indemnity is unlimited as to amount and time.

Ministry of Fisheries – indemnity provided for delivery of registry services

The Crown has indemnified Commercial Fisheries Services Limited against claims made by third parties arising from Commercial Fisheries Services undertaking registry services under contract to the Chief Executive of the Ministry of Fisheries. This indemnity, provided under the Fisheries Acts 1983 and 1996, expires on 30 September 2006 unless varied, in which case it will expire on 30 September 2008.

Housing New Zealand Corporation (HNZC)

The Crown has indemnified the following entities in respect of the accuracy of information provided on the sale of various parcels of HNZC (formerly Housing Corporation of New Zealand) mortgages: Countrywide Bank, TSB Bank, and Westpac Banking Corporation.

The Crown has indemnified the directors and officers of HNZC against any liabilities in respect of the sale of mortgages to ANZ Bank and Mortgage Corporation.

Under the sale of mortgages to Westpac, HNZC has insured the purchaser against certain credit losses with the Crown standing behind this obligation.

Legal proceedings have been initiated against a number of defendants, including the Crown, alleging breach of fiduciary duties in respect of the transfer of the Agreement for Sale and Purchase and mortgage agreements to HNZC under the Housing Assets Transfer Act 1993.

In addition, the Crown has provided a warranty in respect of title to the assets transferred to HNZC (formerly Housing New Zealand) and has indemnified the company against any breach of this warranty. The Crown has indemnified the company against any third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of the company against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Indemnities against acts of war and terrorism

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

The Crown has offered non-airline aviation companies indemnities against acts of war, terrorism and related causes where commercial cover has been withdrawn following the events in the United States on 11 September 2001. The indemnities are for a maximum of US\$200 million for each party. At 30 June 2002, indemnities had been signed with the Civil Aviation Authority (US\$50 million), the Aviation Security Service of New Zealand (US\$150 million). Further indemnities may be offered to eligible 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.

National Provident Fund

The Crown guarantees the benefits payable by all National Provident Fund Board schemes (section 60 of the National Provident Fund Restructuring Act 1990). The Crown also guarantees investments and interest thereon deposited with the National Provident Fund Board prior to 1 April 1991 (section 61 of the same Act).

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

New Zealand Railways Corporation

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

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the Securities Commission, the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.

Pharmaceutical Management Agency Limited (Pharmac) – indemnity

Section 99 of the Social Security Act 1964 provided for the fixing of prices for pharmaceutical products by way of a list specified by the Minister of Health (“the Drug Tariff”). This list was superseded by a list (“the Pharmaceutical Schedule”) developed and issued by Pharmac, a company owned by the Crown and having various powers under the New Zealand Public Health and Disability Act 2000.

Under the Transfer Agreement between Pharmac and the Crown, the Crown has indemnified Pharmac against any liability in respect of operations, activities, decisions and policies relating to the Drug Tariff and the Pharmaceutical Schedule.

A number of legal claims have been lodged against Pharmac. If these claims are successful, the Crown’s financial position may be adversely affected by any damages arising either directly through the indemnity, or indirectly through its ownership of Pharmac.

Public Trust

The Crown is liable to meet any deficiency in the Public Trust’s Common Fund (section 52 of the Public Trust Act 2001).

Purchasers of Crown operations

The Crown has indemnified the purchasers of various Crown operations for losses owing to changes in legislation which uniquely and adversely affect those purchasers.

Reserve Bank of New Zealand (the Reserve Bank)

Under section 146 of the Reserve Bank of New Zealand Act 1989, every statutory manager of a Registered Bank, every person appointed under section 99 or section 101 of the Act and every member of an advisory committee, shall be indemnified by the Crown in respect of any liability arising from the exercise, purported exercise or omission to exercise of any power conferred by Part V of the Act, unless that power has been exercised in bad faith.

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

Tax liabilities

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

Works Civil Construction

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

Works Consultancy Services

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

Other unquantifiable contingent liabilities

Accident Compensation Corporation (ACC)

A Court decision has determined that the ACC practice, prior to the Accident Insurance Act 1998, of allowing for familial responsibility when determining attendant care entitlements was not legitimate. The decision is likely to apply to a number of seriously injured claimants.

Bank of New Zealand (BNZ)

A deed, entered into by the Crown, Fay Richwhite and Company Limited and National Australia Group Limited (the purchaser of BNZ), provides for the sharing of certain costs arising from defined risks that pre-date the sale of BNZ. These risks are associated with New Zealand taxation and specified litigation.

Contaminated sites

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

During 2001/02 departments managing significant Crown properties undertook exercises to establish the nature and quantity of any contaminated sites. Where appropriate, departmental systems have been implemented to identify, monitor and assess potential contaminated sites.

In accordance with *FRS-15 Provisions, Contingent Liabilities and Contingent Assets* any contaminated sites which costs can be reliably measured have been included in the Statement of Financial Position as provisions. As at 30 June 2002, the value of these provisions was nil.

Education – legal claim

The judgment in *Daniels and Others v Attorney-General* has found that some parts of the policy known as Special Education 2000 are inconsistent with the Education Acts 1964 and 1989. There are potential implications of the judgment:

- in relation to its application to students with special needs
- in relation to remedies and policy initiatives required for education more generally and beyond students with special needs
- regarding remedies for the plaintiffs in relation to the High Court judgment on Special Education.

The Crown has decided to appeal this judgment.

Sale of Crown assets

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

Treaty of Waitangi claims

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

Settlement relativity payments

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

Contingent Liabilities Movements

Of the contingent liabilities detailed above, the following are new this year:

- Ministry of Transport – funding guarantee
- Health – legal claims
- Accident Compensation Corporation – unquantified
- Air New Zealand Limited – unquantified
- Asure New Zealand Limited – unquantified
- At Work Insurance Ltd – unquantified
- Auckland rail lease – unquantified
- Education, legal claim – unquantified
- Indemnities against acts of war and terrorism – unquantified
- Maui Partners – unquantified
- New Zealand Railways Corporation – unquantified

The following items were resolved or expired over the year:

- Huntly East mine subsidence – guarantees and indemnities
- Education – legal claims
- Health – Lake Alice claims
- Māori Development – Māori Reserve Land
- Treasury – legal claim
- Treasury – ADB Promissory Notes
- Māori Trustee – unquantified

The following items which were disclosed last year have been included in their respective “Other” categories as they are under the materiality threshold this year.

- Agriculture and Forestry – legal claims
- New Zealand Defence Force – legal claims
- Health – other contingent liabilities

Statement of Unappropriated Expenditure, Expenses or Liabilities
(as at 30 June 2002)

An appropriation is a statutory authorisation by Parliament for the expenditure of public money or the incurring of expenses or liabilities. This statement reports expenditure, expenses or liabilities spent or incurred in excess of or without appropriation by Parliament.

Section 12 (1) of the Public Finance Act 1989 authorises the Minister of Finance to approve limited amounts of expenditure, expenses or liabilities in excess of or without appropriation. Unappropriated amounts spent or incurred in terms of such an approval are shown separately in this statement.

Unappropriated expenditure, expenses or liabilities in excess of the limits which the Minister of Finance can approve require validating legislation.

Amounts in this statement are expressed in thousands of dollars, reflecting the level at which appropriations are made.

Department	Unappropriated expenditure, expenses or liabilities approved by the Minister of Finance under section 12 (\$000)	Unappropriated expenditure, expenses or liabilities amount requiring validating legislation (\$000)	Amount Appropriated (\$000)
Department of Conservation			
Conservation –			
<i>Outputs Supplied by the Department</i>			
Policy Advice and Ministerial Servicing ¹	28	-	2,693
<i>Outputs Supplied by the Department</i>			
Statutory Planning and Coastal Responsibilities Under the Resource Management Act 1991 ²	594		4,040
<i>Outputs Supplied by the Department</i>			
Management of Statutory Actions, Leases, Licences and Other Concessions ³	749		8,918
<i>Outputs Supplied by the Department</i>			
Provision of Recreation Opportunities - Access, Facilities and Services ⁴	1,180		43,953
<i>Capital Contributions to the Department</i>			
Capital Investment	359	93,523	107,161
Department for Courts			
Courts –			
<i>Other Expenses to be Incurred by the Crown</i>			
Witness Fees and Expenses	267	-	2,000
<i>Other Expenses to be Incurred by the Crown</i>			
Costs in Criminal Cases	40	-	90
Crown Law Office			
Attorney-General –			
<i>Outputs Supplied by the Department</i>			
Legal Advice and Representation ⁵	152	-	14,539

¹ Excludes \$339,000 transferred out of this Output Class by the Public Finance (Transfers between Outputs) Order 2002 (2002/199)

² Includes \$193,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2002 (2002/199)

³ Includes \$425,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2002 (2002/199)

⁴ Includes \$682,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2002 (2002/199)

⁵ Includes \$475,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2002 (2002/199)

Statement of Unappropriated Expenditure, Expenses or Liabilities (continued)
(as at 30 June 2002)

Department Vote – <i>Appropriation</i>	Unappropriated expenditure, expenses or liabilities approved by the Minister of Finance under section 12 (\$000)	Unappropriated expenditure, expenses or liabilities amount requiring validating legislation (\$000)	Amount Appropriated (\$000)
New Zealand Customs Service			
Customs –			
<i>Outputs Supplied by the Department</i>			
Clearance of International Passengers, Crew and Craft	248		21,740
<i>Outputs Supplied by the Department</i>			
Surveillance, Search and Containment	20		3,840
Ministry of Economic Development			
Energy –			
<i>Other Expenses to be Incurred by the Crown</i>			
Blenheim bore mediation	188	-	-
Ministry of Education			
Education –			
<i>Outputs Supplied by the Department</i>			
Special Education Services	1,726	-	36,809
<i>Outputs Supplied by the Crown</i>			
Supporting Parenting	390	-	25,984
<i>Benefits and Other Unrequited Expenses</i>			
Boarding Allowances and Bursaries	100	-	5,618
<i>Other Expenses to be Incurred by the Crown</i>			
Secondary Education	11,418	-	1,251,747
<i>Other Expenses to be Incurred by the Crown</i>			
Tertiary Education and Training	6,124	-	1,529,089
<i>Capital Contributions to Other Persons or Organisations</i>			
Capital Contributions to Wananga	120	-	29,000
Ministry of Justice			
Treaty Negotiations –			
<i>Outputs Supplied by the Department</i>			
Representation - Waitangi Tribunal	140	129	2,460
<i>Other Expenses to be incurred by the Crown</i>			
Interest Payments on Settlements	145	-	3,400

Statement of Unappropriated Expenditure, Expenses or Liabilities (continued)
(as at 30 June 2002)

Department Vote – <i>Appropriation</i>	Unappropriated expenditure, expenses or liabilities approved by the Minister of Finance under section 12 (\$000)	Unappropriated expenditure, expenses or liabilities amount requiring validating legislation (\$000)	Amount Appropriated (\$000)
New Zealand Defence Force			
Defence Force –			
<i>Outputs Supplied by the Department</i>			
Naval Combat Forces ⁶	1,074	-	480,855
<i>Outputs Supplied by the Department</i>			
Naval Support Forces ⁷	138	-	34,423
<i>Outputs Supplied by the Department</i>			
Hydrographic Data Collection and Processing for LINZ and Third Parties ⁸	56	-	8,261
<i>Outputs Supplied by the Department</i>			
Land Combat Support Forces ⁹	613	-	126,617
<i>Outputs Supplied by the Department</i>			
Land Combat Service Support Forces ¹⁰	608	-	103,926
<i>Outputs Supplied by the Department</i>			
Specialised Forces ¹¹	495	-	37,893
<i>Outputs Supplied by the Department</i>			
Maritime Patrol Forces ¹²	13	-	126,603
<i>Outputs Supplied by the Department</i>			
Rotary Wing Transport Forces ¹³	225	-	101,538
<i>Outputs Supplied by the Department</i>			
Miscellaneous Support Activities ¹⁴	68	-	11,292
<i>Outputs Supplied by the Department</i>			
Operationally Deployed Forces ¹⁵	51	-	52,327
Parliamentary Service			
Parliamentary Service –			
<i>Other Expenses to be incurred by the Crown</i>			
Members' Communications	121	-	3,669

⁶ Includes \$610,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

⁷ Excludes \$590,000 transferred out of this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

⁸ Includes \$80,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

⁹ Includes \$990,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹⁰ Includes \$3,070,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹¹ Excludes \$50,000 transferred out of this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹² Includes \$270,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹³ Excludes \$670,000 transferred out of this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹⁴ Excludes \$800,000 transferred out of this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹⁵ Excludes \$680,000 transferred out of this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

Statement of Unappropriated Expenditure, Expenses or Liabilities (continued)
(as at 30 June 2002)

Department Vote – <i>Appropriation</i>	Unappropriated expenditure, expenses or liabilities approved by the Minister of Finance under section 12 (\$000)	Unappropriated expenditure, expenses or liabilities amount requiring validating legislation (\$000)	Amount Appropriated (\$000)
The Police			
Police –			
<i>Outputs Supplied by the Department</i>			
Policy Advice and Ministerial Servicing ¹⁶	175	-	1,656
<i>Outputs Supplied by the Department</i>			
Policing Support to the Community Through Partnerships, Education, Crime Prevention and Youth Programmes ¹⁷	85	-	62,242
<i>Outputs Supplied by the Department</i>			
Enforcement of Court Orders ¹⁸	19	-	4,421
<i>Outputs Supplied by the Department</i>			
Vetting and Firearms Licensing ¹⁹	287	-	8,149
<i>Outputs Supplied by the Department</i>			
Road Safety Programme ²⁰	923	-	195,516
Ministry of Social Development			
Work and Income –			
<i>Benefits and Other Unrequited Expenses</i>			
Child Disability Allowance	19	-	41,838
<i>Benefits and Other Unrequited Expenses</i>			
Disability Allowance	961	-	222,920
<i>Benefits and Other Unrequited Expenses</i>			
Domestic Purposes Benefit	14,525	-	1,486,149
<i>Benefits and Other Unrequited Expenses</i>			
Special Needs Grant	52	-	50,621
<i>Benefits and Other Unrequited Expenses</i>			
Tenure Protection Allowance	8	-	335
Ministry of Social Development			
Veterans' Affairs -			
<i>Benefits and Other Unrequited Expenses</i>			
War Disability Pensions	632	-	94,876
	45,488	93,298	6,349,208

¹⁶ Includes \$78,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹⁷ Includes \$806,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹⁸ Includes \$43,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

¹⁹ Includes \$255,000 transferred into this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

²⁰ Excludes \$8,034,000 transferred out of this Output Class by the Public Finance (Transfers between Outputs)
Order 2002 (2002/199)

Under section 13 of the Public Finance Act 1989, if a state of national emergency is declared under the Civil Defence Act 1983 or if the Government declares an emergency because of any situation that affects the public health or safety of New Zealand, then the Minister of Finance may approve expenditure of public money or incurrence of expenses or liabilities to meet such emergency or disaster whether or not an appropriation by Parliament is available for the purpose. Once expenditure, expenses or liabilities have been incurred, the amounts that have not been appropriated must be disclosed in the annual Financial Statements of the Crown for the financial year and sanctioned by Parliament in an Appropriation Act.

During the year, no such emergency expenditure, expenses or liabilities were incurred.

Statement of Trust Money
(as at 30 June 2002)

Department Trust Account	As at 30 June 2001 (\$000)	Transfers (\$000)	Contributions (\$000)	Distributions (\$000)	Revenue (\$000)	Expenses (\$000)	As at 30 June 2002 (\$000)
Agriculture and Forestry							
Meat Board Levies Trust	3	-	57,258	(57,199)	-	-	62
Audit							
South Pacific Association of Supreme Audit Institutions Trust	44	-	236	(261)	-	-	19
Child, Youth and Family Services							
Children and Young Persons and Their Families Agency Trust	314	-	-	-	11	-	325
Conservation							
Bonds/Deposits Trust	614	-	295	(66)	60	-	903
Conservation Project Trust	624	-	362	(362)	22	-	646
National Parks Trust	142	-	113	(203)	3	-	55
Walkways Trust	5	-	-	-	-	-	5
Wildlife and Reserves Trusts	3,111	-	32	(811)	113	-	2,445
Corrections							
Prisons Trust	357	-	6,539	(6,543)	-	-	353
Courts							
Courts Trust	10,466	-	32,251	(34,075)	917	-	9,559
Fines Trust	14,349	-	113,325	(101,544)	-	-	26,130
Maori Land Court Trust	48	-	13	(14)	1	-	48
Foreign Currency Trust	259	-	-	(44)	-	-	215
Crown Law Office							
Legal Claims Trust	5	-	3,721	(3,721)	-	-	5
Culture and Heritage							
Australian Trust for Oral History Archives Trust	1,400	-	-	(79)	85	-	1,406
Dictionary of New Zealand Biography Trust	698	-	20	-	44	(289)	473
New Zealand Encyclopedia Trust	-	-	1	-	-	-	1
New Zealand Historical Atlas Trust	31	-	-	-	25	(26)	30
New Zealand History Research Trust	1,491	-	-	(85)	70	-	1,476
Customs							
Alcohol Liquor Advisory Council Trust	524	-	6,432	(6,459)	7	-	504
Customs Regional Deposit/Bonds Trust	3,185	-	4,690	(4,039)	70	(37)	3,869
Heavy Engineering Research Association Trust	59	-	574	(576)	1	-	58
Maritime Safety Authority Trust	10	-	26,104	(26,110)	6	-	10
Economic Development							
Coal and Minerals Deposits Trust	323	-	16	(30)	24	-	333
Official Assignee's Office Trust	10,673	-	9,422	(6,382)	597	(4,203)	10,107
Patent Co-operation Treaty Fees Trust	94	-	939	(995)	14	(9)	43
Petroleum Deposits Trust	149	-	-	(5)	6	-	150
Proceeds of Crime Trust	1,755	-	1,909	(564)	-	-	3,100
Radio Frequencies Tender Trust	72	-	28	-	-	-	100
Education							
Code of Practice for Providers who Enrol International Students Trust	-	-	16	-	-	-	16
Scholarship for Agricultural and Engineering Students from the Opotiki District Trust	-	-	13	-	1	(1)	13
Subtotal (carried forward)	50,805	-	264,309	(250,167)	2,077	(4,565)	62,459

Statement of Trust Money (continued)
(as at 30 June 2002)

Department Trust Account	As at 30 June 2001 (\$000)	Transfers (\$000)	Contributions (\$000)	Distributions (\$000)	Revenue (\$000)	Expenses (\$000)	As at 30 June 2002 (\$000)
Subtotal (brought forward)	50,805	-	264,309	(250,167)	2,077	(4,565)	62,459
Fisheries							
MAF Overfishing Account Trust	5,874	-	10,992	(10,420)	336	-	6,782
MAFFish Forfeit Property Trust	98	-	4,173	(2,427)	99	-	1,943
Foreign Affairs and Trade							
Cape Roberts Project Trust	96	-	5	(79)	3	-	25
New Zealand/France Friendship Trust	10	-	166	(128)	-	(10)	38
Housing							
Housing Tenancy Bonds Trust	115,831	-	78,474	(64,837)	-	-	129,468
Inland Revenue							
Child Support Agency Trust Account	2,552	-	141,226	(140,583)	-	-	3,195
Reciprocal Child Support Agreement Trust	8	-	1,669	(1,643)	-	-	34
Internal Affairs							
New Zealand 1990 Scholarship Trust	374	-	-	(20)	27	-	381
Problem Gambling Trust	-	-	4,699	(4,713)	14	-	-
Vogel House Trust	-	-	3	(3)	-	-	-
Justice							
Chief Electoral Trust	-	-	-	-	191	-	191
Youth Justice Trust	36	-	-	-	48	(82)	2
Labour							
Employment Court Trust	440	-	167	(452)	-	-	155
Industrial Relations Service Trust	16	-	225	(225)	-	-	16
New Zealand Immigration Service Trust	1,800	-	4,127	(2,924)	-	-	3,003
Land Information New Zealand							
Crown Forestry Licences Trust	50,379	-	39,029	(78,933)	10,228	-	20,703
Deposits Trust	3,726	-	444	(3,607)	-	-	563
Endowment Rentals Trust	5	-	119	(124)	-	-	-
Hunter Gift for the Settlement of Discharged Soldiers Trust	44	-	-	-	3	-	47
New Zealand Defence Force							
New Zealand Defence Force Trust	-	-	-	-	22,840	(22,840)	-
Police							
Bequests, Donations and Appeals Trust	66	-	116	(94)	1	(2)	87
Found Money Trust	77	-	32	(79)	-	(1)	29
Money in Custody Trust	41	-	925	(376)	6	(12)	584
Reparation Trust	24	-	52	(52)	-	(1)	23
Social Development							
Australian Dollar Reciprocal Trust	-	-	161	(161)	-	-	-
Maintenance Trust	-	143	2,536	(2,573)	-	-	106
United Kingdom Reciprocal Pension Trust	-	29	201	(192)	-	-	38
Treasury							
Trustee Act 1956 Trust	1,378	-	36	(155)	71	-	1,330
Work and Income							
Maintenance Trust	143	(143)	-	-	-	-	-
United Kingdom Reciprocal Pension Trust	29	(29)	-	-	-	-	-
Total	233,852	-	553,886	(564,967)	35,944	(27,513)	231,202

Reporting Entity

The Crown financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989.

The Crown reporting entity as specified in Part III of the Public Finance Act 1989 comprises:

- Ministers of the Crown
- State-owned enterprises
- Departments
- Crown entities
- Offices of Parliament
- Air New Zealand Limited
- Reserve Bank of New Zealand

A more detailed listing of the components of the Crown reporting entity is set out in the supplementary information on pages 100 and 101.

General Accounting Policies

These Financial Statements comply with generally accepted accounting practice. The measurement base applied is historical cost adjusted for revaluations of property, plant and equipment (where appropriate), state highways, commercial forests and marketable securities held for trading purposes. The accrual basis of accounting has been used unless otherwise stated.

Specific Accounting Policies

Reporting and forecast period

The reporting and forecast period for these Financial Statements is the year ended 30 June 2002. Different reporting periods have however been applied when combining certain state-owned enterprises and Crown entities, as set out in Note 9.

The Budget forecast is the original forecast for the financial year, as presented in the **2001 Budget** on 24 May 2001. The estimated actual forecast, as presented in the *2002 Pre-EFU* on 25 June 2002, has been prepared using actual data to 31 May 2002, and forecast data for the remainder of the financial year.

Basis of combination

Ministers of the Crown, departments, offices of Parliament and the Reserve Bank of New Zealand are combined using the purchase method of combination. Corresponding assets, liabilities, revenues and expenses are added together line by line. Transactions and balances between these sub-entities are eliminated on combination.

State-owned enterprises, Crown entities and Air New Zealand Limited are combined using the modified equity method of combination. This records the Crown's share of these entities' net assets, including asset valuation movements and their surpluses and deficits.

Unrealised surpluses and deficits on inter-entity transactions not carried out on an arm's-length basis are eliminated. Other inter-entity transactions and balances are not eliminated.

Commitments, contingent liabilities and contingent assets of state-owned enterprises and Crown entities are reported in the Statement of Commitments and the Statement of Contingent Liabilities and Assets.

Revenue

Revenue levied through the Crown's sovereign power

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

Where possible, revenue is recognised at the time the debt to the Crown arises.

Revenue type	Revenue recognition point
Source deductions (PAYE)	When an individual earns income that is subject to PAYE
Residents' withholding tax ¹	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Provisional tax ²	Payment due date
Terminal tax ²	Assessment filed date
Goods and services tax	When the liability to the Crown is incurred
Excise duty	When goods are subject to duty
Road user charges and motor vehicle fees	When payment for the fee or charge is made
Stamp, cheque and credit card duties	When the liability to the Crown is incurred
Other indirect taxes	When the debt to the Crown arises
¹ Corresponds to withholding taxes on residents' interest and dividend income in Note 1 to the Financial Statements.	
² Provisional and terminal taxes are paid by "other persons" and companies (refer to Note 1 to the Financial Statements).	

Revenue earned through the Crown's operations

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

Investment income

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

Premiums and discounts

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

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

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

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

Gains

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

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

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

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

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

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

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits

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

Grants and subsidies

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

Discounts and Premiums

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

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

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

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

Losses

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

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

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

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

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

Foreign-currency transactions

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

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

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

Depreciation

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

Freehold buildings	25 to 60 years
Specialist military equipment	5 to 25 years
Other plant and equipment	3 to 25 years
State highways – pavement (surfacing)	7 years
– pavement (other)	36 years
– bridges	90 – 100 years

Assets*Foreign monetary assets*

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

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

Receivables and advances

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

Inventories

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

Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued.

Investments

Marketable securities held for trading purposes

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

Equity investments

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

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

Other investments and marketable securities held for investment purposes

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

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

Items of property, plant and equipment

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

Revaluations are made to most classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset. Revaluation to fair value is based on the fair value of the asset. Where an asset is recorded at its depreciated replacement cost, depreciated replacement cost is based on the estimated present cost of construction, reduced by factors for age and deterioration of the asset.

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

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

Land and buildings

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

Properties intended for sale

Properties intended for sale are recorded at the lower of cost or net realisable value.

Specialist military equipment

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

Other items of property, plant and equipment

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

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

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

Commercial forests

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

State highways

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

Goodwill and intangible assets

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

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

Liabilities

Borrowings

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

Foreign monetary liabilities

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

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

Pension liabilities

Pension liabilities in respect of the contributory service of superannuation scheme members are recorded at the latest actuarial value of the Crown's liability for pension payments, net of the schemes' assets.

Currency issued

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

Leases

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

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

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

Employee entitlements

Liabilities for annual leave are recognised as they accrue to employees. Provision is also made on an actuarial basis for expected payments of long-service and retiring leave obligations to employees, and any other similar employee entitlements.

Other liabilities

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

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date. Commitments include those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of Commitments.

Contingent liabilities and assets

Contingent liabilities and contingent assets are recorded in the Statement of Contingent Liabilities and Assets at the point at which the contingency is evident.

Changes in Accounting Policies

Financial Reporting Standard 3: *Accounting for Property, Plant and Equipment* (FRS-3), took effect in the 2001/02 financial year.

In accordance with FRS-3, Department of Conservation recreation facilities have been recognised for the first time. As a result an adjustment of \$197 million was included in these Financial Statements to record these conservation assets. In addition, rail network land has been included at \$43 million. These adjustments are reported in the Statement of Movements in Equity.

Financial Reporting Standard 15: *Provisions, contingent liabilities and contingent assets* (FRS-15) also took effect in the 2001/02 financial year. The application of the requirements of FRS-15 has resulted in some adjustments to reported liabilities of \$26 million, which are also reported in the Statement of Movements in Equity.

There have been no other changes in accounting policies during the period.

Changes to Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation and classification adopted in the current period.

<i>Forecast</i>			<i>Actual</i>	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
NOTE 1: Direct Taxation				
Income Tax				
Individuals				
14,358	14,605	Source deductions	14,600	13,703
3,881	3,990	Other persons	4,019	3,871
(656)	(813)	Refunds	(836)	(790)
336	356	Fringe benefit tax	361	342
17,919	18,138	Total Individuals	18,144	17,126
Companies				
4,938	4,719	Gross companies	4,811	4,954
(121)	(195)	Refunds	(224)	(123)
685	669	Non-residents' withholding payment	664	760
36	139	Foreign-source dividend withholding payment	141	83
5,538	5,332	Total Companies	5,392	5,674
Withholding Taxes				
993	986	Residents' interest income	1,000	990
53	27	Residents' dividend income	20	71
1,046	1,013	Total Withholding Taxes	1,020	1,061
24,503	24,483	Total Income Tax	24,556	23,861
Other Direct Taxation				
2	2	Estate and gift duties	1	2
2	2	Total Other Direct Taxation	1	2
24,505	24,485	Total Direct Taxation	24,557	23,863
NOTE 2: Indirect Taxation				
Goods and Services Tax				
15,054	16,462	Gross goods and services tax	16,518	15,133
(5,718)	(6,613)	Refunds	(6,642)	(6,007)
9,336	9,849	Total Goods and Services Tax	9,876	9,126
Other Indirect Taxation				
806	856	Petroleum fuels	874	810
802	810	Tobacco products	815	764
649	679	Customs duty	666	648
575	580	Road user charges	580	532
447	449	Alcoholic beverages	452	436
220	242	Gaming duties	241	206
181	189	Motor vehicle fees	188	181
96	107	Energy resources levy	111	111
68	61	Stamp, cheque and credit card duties	60	61
3,844	3,973	Total Excise Duties	3,987	3,749
13,180	13,822	Total Indirect Taxation	13,863	12,875

Tax revenue is net of remissions and write-offs of \$386 million (30 June 2001: \$388 million).

Forecast			Actual	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
NOTE 3: Investment Income				
Interest Income				
		Marketable securities, deposits, mortgages and cash balances	421	463
305	407	Advances		
		Student loans	335	289
326	332	Housing New Zealand Corporation	22	-
10	8	Other entities	28	48
39	34			
680	781	Total Interest Income	806	800
Dividend Income				
		Dividends from state-owned enterprises		
-	10	Electricity Corporation of New Zealand Limited	10	45
15	24	Genesis Power Limited	24	15
16	12	Landcorp Farming Limited	12	19
71	173	Meridian Energy Limited	173	68
23	-	Mighty River Power Limited	-	21
8	10	New Zealand Post Limited	10	7
3	9	Television New Zealand Limited	9	32
53	83	Transpower New Zealand Limited	83	87
10	12	Other	13	10
-	41	Crown research institutes	41	-
9	9	Housing New Zealand Corporation	9	12
4	24	Other dividends	21	9
212	407	Total Dividend Income	405	325
Other Investment Income				
-	(2)	Gains/(losses) on marketable securities and deposits	16	102
25	15	NZS Fund investment income	15	-
-	-	2GHz radio spectrum rights auction gains	-	140
-	11	Other	4	2
25	24	Total Other Investment Income	35	244
917	1,212	Total Investment Income	1,246	1,369

NOTE 4: Other Operational Revenue

17	38	Maui gas contract ¹	295	24
97	105	Recoveries from Accident Compensation Corporation	110	106
-	-	UN East Timor deployment reimbursements	67	-
-	66	Residential care loans	66	-
32	42	Petroleum royalties	52	82
10	10	Income from Earthquake Commission	10	10
166	130	Other	145	159
322	391	Total Other Operational Revenue	745	381

¹ In 1990 the Crown entered into contracts with downstream gas users to limit the risk under the 1973 Maui Gas contract. Revenue reported by the Crown is net of purchase costs and reflects the margin earned by the Crown in its role as onseller of Maui gas. The Maui gas receivable has been revalued during 2002 to market value, increasing the value by around \$260 million.

Forecast			Actual	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
NOTE 5: Expenses by Input Type				
18,307	18,651	Operating expenses (see analysis below)	18,471	17,719
		Subsidies and transfer payments		
13,886	13,656	(see analysis following page)	13,552	13,274
2,395	2,303	Finance costs (see analysis following page)	2,324	2,483
		Personnel		
		Personnel expenses ¹ (excluding pension expenses)		
2,762	2,829		2,791	2,632
667	339	GSF pension expenses (see analysis following page)	1,153	855
53	53	Other pension expenses	70	56
		Depreciation (see analysis following page)		
785	764	Property, plant and equipment (PPE)	752	751
94	179	State highways	203	174
256	278	Rental and leasing costs	294	282
-	(935)	Net foreign-exchange (gains)/losses on liabilities	(954)	404
-	1,054	Net foreign-exchange losses/(gains) on assets	1,029	(451)
-	2	Losses on sale of assets	14	7
160	-	Contingency provision	-	-
39,365	39,173	Total Expenses	39,699	38,186

Analysis of Operating Expenses				
Education purchases				
357	362	Early childhood education	358	331
3,677	3,642	Primary and secondary education	3,638	3,505
1,635	1,733	Tertiary education and training	1,729	1,508
6,967	6,991	Health purchases	6,986	6,807
478	463	Science purchases	463	467
96	15	Treaty of Waitangi settlements	15	57
5,097	5,445	Other operating expenses ²	5,282	5,044
18,307	18,651	Total Operating Expenses	18,471	17,719

¹ Personnel expenses include salaries and allowances to Ministers of the Crown totalling \$4 million (30 June 2001: \$4 million). In addition, Ministers are provided with ministerial accommodation in Wellington and receive allowances when travelling in New Zealand.

² Other operating expenses include:

- Debts owing to the Crown that are no longer considered recoverable and have been written off of \$47 million (30 June 2001: \$29 million).
- Changes in provisions for doubtful debts which increased operating expenses by \$342 million (30 June 2001: \$129 million).
- Amortisation of goodwill of \$23 million (30 June 2001: \$0).

<i>Forecast</i>			<i>Actual</i>	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
NOTE 5: Expenses by Input Type <i>(continued)</i>				
Analysis of Subsidies and Transfer Payments				
Social Assistance Grants				
5,472	5,457	New Zealand superannuation	5,450	5,273
-	-	Community wage	-	1,849
1,527	1,406	Unemployment Benefit	1,369	-
1,489	1,486	Domestic purposes benefit	1,501	1,444
899	882	Family support	862	878
768	723	Accommodation supplement	720	795
828	835	Invalid's benefit	832	745
428	411	Student allowances	401	391
222	223	Disability allowance	224	210
119	128	Accident compensation for non-earners	128	97
1,755	1,723	Other social assistance grants	1,697	1,226
125	125	Subsidies	115	115
Other Transfer Payments				
227	223	Official development assistance	223	226
27	34	Other	30	25
13,886	13,656	Total Subsidies and Transfer Payments	13,552	13,274

Analysis of GSF Pension Expenses				
718	707	Crown contribution to GSF pension payments	717	691
(51)	(368)	Movement in GSF unfunded pension liability	436	164
667	339	Total GSF Pension Expenses	1,153	855

The total annual expense to the Crown of the GSF scheme is expressed as the combination of the Crown's annual contributions to the GSF scheme and the movement in the residual "unfunded liability" as outlined above.

Another manner of categorising the total annual expense to the Crown is to represent the expense in terms of (a) the expected liability growth due to increasing service entitlements from members still in the workforce (the service cost), (b) the cost associated with being one year closer to previously discounted cash flows (the interest cost), (c) movements due to changing assumptions to the underlying valuation and (d) the actual experience of the scheme differing from that expected.

Note 16 provides further information that reconciles the movement in the unfunded liability.

Analysis of Depreciation by Class of PPE				
-	349	Buildings	349	-
-	163	Specialist military equipment	164	-
-	247	Other plant and equipment	234	-
-	5	Other assets	5	-
785	764	Total Depreciation	752	751

Analysis of Finance Costs				
Interest				
2,044	1,966	New Zealand dollars	1,964	2,035
328	295	Foreign currencies	298	428
23	42	Other finance costs	62	20
2,395	2,303	Total Finance Costs	2,324	2,483

<i>Forecast</i>		<i>Actual</i>	
2001 Budget	Estimated Actual	30 June 2002	30 June 2001
\$m	\$m	\$m	\$m

NOTE 6: Marketable Securities and Deposits

617	615	New Zealand Superannuation (NZS) Fund	615	-
8,450	9,635	Other marketable securities and deposits	10,747	12,060
9,067	10,250	Total Marketable Securities and Deposits	11,362	12,060

Marketable securities and deposits include net obligations and entitlements arising from forward exchange contracts and swaps. Note 19 provides further information on these obligations and entitlements. Other marketable securities and deposits are largely held for foreign-currency reserve policy reasons (refer note 19).

Included in total marketable securities and deposits is \$615 million relating to the NZS Fund. As at 30 June 2002, the assets were held by the New Zealand Debt Management Office for transfer in the future to the NZS Fund, to be managed by the NZS Fund Authority. These assets will be restricted in their use by legislation to future payments of New Zealand Superannuation expenses, and therefore can not be used to reduce the current debt position of the Crown. These assets are excluded from the Statement of Borrowings and the calculation of net Crown debt for this reason.

NOTE 7: Advances

Advances to state-owned enterprises and Crown entities

643	639	Housing New Zealand Corporation	636	163
296	251	District health boards and RHMU	128	53
-	-	Solid Energy New Zealand Limited	-	45
939	890	Total Advances to state-owned enterprises and Crown entities	764	261

Other Advances

4,776	4,798	Student loans (see analysis next page)	4,749	4,143
-	66	Residential care loans	66	-
48	48	Contact Energy Limited	48	118
58	42	Maori development rural lending	41	38
30	30	Forestry encouragement loans	30	29
5	5	Catchment authorities	7	8
17	17	Other	17	18
4,934	5,006	Total Other Advances	4,958	4,354
5,873	5,896	Total Advances	5,722	4,615

Forecast			Actual	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
NOTE 7: Advances				
(continued)				
Analysis of Student Loans				
Outstanding balance				
5,355	5,368	Total loans outstanding (including interest)	5,386	4,655
(579)	(570)	Total provisions (capital and interest)	(637)	(512)
4,776	4,798	Total Student Loans	4,749	4,143
Movement during the year				
4,155	4,143	Opening balance	4,143	3,523
963	959	Amount advanced in current year	935	867
326	333	Interest accrued on outstanding loan balances	335	289
(250)	(243)	Repayment of base capital	(246)	(198)
(157)	(148)	Repayment of accrued interest	(149)	(123)
		Interest written off and movement in provision		
(269)	(253)	for interest write-offs and doubtful debts	(276)	(227)
8	7	Other movements	7	12
4,776	4,798	Closing balance	4,749	4,143

Provision for student loans

The methodology used to provide for student loans contains a capital and an interest component. These provisions are periodically reviewed for appropriateness and the methodologies updated where necessary.

Capital provision

The provision on the outstanding capital issued is 11.4% (this was revised from the 10% used in previous years). The impact of the increase in the capital provision level has been to increase the provision (and therefore expense) by around \$75 million in 2001/02. This revision follows a comprehensive review of the underlying assumptions used to derive the proportion of current borrowing that is not expected to be repaid. The key variables that impact on the expected level of write off relate to death and bankruptcy write-offs. The underlying assumptions regarding the borrowing characteristics and income growth profiles of borrowers and the expected level of defaulters are based on the most current information. The provision is sensitive to the assumptions on borrowing characteristics and income growth profiles, and so will be regularly reassessed as new information becomes available. A 1% shift will impact on the provision level by around \$50 million.

Interest write-off provision

The provision for interest write-offs on interest accrued after 31 December 1999 was reviewed in light of changes to Government policy, resulting in a substantial increase in the provision level to 70% (from 17%). This reflected changes to the student loan scheme allowing the full write-off of interest while students continue to study along with the increased income thresholds used to determine repayments through the income tax system. The effective provision for interest write-offs from 1 January 2001 was around 78% and from 1 January 2002 it was around 57%. The interest rate provision is reviewed annually.

NOTE 8: Receivables

4,437	4,963	Taxes receivable	4,701	4,962
856	923	Accounts receivable	1,191	1,024
103	109	Receivable from the sale and purchase of Maui gas	280	111
43	70	Prepayments	65	100
5,439	6,065	Total Receivables	6,237	6,197

NOTE 9: Financial Interest in State-owned Enterprises and Crown Entities

Basis of Combination

As noted in the Statement of Accounting Policies (page 53), the Crown's financial interest in state-owned enterprises (SOEs) and Crown entities is accounted for in these Financial Statements using the modified equity method of combination. The implications of this policy for the three main Financial Statements are as follows:

- Dividends and other income received by the Crown from SOEs and Crown entities are included in investment income (Note 3).
- The net surplus attributable to SOEs and Crown entities, net of distributions to the Crown, is reported separately in the Statement of Financial Performance. The attributable surplus comprises the operating results of these entities.
- The Crown's financial interest in SOEs and Crown entities (which is equivalent to the Crown's share of the entities' net assets) is reported separately in the Statement of Financial Position. An analysis of the components of this interest is included in this note.
- Advances to SOEs and Crown entities are reported under "Advances" in the Statement of Financial Position. The material advances are detailed in Note 7.
- Cash received from dividends and other income, and net cash disbursed to investments in, and advances to, SOEs and Crown entities are reported in the Statement of Cash Flows.

An alternative presentation would be for these entities to be fully consolidated in these Financial Statements (which will be the basis from 2002/03 onwards). As a guide for users of these Statements, a full consolidation of these entities would result in a Statement of Financial Position that differed in several key respects from that presented in these Financial Statements:

- There would be no investment in SOEs and Crown entities, as the individual assets and liabilities of these entities would be added to those of the Crown on a line-by-line basis.
- The reported value of property, plant and equipment would be increased by the amount of SOEs and Crown entities' property, plant and equipment. This would increase the reported value from \$17.5 billion to approximately \$41 billion.
- Items of working capital (cash, receivables, payables) would increase by the amounts of working capital in SOEs and Crown entities.
- Financial assets and liabilities (advances, investments and borrowings) would increase by the amount of SOEs and Crown entities' financial assets and liabilities. Financing transactions and outstanding balances between the Crown and SOEs and Crown entities would be eliminated.
- As there are no material unrealised surpluses and deficits on transactions between the Crown and SOEs and Crown entities, the reported net worth of the Crown would be materially unchanged.

The Statement of Financial Performance includes purchases from Crown entities, the most significant being in the health and education sectors (refer Note 5). These Crown entities use the funds in the delivery of services, and in the process may record surpluses and deficits, as set out on the following page. As a result, were a full consolidation of SOEs and Crown entities to be carried out, expenses by functional classification would differ from those currently reported.

The Statements of Financial Performance and Financial Position resulting from a full consolidation would present the assets, liabilities, revenues and expenses of Ministers of the Crown, departments, offices of Parliament, the Reserve Bank of New Zealand, SOEs and Crown entities as if they were a single economic entity.

As has been signalled in the 2002 Budget Economic and Fiscal Update, full consolidation will be introduced in the 2002/03 financial year. A set of Crown financial statements as at 30 June 2002 including the full consolidation of SOEs and Crown entities will be released on Treasury's website in October 2002.

Accounting Policies

The Crown's financial interest in state-owned enterprises and Crown entities is reported in accordance with the Crown's accounting policies. Adjustments have been made to restate the financial position and financial performance of certain entities, as reported in their own financial statements, to a basis consistent with the Crown's accounting policies.

State-owned enterprises and several Crown entities are subject to income tax and, in accordance with generally accepted accounting practice, report in their own financial statements a liability for deferred tax. This liability does not represent a current debt to the Crown. Tax revenue is only recognised in the Crown Financial Statements when a debt to the Crown arises (see recognition policies on page 54). In accordance with the Crown's accounting policies, deferred tax balances have not been eliminated on combination (see basis of combination on previous page).

Minority Interests

All state-owned enterprises and Crown entities are 100% owned by the Crown. The ownership interest in Air New Zealand Limited is 82%. The interest in Air New Zealand Limited is included within the total SOE information.

Balance Dates

Except for those entities listed below, all state-owned enterprises and significant Crown entities have a balance date of 30 June, and the information reported in these financial statements is for the period ended 30 June 2002:

State-owned enterprises	Balance date	Information reported to
Asure New Zealand Limited	31 September	30 June 2002
Timberlands West Coast Limited	31 March	31 March 2002
Crown entities:		
School boards of trustees	31 December	31 December 2001
Tertiary education institutions	31 December	31 December 2001

	Revenue from Crown \$m	Total revenue \$m	Attributable surplus/ (deficit) \$m	Distributions to Crown \$m
NOTE 9: Financial Interest in State-owned Enterprises, Crown Entities and Air New Zealand Limited (continued)				
State-owned enterprises				
Agriquality New Zealand Limited	9	66	3	(2)
Airways Corporation of New Zealand Limited	-	110	7	(8)
Asure New Zealand Limited	-	40	1	-
At Work Insurance Limited	-	-	2	-
Electricity Corporation of New Zealand Limited	-	35	(3)	(10)
Genesis Power Limited	-	1,094	48	(24)
Landcorp Farming Limited	-	129	38	(12)
Meridian Energy Limited	12	1,127	76	(173)
Meteorological Service of New Zealand Limited	14	24	3	(3)
Mighty River Power Limited	3	595	47	-
New Zealand Post Limited	68	968	22	(10)
New Zealand Railways Corporation	-	2	(1)	-
Solid Energy New Zealand Limited	-	255	39	-
Television New Zealand Limited	-	477	22	(9)
Timberlands West Coast Limited	-	21	3	-
Transpower New Zealand Limited	-	553	81	(83)
Total State-owned Enterprises	106	5,496	388	(334)
Air New Zealand Limited	16	1,846	59	-
Total SOEs and Air New Zealand Limited	122	7,342	447	(334)
Crown Entities				
Accident Compensation Corporation ¹	593	2,368	243	-
Crown research institutes	107	514	15	(41)
District health boards (including the Residual Health Management Unit)	5,120	5,343	(305)	-
Earthquake Commission	-	265	129	-
Housing New Zealand Corporation	281	552	47	(9)
Museum of New Zealand Te Papa Tongarewa	18	36	(14)	-
New Zealand Fire Service Commission	1	216	-	-
Public Trust	2	63	(9)	-
School boards of trustees	2,940	3,382	38	-
Tertiary education institutions	1,211	2,650	61	-
Other	2,297	3,921	133	(17)
Total Crown Entities	12,570	19,310	338	(67)
Total Financial Interest in SOEs, Crown Entities and Air New Zealand Limited	12,692	26,652	785	(401)

¹ The attributable surplus of ACC includes \$43 million for the ACC outstanding claims liability revaluation movement, resulting from changes in valuation assumptions and variation in actual scheme experience. The total change in the liability was \$360 million all of which impacted on the ACC attributable surplus.

	Property, plant and equipment \$m	Total assets \$m	Total borrowings \$m	Total liabilities \$m	Equity at 30 June 2002 \$m
NOTE 9: Financial Interest in State-owned Enterprises, Crown Entities and Air New Zealand Limited (continued)					
State-owned Enterprises					
Agriquality New Zealand Limited	10	25	-	9	16
Airways Corporation of New Zealand Limited	93	112	46	70	42
Asure New Zealand Limited	1	15	-	9	6
Electricity Corporation of New Zealand Limited	-	347	323	338	9
Genesis Power Limited	704	1,123	94	232	891
Landcorp Farming Limited	481	669	60	88	581
Meridian Energy Limited	2,386	2,614	776	932	1,682
Meteorological Service of New Zealand Limited	8	13	1	4	9
Mighty River Power Limited	1,355	1,480	462	720	760
New Zealand Post Limited	320	774	280	469	305
New Zealand Railways Corporation	-	9	-	3	6
Solid Energy New Zealand Limited	92	170	30	88	82
Television New Zealand Limited	255	514	80	158	356
Timberlands West Coast Limited	72	81	4	7	74
Transpower New Zealand Limited	2,151	2,277	1,174	1,264	1,013
Total State-owned Enterprises	7,928	10,223	3,330	4,391	5,832
Air New Zealand Limited	1,470	3,459	1,375	2,977	482
Total SOEs and Air New Zealand Limited	9,398	13,682	4,705	7,368	6,314
Crown Entities					
Accident Compensation Corporation	92	4,282	-	7,918	(3,636)
Crown research institutes	290	416	33	125	291
District health boards (including the Residual Health Management Unit)	2,190	3,040	1,302	2,252	788
Earthquake Commission	5	4,018	-	49	3,969
Housing New Zealand Corporation	6,901	7,026	1,455	1,589	5,437
Museum of New Zealand Te Papa Tongarewa	825	839	-	5	834
New Zealand Fire Service Commission	260	264	21	79	185
Public Trust	8	493	444	454	39
School boards of trustees	785	1,525	27	668	857
Tertiary education institutions	2,400	3,144	173	900	2,244
Other	122	1,133	-	640	493
Total Crown Entities	13,878	26,180	3,455	14,679	11,501
Total Financial Interest in SOEs, Crown Entities and Air New Zealand Limited	23,276	39,862	8,160	22,047	17,815

	Attributable net surplus/(deficit) after distributions for the year ended		Equity at	Equity at
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	\$m	\$m	\$m	\$m
NOTE 9: Financial Interest in State-owned Enterprises, Crown Entities and Air New Zealand Limited (continued)				
State-owned Enterprises				
Agriquality New Zealand Limited	1	1	16	15
Airways Corporation of New Zealand Limited	(1)	-	42	43
Asure New Zealand Limited	1	(3)	6	5
At Work Insurance Limited	2	-	-	5
Electricity Corporation of New Zealand Limited	(13)	(29)	9	22
Genesis Power Limited	24	46	891	848
Landcorp Farming Limited	26	20	581	491
Meridian Energy Limited	(97)	55	1,682	1,780
Meteorological Service of New Zealand Limited	-	-	9	8
Mighty River Power Limited	47	39	760	713
New Zealand Post Limited	12	12	305	209
New Zealand Railways Corporation	(1)	-	6	7
Solid Energy New Zealand Limited	39	6	82	43
Television New Zealand Limited	13	(5)	356	343
Terralink New Zealand Limited	-	(3)	-	-
Timberlands West Coast Limited	3	(4)	74	72
Transpower New Zealand Limited	(2)	(7)	1,013	950
Total State-owned Enterprises	54	128	5,832	5,554
Air New Zealand Limited	59	-	482	-
Total SOEs and Air New Zealand Limited	113	128	6,314	5,554
Crown Entities				
Accident Compensation Corporation	243	(313)	(3,636)	(3,879)
Crown research institutes	(26)	20	291	319
District health boards (including the Residual Health Management Unit)	(305)	(45)	788	935
Earthquake Commission	129	241	3,969	3,841
Health Funding Authority	-	(13)	-	-
Housing New Zealand Corporation	38	29	5,437	2,895
Museum of New Zealand Te Papa Tongarewa	(14)	(7)	834	841
New Zealand Fire Service Commission	-	4	185	185
Public Trust ¹	(9)	-	39	-
School boards of trustees	38	-	857	826
Tertiary education institutions	61	65	2,244	2,178
Other	116	(6)	493	382
Total Crown Entities	271	(25)	11,501	8,523
Total Financial Interest in SOEs, Crown Entities and Air New Zealand Limited	384	103	17,815	14,077

¹ Public Trust was disclosed as an other investment in the 2000/01 financial statements.

NOTE 9: Financial Interest in State-owned enterprises and Crown entities (continued)***Analysis of Movement in Equity Investment***

The change in the value of the Crown's investment in state-owned enterprises and Crown entities between reporting dates is represented by the change in these entities' net assets, after taking into account any distributions to the Crown. The change in net assets is comprised of operating surpluses or deficits, movements in asset revaluation reserves and capital subscriptions and repayments.

For revaluation purposes, state-owned enterprises and Crown entities are considered as a single class of asset, and if the overall revaluation is an increment it is credited to an asset revaluation reserve (except to the extent that the increment reverses a decrement previously charged to the Statement of Financial Performance). Where the overall revaluation is a decrement, it is applied first against the asset revaluation reserve, and any residue is charged to the Statement of Financial Performance.

There has been a net upward revaluation for state-owned enterprises and Crown entities of \$2,552 million (2001: net downward revaluation of \$378 million).

Movements in the Crown's investment in state-owned enterprises and Crown entities were as follows:

	Year ended 30 June 2002 \$m	Year ended 30 June 2001 \$m
Opening balance	14,077	14,392
Total attributable net operating surpluses, including ACC liability revaluation movement	785	424
Net property, plant and equipment revaluation increment/(decrement) transferred to revaluation reserve	2,552	(378)
Distributions to the Crown	(401)	(321)
Recapitalisation of Air New Zealand Limited	892	-
Goodwill on purchase of Air New Zealand Limited	(469)	
Capital contributions to DHBs/RHMU	128	41
Transfer of Public Trust to CE classification	47	-
Net other capital injections/(repayments) to the Crown	204	(81)
Closing balance	17,815	14,077

Claims Obligations of the Accident Compensation Insurance Scheme (ACC)

ACC recognised the outstanding claims obligation in its financial statements for the first time as at 30 June 1999. The total cost of new ACC claims is recognised in the ACC financial statements in the year that claims occur. Some of these claims will have payments for entitlements and treatment in subsequent years. The claims liability estimate is the amount of funds required to be invested now, so that together with the future investment earnings on those funds, ACC has enough funding to meet the estimated future payment obligations on its current claims.

As at 30 June 2002, the Crown has a gross liability of \$7,501 million with respect to ACC (\$7,141 million: 30 June 2001).

Claims Calculation

Trowbridge Consulting Pty Limited, Consulting Actuaries, has prepared the independent actuarial estimate at 30 June 2002. This estimate includes the expected future payments relating to accidents that occurred prior to 30 June 2002 (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected administrative expenses of managing these claims.

The estimate of the claims liability prepared, as at 30 June 2002 is \$7,501 million. This is an increase of \$360 million compared to the prior year estimate of \$7,141 million. The primary reason for the increase in the estimated liability was due to the future costs of claims incurred in the 2001/02 accident year. This was partially offset by payments in the 2001/02 financial year to accidents incurred prior to 30 June 2001, with the net effect being an increase of \$300 million. The remainder of the movement was due to experience and assumption changes, with the main factors being:

- changes in economic assumptions have reduced the estimated liability by around \$130 million. Within the economic assumptions, there are two significant drivers, the long-term Labour Cost Index (LCI) 2% (2.4%: 30 June 2001) and discount rate 6.8% (6.9%: 30 June 2001). The decrease in the LCI long-term assumption has reduced the liability and this has outweighed the decrease in the discount rate, which would otherwise increase the liability.
- increase in expected rehabilitation costs due to higher expenditure on rehabilitation in the 2001/02 financial year has increased the estimated liability by around \$80 million.
- the estimated liability for weekly compensation costs has reduced by around \$30 million. This was due to an improvement in projected long-term weekly compensation exits, partially offset by an increase in the average weekly benefit paid to existing claimants.
- the cumulative effect of other smaller assumptions and experience changes, including the liability associated with new benefits introduced under the Injury Prevention, Rehabilitation, and Compensation Act 2001.

Valuation Movement due to Experience and Assumption Changes

Using the assumptions underlying the 30 June 2001 valuation, the estimated 30 June 2002 valuation was \$7,458 million. The actual valuation for 30 June 2002 was \$7,501 million. The difference between the expected result at 30 June 2002 and the actual result was \$43 million (as outlined in the Statement of Financial Performance). This is portrayed in the following table:

	As at 30 June 2002 \$m	As at 30 June 2001 \$m	Variance \$m
30 June 2001 liability	7,141	7,141	-
30 June 2002 liability	7,501	7,458	43
Change in liability	360	317	43

The \$43 million movement reflects changes in underlying assumptions and actual experience of the scheme. The main changes in experience and assumptions between years have been outlined on the previous page.

Summary of ACC Reserves

The ACC reserves represent the net of the assets and liabilities for each of the various accounts operated by ACC. A summary of the reserves by account is shown below:

By Account	30 June 2002 \$m	30 June 2001 \$m
Residual Claims Account ²	(1,279)	(1,443)
Motor Vehicle Account	(1,437)	(1,270)
Non-Earners' Account	(955)	(1,099)
Medical Misadventure Account	(203)	(218)
Earners' Account	128	68
Self Employed Account	(6)	10
Employers' Account ³	116	73
Account Reserves	(3,636)	(3,879)

Claims Liability Management

The estimated claims liability of \$7,501 million represents an obligation on the Crown, which is partially funded as at 30 June 2002. The unfunded liability of \$3,636 million will be managed as follows:

Levies are set on a fully funding basis for claims incurred after 30 June 1999 relating to the Earners', Employers', Self-employed Work and Motor Vehicle Accounts. The Non-Earners Account has been fully funded by the Government from 1 July 2001 in respect to claims incurred from that date. Claims before that date continue to be funded on a pay-as-you go basis.

Residual levies are charged to employers, earners and motor vehicle users to fund the future cost of claims incurred to 1 July 1999 in respect of the Residual Claims, Earners and Motor vehicle Accounts respectively. The residual levies are determined so that these claims will be fully funded by 2014 (including a prudential margin).

The Medical Misadventure Account is funded from the Earners' and Non Earners' Accounts on the same basis outlined above for the respective accounts.

2 Up until 30 June 1999, this account was known as the Employers Account.

3 As a result of the Accident Insurance Amendment Act 2000, a new Employers' Account was created on 1 April 2000. This Account derives its funds from employers who are insured by ACC from 1 April 2000, and from all employers on and after 1 July 2000.

<i>Forecast</i>		<i>Actual</i>	
2001 Estimated Budget	Actual	30 June 2002	30 June 2001
\$m	\$m	\$m	\$m
NOTE 10: Other Investments			
118	125	106	128
107	114	104	117
58	-	-	72
149	67	76	37
432	306	286	354
	Total Other Investments		

¹ The investment in the Public Trust is now disclosed as an investment in a Crown entity (refer note 9).

<i>Forecast</i>				<i>Actual</i>	
2001 Estimated				30 June	30 June
Budget	Actual			2002	2001
\$m	\$m			\$m	\$m
NOTE 11: Property, Plant and Equipment					
By Type					
Gross Carrying Value					
1,887	1,871	Land		2,441	1,844
446	441	Properties intended for sale		450	464
9,066	8,765	Buildings		8,621	8,654
2,780	2,828	Specialist military equipment		2,767	2,686
2,571	2,475	Other plant and equipment		2,348	2,213
2,639	3,093	Other assets		3,403	2,688
19,389	19,473	Total Gross Carrying Value		20,030	18,549
Accumulated Depreciation					
1,085	996	Buildings		498	729
594	580	Specialist military equipment		589	421
1,629	1,404	Other plant and equipment		1,405	1,292
5	313	Other assets		248	5
3,313	3,293	Total Accumulated Depreciation		2,740	2,447
Carrying Value					
1,887	1,871	Land		2,441	1,844
446	441	Properties intended for sale		450	464
7,981	7,769	Buildings		8,123	7,925
2,186	2,248	Specialist military equipment		2,178	2,265
942	1,071	Other plant and equipment		943	921
2,634	2,780	Other assets		3,155	2,683
16,076	16,180	Total Net Carrying Value		17,290	16,102
Movements					
Gross Carrying Value					
18,534	18,549	Opening balance		18,549	18,507
855	887	Net additions		1,079	905
-	37	Net revaluations		402	(863)
19,389	19,473	Total Gross Carrying Value		20,030	18,549
Accumulated Depreciation					
2,568	2,447	Opening balance		2,447	2,535
(40)	92	Disposals		103	(145)
785	764	Depreciation charged for the period		752	751
-	(10)	Net revaluations		(562)	(694)
3,313	3,293	Total Accumulated Depreciation		2,740	2,447
16,076	16,180	Net Property, Plant and Equipment		17,290	16,102
By Holding					
16,037	16,137	Freehold assets		17,270	16,062
39	43	Leasehold assets		20	40
16,076	16,180	Net Property, Plant and Equipment		17,290	16,102

Some freehold land properties held by the Crown are affected to some degree by land claims lodged with the Waitangi Tribunal.

NOTE 11: Property, Plant and Equipment (continued)

Other Assets

There are difficulties associated with obtaining an objective valuation for some of the Crown's assets. These are discussed below:

National Archives

Archives in the possession of Archives New Zealand, have been valued at a best estimate of fair value as at 30 June 2002. Determination of the fair value of \$524 million at 30 June 2002 (\$510 million as at 30 June 2001) was based on a methodology which divided the collection into categories by format and age, to associate records that could be said to have broad commonality of value. Benchmark valuations were obtained from an independent valuer, Dunbar Sloane, through market assessments and from other collections of a similar nature to Government archives. Accessions since the last date of valuation (December 2000) are valued on the basis of these benchmarks. The values of exceptional items were based on a valuation from an international auction house, Sotheby's.

National Library Collections

The general and schools collections are valued using depreciated replacement cost and the heritage collections using estimated fair values. This reflects the intention that the heritage collections are permanently retained and do not depreciate in value. Subsequent additions to the collections are valued at cost.

The collections were revalued as at 30 June 2000. The carrying value of \$671 million as at 30 June 2002 (\$667 million as at 30 June 2001) includes the value of purchases for the collections less depreciation on the general and schools collections since the last revaluation and the value of material received through donations and legal deposits in the year ended 30 June 2002. Collection revaluations are prepared by National Library staff based on current catalogues and list prices of similar items taking into account the useful lives of the general and schools collections.

National Parks, Forest Parks, Conservation Areas and Recreational Facilities

Rateable valuations prepared by Quotable Value New Zealand Limited as at 30 June 2002 adjusted for purchases and sales during the year have been used to determine a value for these assets of \$1,638 million as at 30 June 2002 (\$1,507 million as at 30 June 2001).

Department of Conservation recreational facilities (e.g. conservation estate huts and tracks) have been recorded for the first time in the Crown financial statements. The conservation recreational facilities are subject to an asset management plan and are recorded in the Visitor Assets Management System (VAMS), a comprehensive asset database and management programme. The VAMS assumptions, data, methodology and principles have been subject to review by valuersnet.nz. As at 30 June 2002 the valuation of the gross carrying value of the visitor assets was \$427 million, with accumulated depreciation being \$230 million. The net value of \$197 million have been recognised as an adjustment in the Statement in Movement in Equity.

It is intended that the recreational facilities will be revalued annually.

Parliamentary Library

The Parliamentary Library has been valued at \$28 million as at 30 June 2002 (\$28 million as at 30 June 2001) using depreciated replacement cost.

Auckland Rail Infrastructure

During the 2001/02 financial year, the Crown acquired for \$81 million the Auckland Rail infrastructure, surrender of the peppercorn lease of the associated land and rights to run passenger trains. The Crown is in the process of determining its ownership intentions for these assets, and is currently negotiating with Auckland local authorities. As the outcome of the Crown's deliberations are uncertain at the time of finalising the Crown financial statements, no adjustments have been made to the carrying value of the assets acquired. For example, in the future, depending on the details of any possible lease arrangement, a write down may be required.

Outstanding Valuation Issues

Crown Research Institutes "Heritage type" Asset Values

The Crown, when establishing Crown Research Institutes in 1992, transferred various national databases and reference collections to individual Institutes at nil value. They remain at nil value. Many of the databases and collections were specifically identified by the Foundation of Research, Science and Technology as being of significant importance and as such have covenants attaching to them restricting an Institute's ability to deal with them. Issues in respect of the future ownership and valuation of these national databases and reference collections will be resolved during the 2002/03 financial year.

Conservation Estate and Recreational Facilities

An asset valuation issue has arisen as part of the valuation process for determining the value of recreational facilities (refer note on previous page). Excluded from the valuations described above is any reference to fences that border conservation estate areas or form part of the recreational facilities. As at 30 June 2002 there is insufficient information to establish accurately the existence, appropriate ownership and valuation of such potential assets. The Department of Conservation will be resolving this issue during 2002/03, which may result in further recognition of assets in the 2002/03 financial statements.

NOTE 12: Commercial Forests

Forests (excluding land and improvements) owned by the Crown are managed by the Ministry of Agriculture and Forestry, the Treasury, the Department of Corrections, the Department of Conservation and the Department of Internal Affairs. Commercial forests are valued by discounting at 9% future post-tax cash flows using current standard costs, and smoothed log prices, unless there has been a permanent diminution in prices below the valuation prices, in which case the reduced prices are used.

The valuations of the Crown's forest assets are carried out in accordance with a conventional discounted cash flow forest valuation model and take into account the age and quality of timber, and the forest management plan. No allowance is made for changes in future market demand, efficiency and costs of future operations. For the purposes of periodic revaluations, direct costs of forest establishment, silviculture and maintenance are expensed through the Statement of Financial Performance. The valuations, as determined above, are compared with the book values, and the difference is recorded in the Statement of Financial Performance.

Forecast				Actual	
2001 Budget	Estimated Actual			30 June 2002	30 June 2001
\$m	\$m			\$m	\$m
NOTE 13: State Highways					
Gross Carrying Value					
10,788	11,055	Opening balance		11,055	8,911
-	-	Recognition adjustment		-	1,650
245	272	Net additions		357	300
-	-	Net revaluations		533	194
11,033	11,327	Total Gross Carrying Value		11,945	11,055
Accumulated Depreciation					
92	-	Opening balance		-	-
94	179	Depreciation charged for the period		203	174
-	-	Net revaluations		(203)	(174)
186	179	Total Accumulated Depreciation		-	-
10,847	11,148	Net Carrying Value of State Highways		11,945	11,055

The state highways comprise the land, formation works, road structure, drainage works and traffic facilities of the roads, plus bridges, culverts, tunnels, stock and pedestrian underpasses, protection works and retaining structures. The land was valued on a fair value basis while other elements of the state highways were valued on the basis of depreciated replacement cost.

Replacement costs were determined by estimating the costs of new construction of the network by the most appropriate method of construction. The methodology applied used information from the road assessment and maintenance management (RAMM) database and the bridge inventory held by Transit New Zealand. This information was supplemented by the local knowledge and expertise of the valuers (Opus International Consultants). Land, formation works, and 37.5% of the road structure have not been depreciated as it is considered that the service potential of these components does not reduce over time.

The valuation is updated annually through the use of price indices. The price indices for 2001/02 were based on spot indices. The spot indices used for this years state highway valuation are those forecast for June 2002 from the March 2002 actuals. This approach varies to last year, where the price indices were based on a three year rolling average. The spot indices has been introduced to preserve consistency with the approach used for valuation updates for other Crown assets. In addition, the state highway regions of New Zealand are subject to an in-depth valuation review on a cyclical basis at an interval not exceeding five years. In 2001/02 three of the fourteen state highway regions were the subject of a detailed valuation review. This year the Auckland, Waikato and Bay of Plenty regions were reviewed (Wellington, Marlborough and Canterbury in 2000/01). In regions with predominantly rural state highways, the revaluation impact is likely to be small. However, in cities where motorway and urban state highways make up a large proportion of the region's network the revaluation impact can be large. The valuation increase was driven mainly by an updated determination of the width of the state highways corridor resulting in a greater land area, combined with increasing land prices.

After allowing for new works and depreciation during the year to 30 June 2002, the depreciated replacement cost is assessed at \$11,945 million (30 June 2001: \$11,055 million).

NOTE 14: Intangible Assets (including Goodwill)

Goodwill and intangible assets total \$448 million. This is substantially made up of goodwill on acquisition of Air New Zealand Limited of \$446 million.

Air New Zealand Limited acquisition disclosures

In January 2002 details of the Crown's recapitalisation package were finalised with Air New Zealand Limited. The end result is an investment by the Crown of a total \$892 million, resulting in an 82% stake in Air New Zealand.

The primary activities of Air New Zealand Limited are the operation of international and domestic air passenger and cargo transport services throughout New Zealand and the South West Pacific, and to Australia. The Group also encompasses business units providing engineering and ground handling services. Subsidiaries extend to booking systems, travel wholesaling and retailing services.

Goodwill Component of Acquisition Price

As was mentioned in the 2002 *Budget Economic and Fiscal Update*, the fair value of assets and liabilities of Air New Zealand Limited need to be consolidated onto the Crown's balance sheet with the acquisition of Air New Zealand Limited.

The deemed acquisition date of Air New Zealand Limited is 1 January 2002. The following table outlines the fair value of the net assets and liabilities of Air New Zealand Limited as at 1 January 2002, calculated at 82% ownership. The difference between the fair value of \$423 million and the purchase price of \$892 million is goodwill on acquisition of \$469 million. Goodwill on acquisition represents the amount by which the Crown's share of the value of the business exceeds the value of the individual assets and liabilities.

Balance sheet (\$ million)	Air New Zealand accounts as at 31 Dec 2001 including Crown recapitalisation	Fair value adjustments	Air New Zealand fair value of assets and liabilities
Assets (detailed below)	4,083	(502)	3,581
Liabilities (detailed below)	(3,065)	-	(3,065)
Net assets	1,018	(502)	516
Crown's share @ 82%			423
Purchase price (\$885 million injection and \$7 million shares from capitalised interest on original \$300 million advance)			892
Difference between purchase price and share of the "fair value" of Air New Zealand net assets – goodwill			469

The Crown is required to recognise the individual assets and liabilities of Air New Zealand at fair value (market value) at the point of acquisition. This is normal acquisition accounting that is common in the private sector. The fair value adjustment made to the balance sheet of Air New Zealand (on consolidation in the Crown financial statements) reflects the market value of the aircraft fleet as at 1 January 2002. It does not mean that the balance sheet of Air New Zealand is overstated. Air New Zealand is required under FRS 3: *Accounting for Property, Plant and Equipment* to value its aircraft at the lower of carrying value or recoverable amount, the latter being defined as the higher of market value or value-in-use. Accordingly, Air New Zealand considers the carrying amount of its aircraft to be appropriate.

The goodwill component of the investment is disclosed within the Crown balance sheet as part of the intangible assets classification. The rest of the investment is contained within the net investment of SOEs and Crown entities. Goodwill will be amortised over a 10-year period. This results in a \$23 million (non-cash) expense in 2001/02 and \$47 million in each subsequent year until goodwill is fully expensed. A reconciliation of Air New Zealand Limited goodwill is shown in the table below.

Identifiable assets and liabilities (following injection of Crown equity)

The identifiable assets and liabilities of Air New Zealand as at 1 January 2002 are:

Class of asset and liability	\$ million
Assets	
Cash and short term deposits	483
Inventory	154
Receivables	649
Property, plant and equipment (physical assets)	2,496
Long-term investments	48
Other assets	253
Total assets	4,083
Liabilities	
Payables	(686)
Sales in advance	(345)
Capitalised lease obligations	(256)
Borrowings	(2,263)
Deferred taxation	(288)
Other liabilities	(119)
Total liabilities	(3,956)
Net worth (pre recapitalisation)	126
Add in Crown injection (applied to debt reduction)	892
Net worth (post recapitalisation)	1,018

Results as at 30 June 2002

The Crown's investment of \$892 million split between investment in SOEs and Crown entities and goodwill. The following table outlines the movements from initial acquisition to the amounts as at 30 June 2002, which capture the inclusion of the Crown's share of Air New Zealand Limited operating results from 1 January 2002, revaluation impacts of aircraft and loans (due in part to USD exchange rate movements) and the amortisation of goodwill.

Investment in Air NZ (\$ million)	Initial acquisition values	Half year operating results, including valuation impacts	Closing values as at 30 June 2002
Investment in Air NZ (included in net investment of SOEs and Crown entities)	423	59	482
Goodwill component of investment in Air NZ	469	(23)	446
Total investment in Air NZ	892	36	928

Forecast			Actual	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
NOTE 15: Payables and Provisions				
1,711	1,943	Taxes repayable	1,926	1,907
2,189	2,484	Accounts payable and accruals	2,937	2,768
-	-	Provisions (refer analysis below)	95	56
480	686	National Provident Fund guarantee ¹	685	686
378	407	Provisions for employee entitlements	445	414
4,758	5,520	Total Payables and Provisions	6,088	5,831

¹ The Crown guarantees the payment of benefits by the National Provident Fund Board. The actuarial valuation report on these schemes on preliminary results as at 31 March 2002, prepared in July 2002 by PriceWaterhouseCoopers, has indicated the DBP Annuitants Scheme, which contains pensioners only, has an actuarial deficit of \$685 million.

	30 June 2002 \$m
Analysis of Provisions	
Opening balance	56
Additional provisions made in the year	62
Provisions used in period	(20)
Reversal of previous provision	(3)
Closing balance	95

The provisions are spread across 17 Departments. The nature and expected timing of the obligations vary from department to department. During 2001/02, \$26 million was recognised in accordance with Financial Reporting Standard 15 - *Provisions, Contingent Liabilities and Contingent Assets* for environmental liabilities.

	<i>Actual</i>	
	30 June 2002 \$m	30 June 2001 \$m
NOTE 16: Pension Liabilities		
Liabilities to Pensioners		
Pensioners	7,234	7,029
Deferred pensioners	596	565
Liabilities to Contributors		
General Government Superannuation Fund members	3,147	3,139
Police	701	693
Armed Forces	419	446
Judges	59	57
Prison Service	38	38
Members of Parliament	16	12
Total Liabilities in respect of Past Service	12,210	11,979
Less: Assets available to schemes	3,287	3,492
Total Pension Liabilities	8,923	8,487

The Government Superannuation Fund (GSF) liabilities have been calculated by the Government Actuary as at 30 June 2002. These liabilities arise from closed schemes for past and present public sector employees (set out in the GSF Act 1956). A Projected Aggregate Funding 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.

The GSF liability at this valuation was calculated using discount rates derived from the market yield curve as at the balance date. This resulted in an average after-tax discount rate of 4.9% (4.5% at 30 June 2001). Other principal long-term financial assumptions are an inflation rate, of 2.0% (changed from 1.5% at 30 June 2001 in line with the Aon Economists Survey) (as measured by the increase in the Consumer Price Index) and annual salary increases rate, before any promotional effects of 3.0% (2.5% at 30 June 2001).

The change in underlying economic assumptions, as at 30 June 2002, accounted for approximately \$246 million of the increase in the liability from last year. Other changes are due to the general review of the underlying actuarial assumptions and actual fund experience.

Reconciliation of the Movement in Unfunded Liability between years

Opening Balance	8,487	8,323
Expected service cost	185	211
Expected interest cost	499	572
Change in underlying valuation assumptions (ie, discount rate, demographics)	246	(4)
Experience losses and asset valuation losses (variation in total cost from that expected)	230	122
Expected return on assets	(144)	(166)
Expected contributions	(580)	(571)
Closing Balance	8,923	8,487

<i>Forecast</i>			<i>Actual</i>	
2001 Budget	Estimated Actual		30 June 2002	30 June 2001
\$m	\$m		\$m	\$m
NOTE 17: Crown Balance				
Accumulated Operating Balance				
2,682	3,456	Opening Balance	3,456	382
-	103	Asset recognition policy change	214	1,650
2,682	3,559	Adjusted Opening Balance	3,670	2,032
1,376	2,419	Operating balance for the year	2,327	1,409
-	(11)	Transfer from revaluation reserve	2	15
4,058	5,967	Closing Balance	5,999	3,456
Revaluation Reserve				
7,899	8,007	Opening Balance	8,007	8,201
Net Revaluations				
-	-	State highways	736	368
-	52	Land and buildings	850	85
-	-	Specialist military equipment	-	(258)
-	(5)	Other assets	114	4
-	(18)	State-owned enterprises and Crown entities	2,552	(378)
-	29	Total Net Revaluations	4,252	(179)
-	11	Transfers to accumulated operating balance	(2)	(15)
7,899	8,047	Closing Balance	12,257	8,007
11,957	14,014	Total Crown Balance	18,256	11,463

NOTE 18: Foreign Currencies

All monetary amounts in these Financial Statements are expressed in New Zealand dollars. The New Zealand dollar closing rates for major currencies were:

	30 June 2002	30 June 2001
United States dollar	0.48900	0.40525
Japanese yen	58.42000	50.21500
British pound	0.32025	0.28765
Euro	0.49495	0.47935

NOTE 19: Risk Management

The Crown has a series of risk management policies covering foreign-exchange, interest-rate and credit risks arising from its portfolio of financial assets and debt. It uses various financial instruments to mitigate these risks.

Debt Management Policies

The New Zealand Debt Management Office (NZDMO) is part of the New Zealand Treasury and is responsible for the efficient management of the Crown's debt and associated assets within an appropriate risk management framework. NZDMO's goal is to maximise the long-term economic return on the Crown's financial assets and debt in the context of the Government's fiscal strategy, particularly its aversion to risk.

In line with the Crown's policy to reduce its exposure to foreign-currency fluctuations, net foreign-currency debt was eliminated in the early part of the 1997 financial year.

Domestically the Crown manages the composition of the portfolio to diversify risk and reduce cost. The NZDMO is committed to the principles of transparency, neutrality and even-handedness. Over time, adherence to these principles should lower the Government's domestic borrowing costs by reducing price uncertainty and encouraging competitive bidding in tenders.

Foreign Reserves Management Policies

The Reserve Bank's role as a central bank determines the nature and extent of its activities with respect to financial instruments.

Foreign currency activity arises mainly from the Reserve Bank's holding of foreign-currency assets under its foreign reserves management function. These assets are held in various currencies with the majority denominated in United States dollars and the Euro.

The Minister of Finance, in consultation with the Reserve Bank, is responsible for determining the overall level of the Crown's foreign reserves. They are held at a level and in a form suitable for foreign-exchange market intervention should this ever be required. The Bank also maintains a stand-by credit facility (US\$100 million) to augment the amount of foreign currency that can be accessed.

The financial instruments held within these foreign-currency portfolios consist mainly of sovereign securities, securities held under reverse-repurchase transactions or balances held with other central banks, commercial banks and settlement institutions. Liquidity and credit risk are key criteria in determining the type of instruments held. The Reserve Bank also holds, from time to time, foreign-currency assets and liabilities that arise from the implementation of domestic monetary policy. Any foreign-currency exposures related to domestic monetary policy implementation activity are fully hedged through the use of foreign-currency swaps.

Credit Risk

In the case of financial assets and, in some instances, derivative transactions such as swaps, the Crown will have a credit exposure to the counterparty. The Crown's credit policies incorporate counterparty limits to ensure diversification of credit exposures and utilise collateral against certain exposures. The creditworthiness of counterparties is continuously monitored. With the high-quality counterparties, due to the Crown's credit policy, no provision has been made for potential losses on off-balance sheet transactions.

The Crown may also require security (such as cash, domestic and overseas government bonds and securities, local authority stocks and banks' certificates of deposit) in the form of collateral from certain counterparties to provide security against the exposure to individual counterparties (to apply in the event of default).

Credit risk in the foreign-currency portfolios is monitored and managed daily. End-of-day exposures are controlled through comprehensive individual counterparty and issuer credit limits. These limits are based mainly on counterparty credit ratings and are measured in credit-equivalent terms depending on the nature of the exposure.

Reserve Bank exposures to particular classes of counterparty are constrained by aggregate credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Geographical exposures are controlled by country limits. Limits are updated as necessary when new market information emerges with all limits formally reviewed on an annual basis.

Credit risk in the domestic-currency portfolios is also monitored and managed daily. Intra-day and inter-day exposures are controlled through comprehensive individual counterparty and issuer limits.

Maximum Credit Risk Exposure, in the event that other parties fail to perform their obligations under financial instruments, has been calculated based on the value reported in the accounts for Total Marketable Securities and Deposits together with the positive revaluations on individual swaps and foreign-exchange contracts. The calculation does not recognise any collateral that may be held by the Crown under master swap agreements.

	30 June 2002 \$m	30 June 2001 \$m
Total Marketable Securities and Deposits	11,362	12,060
Positive Revaluations – Swaps and FX	772	768
Maximum Credit Exposure	12,134	12,828

The significant end-of-year concentrations of credit exposure by industry type were as follows:

	30 June 2002 \$m	30 June 2001 \$m
Sovereign Issuers	4,037	4,200
Supranational Financial Institutions	1,145	1,437
Foreign Banks	2,935	3,428
NZ Government	2,887	2,515
Other	1,130	1,248
Maximum Credit Exposure	12,134	12,828

The significant end-of-year concentrations of credit exposure by geographical area were as follows:

	30 June 2002 \$m	30 June 2001 \$m
New Zealand	2,982	2,750
USA	3,399	3,303
Japan	254	1,391
Germany	656	1,838
Australia	341	303
Other	3,357	1,806
Supranational Financial Institutions	1,145	1,437
Maximum Credit Exposure	12,134	12,828

The following table presents the Maximum Credit Exposure, as calculated above, based on the lower of either the Moody's or Standard and Poor's credit rating of the counterparty/issuers. AAA is the highest quality rating possible and indicates the entity has an extremely strong capacity to pay interest and principal. AA is a high-grade rating indicating a very strong capacity and A is an upper medium-grade indicating a strong capacity. The Crown does not maintain credit exposures to a counterparty or issuer below A-, unless doing so is consistent with a specific government policy decision. Lower investment-grade and speculative-grade ratings are not therefore included in the table.

	30 June 2002 \$m	% of 2002 Credit Exposure	30 June 2001 \$m	% of 2001 Credit Exposure
AAA	5,070	41.8%	4,296	33.5%
AA	2,854	23.6%	4,299	33.6%
A	309	2.5%	748	5.8%
NZ Government	2,885	23.8%	2,516	19.7%
IMF Special Drawing Rights	1,016	8.3%	946	7.3%
Not Rated	-	-	23	0.1%
Maximum Credit Exposure	12,134	100%	12,828	100%

Interest Rate Risk

The NZDMO foreign-currency portfolio maintains a “net-zero” mark-to-market level and it is constructed to reduce residual foreign-exchange and interest-rate risk to marginal levels. In addition, the Crown has specified conservative position and loss limits, which allow some discretionary transacting to take place. These discretionary portfolio management limits define the extent of movement away from the strategic zero foreign-exchange risk/zero foreign interest-rate risk and set limits on the total losses that can be incurred.

Domestic interest-rate risk is managed strategically by issuing a mix of fixed and floating-rate debt, including interest-rate swaps, over the course of the fiscal year. Bond issuance is targeted toward developing benchmark bonds to assist in maintaining liquidity in the market. A relatively even maturity profile for term debt across the yield curve is maintained.

The Reserve Bank’s foreign-currency assets are funded by foreign-currency liabilities held by the NZDMO, whose interest-rate characteristics cannot be exactly replicated. The interest-rate characteristics of the liabilities are similar to those of euro-instruments, but liquidity considerations require that most investments are in sovereign instruments. The Reserve Bank accepts the associated risk as inevitable, but seeks through optimisation methods to closely limit additional (mainly duration-related) interest-rate mismatches.

Swaps, Foreign Exchange and Futures Contracts

The Crown uses a number of financial instruments to assist in meeting its debt management objective with respect to currency and interest-rate exposures in the Crown’s net foreign debt portfolio. The range of instruments currently being used includes currency and interest-rate swaps, foreign-exchange contracts and futures contracts. Interest-rate swaps are also used in the domestic debt portfolio.

The Crown had the following entitlements and obligations arising from swaps and foreign-exchange contracts as at 30 June 2002. These have been adjusted for the effects of netting arrangements under master swap agreements:

	Net market value ¹ as at 30 June 2002 \$m	Net market value ¹ as at 30 June 2001 \$m
Entitlements (to receive payments)		
Interest-rate swaps and currency swaps ²	571	597
Foreign-exchange contracts	98	86
Futures	6	-
Obligations (commitments to make payments)		
Interest-rate swaps and currency swaps ²	70	55
Foreign-exchange contracts	34	79
¹	The current market value has been determined using the present value of cash flows discounted at a rate derived from a market yield curve. Futures numbers relate to the net unrealised gain/loss across open positions.	
²	These take account of provisions in master swap agreements that allow the netting of cashflows on termination of swap contracts.	

Swaps and foreign exchange contracts used for hedging purposes are accounted for on a consistent basis with the underlying instrument or position. As a consequence, Marketable Securities and Deposits and Borrowings include both entitlements and obligations relating to these financial instruments.

These entitlements and obligations are reported in the financial statements on a modified historical cost basis and the impact of these is represented in the following table:

	Book Value as at 30 June 2002 \$m	Book Value as at 30 June 2001 \$m
Marketable Securities and Deposits		
Entitlements	174	106
Obligations	(27)	(100)
Borrowings		
Entitlements	441	522
Obligations	(204)	(357)

The notional amount of these instruments represents the volume of outstanding transactions. As at 30 June 2002 the Crown had the following notional amounts of swaps, foreign-exchange and futures contracts outstanding:

	Notional value as at 30 June 2002 \$m	Notional value as at 30 June 2001 \$m
Interest rate swaps	6,066	5,852
Currency swaps	4,538	4,531
Foreign-exchange contracts	2,881	3,252
Futures – buy	3,873	45
Futures – sell	223	291

The notional amounts reported above do not attempt to measure the Crown's exposure to credit loss in the event of non-performance by any contract counterparties. This credit exposure is only a small fraction of the notional value. Reference should be made to the Maximum Credit Exposure reported earlier with further recognition of the right of the Crown to request collateral under master swap agreements.

Collateral

Of the deposits held by the Crown as at 30 June 2002, \$267 million (30 June 2001: \$263 million) is held as collateral against counterparties under credit support annexes to master swap agreements in respect of swap transactions. As at 30 June 2002 there is no collateral held in US dollar Treasury Bills (30 June 2001: \$nil).

Reverse Repurchase Transactions

As part of the active management of both the Reserve Bank's foreign-currency and New Zealand dollar operations, it enters into security repurchase transactions. Of the marketable securities held by the Crown at 30 June 2002, \$5,010 million relate to reverse repurchase transactions (30 June 2001: \$4,030 million).

Forward Marketable Security Transactions

The Crown had commitments in relation to outstanding forward marketable security purchases and sales as at 30 June 2002. The Crown has committed to pay \$98 million under forward marketable security purchases (30 June 2001: \$4 million) and has committed to receive \$25 million under forward marketable security sales (30 June 2001: \$nil).

Effective Interest Rates and Repricing

In general, financial instruments held by the Crown effectively reprice at maturity when investment in new instruments may occur. The exceptions are those transactions with floating rates where the interest rates are reset within one year, based on the interest payment frequency, or upon maturity when investment in a new instrument may occur. For floating-rate instruments, the actual interest rates are based on market rates existing on the previous repricing date.

The following tables provide further detail on the information contained in the Statement of Borrowings – book value and nominal value analysis (refer pages 30 and 31).

	Maturity Date	Effective Actual Interest Rate	Outstanding \$m
New Zealand Dollar Debt			
Government Stock¹	2002/03	6.12%	3,213
	2003/04	7.06%	3,478
	2004/05	6.06%	3,060
	2005/06	6.55%	350
	2006/07	8.05%	3,211
	2009/10	6.30%	3,455
	2011/12	6.56%	3,341
	2012/13	6.75%	2,455
	2015/16	4.50%	1,696
Nominal Value			24,259
Unamortised (Discount)/Premium			(87)
Total Government Stock			24,172
Treasury Bills			
- 3 month	2002/03	5.61%	975
- 6 month	2002/03	5.50%	1,950
- one year	2002/03	5.69%	2,450
- other	2002/03	5.31%	146
Nominal Value			5,521
Unamortised (Discount)/Premium			(112)
Total Treasury Bills			5,409
Loans and Foreign-Exchange Contracts			
	2002/03	4.04%	1
	2002/03	Floating	68
	2003/04	4.04%	1
	2003/04	16.64%	3
	2003/04	Floating	(117)
	2004/05	4.04%	1
	2004/05	8.16%	4
	2004/05	16.64%	10
	2005/06	4.94%	1
	2005/06	Floating	(125)
	2006/07	4.94%	1
	2007/08	4.94%	1
	2007/08	Floating	(258)
	2013/14 ²	6.33%	8
Nominal Value			(401)
Unamortised (Discount)/Premium			-
Total Loans and Foreign-Exchange Contracts			(401)

¹ Interest-rate swaps have been used to convert \$2,000 million of fixed interest rate exposures to floating interest rate exposures.

² These transactions have repayments prior to the final maturity date. The early repayment portion of these transactions have not been separately disclosed within this note. However, in the Statement of Borrowings-Maturity Profile table these early repayments are reflected in the appropriate financial year of repayment.

	Maturity Date	Effective Annual Interest Rate	Outstanding \$m
Retail Stock	2002/03 - 06/07	5.36%	454
	2002/03	Floating	215
Nominal Value			669
Unamortised (Discount)/Premium			-
Total Retail Stock			669
Total New Zealand Dollar Debt			
Nominal Value			30,048
Unamortised (Discount)/Premium			(199)
Total New Zealand Dollar Debt			29,849

Foreign Currency Debt	Maturity Date	Effective Annual Interest Rate	Outstanding \$m
United States dollars	2002/03	Floating	443
	2002/03	2.17% - 2.49%	358
	2002/03	1.93%	902
	2003/04	Floating	409
	2004/05	Floating	852
	2005/06	10.91%	279
	2005/06	Floating	(72)
	2006/07	7.13%	384
	2006/07	5.01%	204
	2006/07	Floating	(313)
	2007/08	Floating	58
	2008/09	Floating	(158)
	2010/11	Floating	83
	2011/12	Floating	193
	2015/16	Floating	230
	2016/17	Floating	115
Nominal Value			3,967
Unamortised (Discount)/Premium			(125)
Total United States dollars			3,842
Japanese yen	2002/03	4.80%	168
	2002/03	6.07%	162
	2012/13	Floating	171
Nominal Value			501
Unamortised (Discount)/Premium			(54)
Total Japanese yen			447

	Maturity Date	Effective Annual Interest Rate	Outstanding \$m
Euro and other currencies	2002/03	2.00%	144
	2003/04	4.71%	112
	2003/04	5.43%	219
	2004/05	Floating	275
	2005/06	5.64%	124
	2005/06	Floating	153
	2006/07	5.95%	122
	2006/07	Floating	121
	2007/08	Floating	241
	2008/09	Floating	172
	2014/15	Floating	16
Nominal Value			1,699
Unamortised (Discount)/Premium			(17)
Total Euro and other currencies			1,682
Special Drawing Rights	2002/03	2.32%	382
Nominal Value			382
Unamortised (Discount)/Premium			-
Total Special Drawing Rights			382
Total New Zealand dollar equivalent - Nominal Value			6,549
Unamortised (Discount)/Premium			(196)
Total Foreign-Currency Debt			6,353

Marketable Securities and Deposits	Maturity Date	Effective Annual Interest Rate	Outstanding \$m
United States dollars			
Deposits	2002/03	1.84% - 1.95%	218
	2002/03	1.84%	1,820
Marketable Securities	2002/03	1.79% - 7.36%	708
	2002/03	1.67%	1,809
	2002/03	Floating	168
	2003/04	3.16% - 7.13%	117
	2004/05	5.52% - 7.65%	20
	2004/05	5.22%	5
	2006/07	5.07% - 6.89%	72
	2007/08	7.25%	22
	2008/09	Floating	51
	2010/11	6.17% - 6.18%	51
	2011/12	6.03%	41
Forward FX			(1,044)
Nominal Value			4,058
Unamortised Premium/(Discount)			2
Total United States dollars			4,060
Japanese yen			
Marketable Securities	2002/03	0.00% - 0.15	205
	2002/03	Floating	86
Forward FX			52
Nominal Value			343
Unamortised Premium/(Discount)			-
Total Japanese yen			343

	Maturity Date	Effective Annual Interest Rate	Outstanding \$m
Special Drawing Rights			
Special Drawing Rights - IMF	2002/03	0.00%	137
	2002/03	2.32%	879
Forward FX			(628)
Nominal Value			388
Unamortised (Discount)/Premium			(2)
Total Special Drawing Rights			386
Euro and other currencies			
Deposits	2002/03	4.17%	11
	2002/03	3.40%	2
	2002/03	4.61% - 5.00%	41
	2002/03	3.19%	807
Marketable Securities	2002/03	4.46% - 4.81%	61
	2002/03	4.79% - 5.07%	160
	2002/03	Floating	20
	2002/03	3.39%	254
	2003/04	3.87%	334
	2004/05	4.24%	83
	2005/06	4.23%	73
	2006/07	4.41%	56
	2007/08 - 2011/12	4.64%	60
	2012/13	5.19%	21
Forward FX			(242)
Nominal Value			1,741
Unamortised (Discount)/Premium			12
Total Euro and other currencies			1,753
New Zealand dollars			
Deposits ¹	2002/03	5.58%	2,809
Forward FX			2,013
Nominal Value			4,822
Unamortised (Discount)/Premium			(2)
Total New Zealand dollars			4,820
Total Marketable Securities and Deposits - Nominal Value			
			11,352
Unamortised Premium/(Discount)			10
Total Marketable Securities and Deposits			11,362

¹ This includes marketable securities and deposits held on behalf of the New Zealand Superannuation Fund as at 30 June 2002 of \$615 million.

Where swaps alter the currency composition of the debt portfolio, the swap and underlying borrowing are offset within the same currency and removed from this note. Only the effective borrowing of the swap is disclosed. The interest rate disclosed reflects the effective borrowing cost to the Crown of the overall transaction. The impact of interest rate swaps has been incorporated in this note.



Supplementary Information

These Financial Statements are for the Crown reporting entity as specified in Part III of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities:

Offices of Parliament	Departments	State-owned enterprises and Air New Zealand Ltd
<p>Office of the Controller and Auditor- General Office of the Ombudsmen Parliamentary Commissioner for the Environment</p>	<p>Agriculture and Forestry Archives New Zealand Child, Youth and Family Services Conservation Corrections Courts Crown Law Culture and Heritage Customs Defence Economic Development Education Education Review Office Environment Fisheries Foreign Affairs and Trade Government Communications Security Bureau Health Housing Inland Revenue Internal Affairs Justice Labour Land Information New Zealand Māori Development National Library New Zealand Defence Force Office of the Clerk Pacific Island Affairs Parliamentary Counsel Office Parliamentary Service Police Prime Minister and Cabinet Research, Science and Technology Security Intelligence Service Serious Fraud Office Social Development State Services Commission Statistics Transport Treasury Women's Affairs Youth Affairs</p>	<p>Agriquality New Zealand Limited Airways Corporation of New Zealand Limited Asure New Zealand Limited Electricity Corporation of New Zealand Limited Genesis Power Limited Landcorp Farming Limited Meridian Energy Limited Meteorological Service of New Zealand Limited Mighty River Power Limited New Zealand Post Limited New Zealand Railways Corporation Solid Energy New Zealand Limited Television New Zealand Limited Terralink New Zealand Limited (in liquidation) Timberlands West Coast Limited Transpower New Zealand Limited</p> <p>Air New Zealand Limited (included for disclosure purposes as if it were a SOE)</p>

Crown Entities

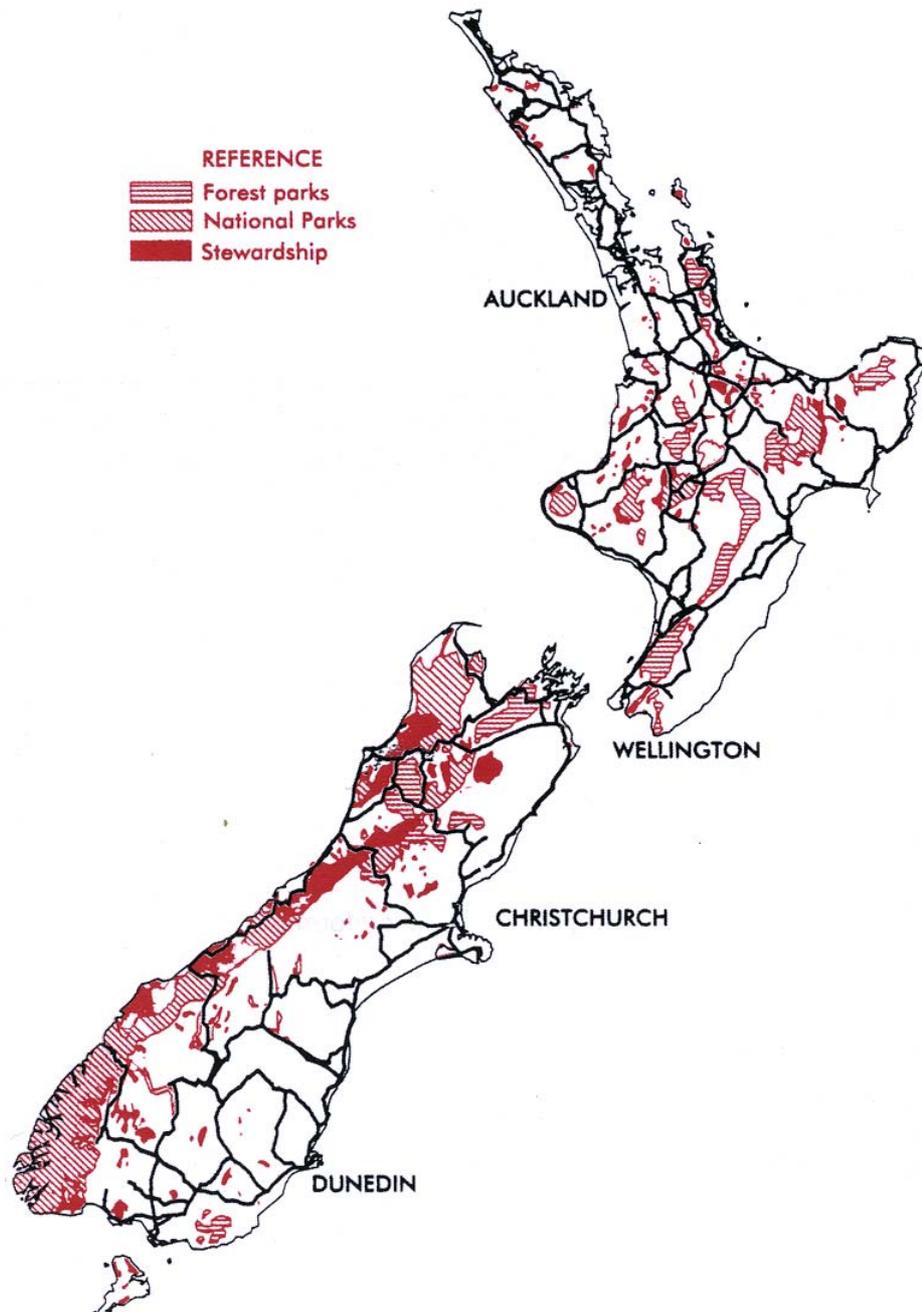
Accident Compensation Corporation	New Zealand Artificial Limb Board
Accounting Standards Review Board	New Zealand Blood Services
Agriculture and Marketing Research and Development Trust	New Zealand Business Development Board
Alcohol Advisory Council of New Zealand	New Zealand Film Commission
Animal Control Products Limited	New Zealand Fire Service Commission
Arts Council of New Zealand Toi Aotearoa	New Zealand Fish and Game Council
Asia 2000 Foundation of New Zealand	New Zealand Game Bird Habitat Trust Board
Broadcasting Commission	New Zealand Government Property Corporation
Broadcasting Standards Authority	New Zealand Lotteries Commission
Building Industry Authority	New Zealand Lottery Grants Board
Careers Services	New Zealand Qualifications Authority
Casino Control Authority	New Zealand Sports Drug Agency
Civil Aviation Authority of New Zealand	New Zealand Symphony Orchestra Limited
Commerce Commission	New Zealand Tourism Board
Commissioner for Children	New Zealand Trade Development Board
Crown research institutes (9)	New Zealand Teachers Council
District health boards (21)	Ngai Tahu Ancillary Claims Trust
Early Childhood Development Board	Office of Film and Literature Classification
Earthquake Commission	Pacific Business Trust
Electoral Commission	Pharmaceutical Management Agency
Energy Efficiency and Conservation Authority	Police Complaints Authority
Environmental Risk Management Authority	Privacy Commissioner
Fish and game councils (12)	Public Trust
Foundation for Research, Science and Technology	Quotable Value New Zealand Limited
Government Superannuation Fund Authority	Radio New Zealand Limited
Health and Disability Commissioner	Reserve boards (33)
Health Research Council of New Zealand	Residual Health Management Unit
Health Sponsorship Council	Retirement Commissioner
Hillary Commission for Sport, Fitness and Leisure	Road Safety Trust
Housing New Zealand Corporation	School boards of trustees (2,599)
Human Rights Commission	Securities Commission
Industry New Zealand	Skill New Zealand (Education and Training Support Agency)
Land Transport Safety Authority of New Zealand	Standards Council
Law Commission	Takeovers Panel
Learning Media Limited	Te Reo Whakapuaki Irirangi (Te Mangai Paho)
Legal Services Agency	Te Taura Whiri I Te Reo Māori (Māori Language Commission)
Management Development Centre Trust	Tertiary education institutions (35)
Maritime Safety Authority of New Zealand	Testing Laboratory Registration Council
Mental Health Commission	The Guardians of New Zealand Superannuation
Museum of New Zealand Te Papa Tongarewa	Transfund New Zealand
New Zealand Antarctic Institute	Transit New Zealand
	Transport Accident Investigation Commission
	Trustees of the National Library
Reserve Bank of New Zealand	

This section provides supplementary information on certain assets that are contained in the Statement of Financial Position.

State Highway Network

The map shows the State highway network that has a total length of 10,783 km. Of this, 5,884 km are in the North Island and the remaining 4,899 km in the South Island.

The Crown recognises 100% (by value) of the network in the Statement of Financial Position.



National Parks, Forest Parks and Conservation Areas

The map shows the area covered by national parks, forest parks, conservation areas and reserves. The areas of each are:

	Hectares
National parks	1,813,587
Forest parks	1,141,346
Conservation areas	2,119,169
Reserves	1,883,379
Total Area	6,957,481

Fiordland National Park covers 1,054,446 hectares (15.16% of the total area).

National Archives

The National Archives contains historically important archives, both textual and non-textual (including maps and plans, photographic prints and negatives and artworks). The collections held in Auckland, Wellington, Christchurch and Dunedin were completely revalued in December 2000.

Items of exceptional value held by Archives include the Declaration of Independence of the Northern Chiefs (1835), the Treaty of Waitangi (1840), the Letters Patent constituting New Zealand as a separate colony (1840), the proclamation of the Constitution Act (1853), and the Women's Suffrage Petition (1893).

National Library Collections

The National Library's Heritage Collections are mainly in the Alexander Turnbull Library and provide a documentary record of New Zealand's economic, social and cultural history. The collections containing both published and unpublished material, include books, newspapers, manuscripts and archives, drawings and prints, scores and sound recordings, cartographic and photographic items.

The general and schools collections provide a knowledge base for reference and lending. The major collection are lending and reference, microform, schools, and serials.

Specialist Military Equipment

The major items of specialist military equipment included in the Statement of Financial Position are:

- two ANZAC class frigates, including electronic sensors for surface and air surveillance
- one Leander-class frigate, including electronic sensors for surface and air surveillance
- a fleet tanker
- other ships, including a hydrographic/oceanographic surveying ship, a diving tender and five inshore patrol crafts
- six P3K Orion aircraft, equipped with sensors for conducting maritime air operations
- a fixed wing transport force consisting of five C130 Hercules and two Boeing 727s
- other aircraft, fourteen Iroquois helicopters, five Sioux helicopters, and four Seasprite helicopters
- fifty-one armoured personnel carrier (APC) variants
- twenty-four light gun howitzers
- five medium recovery vehicles
- twelve Matra Mistral firing stations with Very Low Level Air Defence (VLLAD) capability.

In addition there is around \$10 million of capital work in progress, covering a variety of projects.

There are major items of specialist military equipment held by the Crown, which are included in the Statement of Financial Position at zero value as they have been devalued. These include:

- the air combat force, comprising of the fleet of A4 Skyhawk and Air Macchi MB339 aircraft including all associated rotables, inventory and munitions;
- one Leander-class frigate (HMNZS Wellington); and
- twenty-three armoured personnel carrier (APC) variants.