

## COMMENTARY

## Introduction

This commentary outlines the key trends for each of the fiscal indicators along with a comparison to the forecasts provided in the *2008 Budget Economic and Fiscal Update*. It should be read in conjunction with the financial statements on pages 24 to 157.

These are the first set of annual audited financial statements of the Government prepared in accordance with NZ IFRS. Comparative figures have been restated to align with NZ IFRS. Restated data prior to 30 June 2007 has not been subject to audit.

Each section in the commentary follows the components of the Government's fiscal strategy (outlined in the *2008 Fiscal Strategy Report* – which is summarised on page 5):

- Revenue (including taxes)
- Expenses
- Surpluses
- Cash Position
- Debt, and
- The New Zealand Superannuation Fund (NZS Fund).

The financial statements of the Government of New Zealand refer to both core Crown and total Crown results. Core Crown includes Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand but excludes state-owned enterprises (SOEs) and Crown entities (CEs). Total Crown includes the core Crown, SOEs and CEs.

## Summary

The key results were:

- both the operating balance and OBEGAL for the year were in line with the 2008 Budget forecasts (after taking into account a reclassification of the ACC actuarial loss)
- residual cash was \$1,149 million higher than forecast for the year although this was essentially timing in nature (eg, the \$690 million purchase of KiwiRail expected on 30 June took place on 1 July)
- debt was also lower than forecast at year end, primarily driven by the higher than expected residual cash surplus and, as such, is also considered to be timing in nature, and
- the NZS Fund recorded an operating deficit of \$881 million for the year ended 30 June 2008 as a result of the downturn in equity markets (particularly the United States). The Fund's net worth at 30 June 2008 was \$14,212 million.

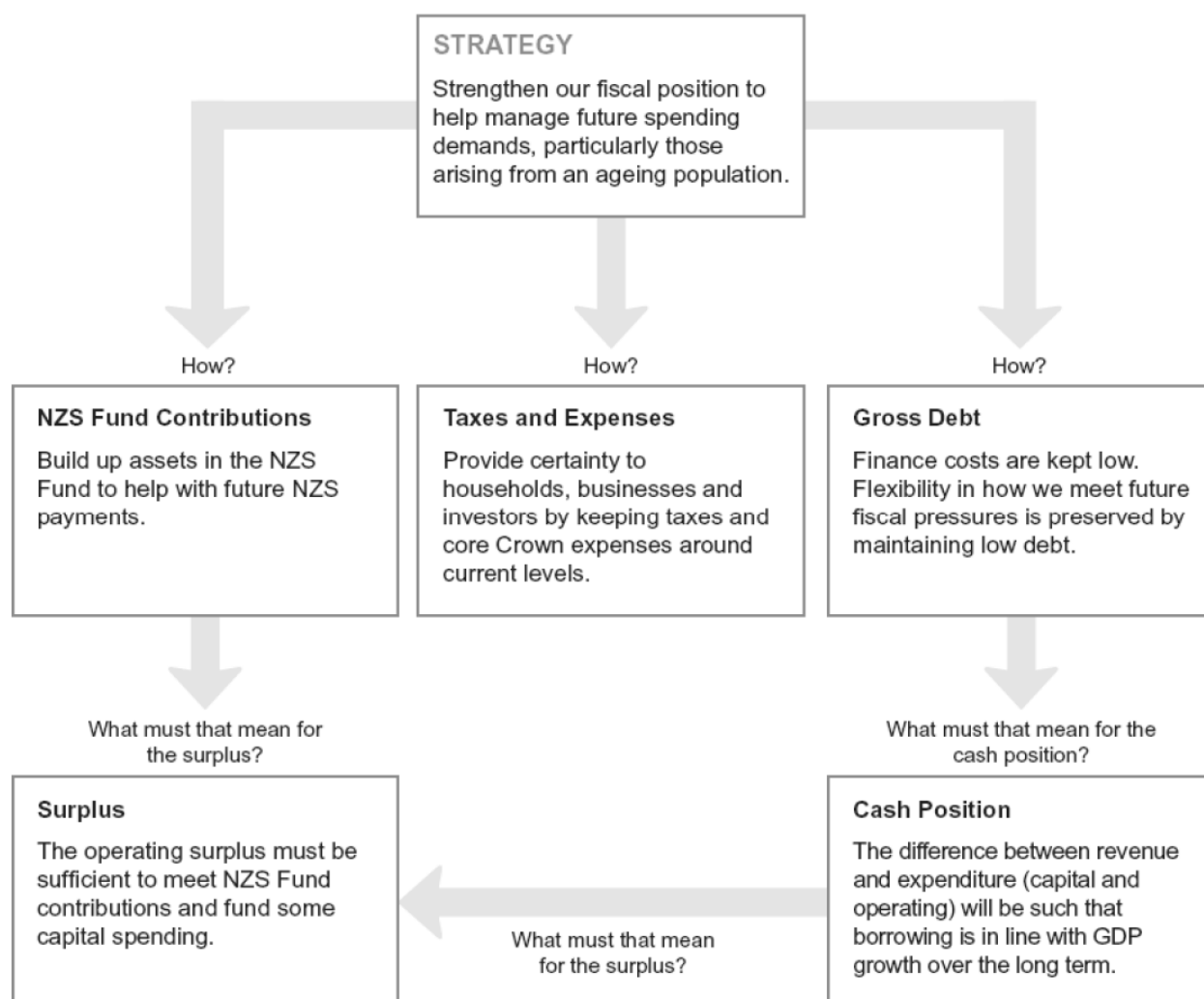
## Fiscal Strategy

The Government's fiscal strategy (outlined in more detail in the *2008 Fiscal Strategy Report*) is to strengthen its fiscal position so that it is well placed to respond to future challenges such as those associated with population ageing. The strategy is summarised in Figure 1.

The Government is implementing this strategy primarily by building up financial assets in the New Zealand Superannuation Fund (NZS Fund) and maintaining gross sovereign-issued debt at around 20% of GDP. In order to keep debt at around 20% of GDP, the Government has said it intends to run its cash flow position so that borrowing tracks in line with GDP over time. In practice, this means running operating surpluses, on average, that are sufficient to cover the contributions to the NZS Fund and some capital spending needs.

The Financial Statements of the Government provide a record of the Government's financial performance over financial year ended 30 June 2008 and its financial position as at 30 June 2008. They provide a comparison with the fiscal forecasts in the *2008 Budget Economic and Fiscal Update*. They also provide the public with a snapshot of the progress the Government has made in implementing its fiscal strategy as set out in the *Fiscal Strategy Report*.

**Figure 1** – Fiscal strategy at a glance



## Fiscal Indicators for the Year Ended to 30 June 2008

**Table 1** – Fiscal indicators

Year ended 30 June	2003	2004	2005	2006	2007	Original	Est	2008
\$ million	Actual	Actual	Actual	Actual	Actual	Budget	Actuals	Actual
<b>Revenue and expenses</b>								
Core Crown revenue excl NZS Fund	43,371	46,165	51,088	55,844	58,482	59,304	61,814	61,671
Core Crown expenses	39,897	41,882	44,895	49,320	54,004	56,096	57,364	56,997
<b>Surpluses</b>								
Total Crown OBEGAL	4,366	5,573	7,075	7,091	5,860	4,958	5,227	5,637
Total Crown OBEGAL excl NZS Fund retained revenue	4,297	5,526	7,140	7,252	6,250	4,860	5,219	5,586
Total Crown operating balance	1,621	7,309	5,931	9,542	8,022	6,431	2,559	2,384
<b>Cash position</b>								
Core Crown residual cash	1,217	520	3,104	2,985	2,793	(976)	908	2,057
<b>Debt</b>								
GSID (excl settlement cash)	36,617	36,017	35,478	33,903	30,647	34,477	31,763	31,390
Net core Crown debt incl NZS Fund financial assets	16,093	11,613	4,538	(1,817)	(7,467)	(10,784)	(11,254)	(12,953)
Net core Crown debt	17,977	15,569	11,093	8,044	4,109	4,655	1,846	(19)
<b>NZS Fund</b>								
NZS Fund net worth	1,884	3,956	6,555	9,855	12,973	15,977	14,461	14,212
<b>Nominal GDP<sup>1</sup></b>	132,738	143,170	151,993	158,321	168,672	173,187	180,137	180,077
<b>% of GDP</b>								
<b>Revenue and expenses</b>								
Core Crown revenue excl NZS Fund	32.7	32.2	33.6	35.3	34.7	34.2	34.3	34.2
Core Crown expenses	30.1	29.3	29.5	31.2	32.0	32.4	31.8	31.7
<b>Surpluses</b>								
Total Crown OBEGAL	3.3	3.9	4.7	4.5	3.5	2.9	2.9	3.1
Total Crown OBEGAL excl NZS Fund retained revenue	3.2	3.9	4.7	4.6	3.7	2.8	2.9	3.1
Total Crown operating balance	1.2	5.1	3.9	6.0	4.8	3.7	1.4	1.3
<b>Cash position</b>								
Core Crown residual cash	0.9	0.4	2.0	1.9	1.7	(0.6)	0.5	1.1
<b>Debt</b>								
GSID (excl settlement cash)	27.6	25.2	23.3	21.4	18.2	19.9	17.6	17.4
Net core Crown debt incl NZS Fund financial assets	12.1	8.1	3.0	(1.1)	(4.4)	(6.2)	(6.2)	(7.2)
Net core Crown debt	13.5	10.9	7.3	5.1	2.4	2.7	1.0	(0.0)
<b>NZS Fund</b>								
NZS Fund net worth	1.4	2.8	4.3	6.2	7.7	9.2	8.0	7.9

1 GDP for the year ended 30 June 2008 is the forecast GDP published in the *2008 Pre-election Economic and Fiscal Update* (Source: Treasury).

## Fiscal Strategy Perspective on the Financial Results to June

The following table shows how the fiscal strategy is represented in the financial results.

**Table 2** – Fiscal Strategy Perspective

		Actual 30 June 2007	Forecast Original Budget	Forecast Estimated Actuals	Actual 30 June 2008
Fiscal Strategy	Fiscal Indicators/Financial Statements	\$million	\$million	\$million	\$million
Taxes ...	Taxation as % of GDP	31.7%	31.6%	31.5%	31.5%
	Core Crown taxation	53,477	54,707	56,673	56,747
... combined with other revenue ...	Other Core Crown operating items	7,037	5,852	4,420	4,141
... fund core crown expenses ...	Core Crown expenses	(54,004)	(56,096)	(57,364)	(56,997)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	1,512	1,968	(1,170)	(1,507)
... results in a surplus or deficit...	<b>Operating balance</b>	<b>8,022</b>	<b>6,431</b>	<b>2,559</b>	<b>2,384</b>
...part of which is gains or losses set aside for fiscal strategy purposes...	Other (gains)/losses	(2,162)	(1,473)	2,668	3,253
... and so we have developed an operating indicator excluding these items.	<b>OBEGAL</b>	<b>5,860</b>	<b>4,958</b>	<b>5,227</b>	<b>5,637</b>
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. revaluations)	390	(98)	(8)	(51)
" " " "	Net retained surpluses of SOEs and CEs	(1,652)	(1,652)	(655)	(814)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	3,988	1,830	2,454	2,520
The Operating cash flow that results, needs to provide sufficient funds for	<b>Core Crown Cash flow from Operations</b>	<b>8,586</b>	<b>5,038</b>	<b>7,018</b>	<b>7,292</b>
- building up assets in NZ Superannuation	Contribution to NZS Fund	(2,048)	(2,103)	(2,103)	(2,104)
- meeting the capital expenditure budget, and	Purchase of physical assets	(1,755)	(1,803)	(1,544)	(1,433)
- making advances (e.g. to students and DHBs)	Advances and capital injections	(1,990)	(2,108)	(2,463)	(1,698)
with a residual impact on debt consistent with fiscal strategy	<b>Residual Cash</b>	<b>2,793</b>	<b>(976)</b>	<b>908</b>	<b>2,057</b>
	<b>... and as a percentage of GDP</b>	<b>1.7%</b>	<b>-0.6%</b>	<b>0.5%</b>	<b>1.1%</b>

## Revenue

**Table 3** – Breakdown of revenue

Year ended 30 June \$ million	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Forecast Original Budget	Forecast Est Actuals	Actual 2008
Core Crown tax revenue	40,518	43,358	47,468	50,973	53,477	54,707	56,673	56,747
Core Crown other revenue	2,922	2,861	3,577	4,762	4,734	4,695	5,263	5,072
Core Crown revenue	43,440	46,219	51,045	55,735	58,211	59,402	61,936	61,819
Crown entities, SOE and eliminations	13,170	13,051	14,322	15,690	16,378	17,470	17,877	19,660
<b>Total Crown revenue</b>	<b>56,611</b>	<b>59,271</b>	<b>65,367</b>	<b>71,425</b>	<b>74,589</b>	<b>76,872</b>	<b>79,813</b>	<b>81,479</b>
Core Crown revenue	43,440	46,219	51,045	55,735	58,211	59,402	61,936	61,819
Less NZS Fund revenue	(69)	(131)	(191)	(359)	(436)	(447)	(381)	(385)
Add back NZS Fund intra-segment revenue	-	77	234	468	707	349	259	237
<b>Core Crown revenue (excl NZS Fund)</b>	<b>43,371</b>	<b>46,165</b>	<b>51,088</b>	<b>55,844</b>	<b>58,482</b>	<b>59,304</b>	<b>61,814</b>	<b>61,671</b>

Revenue consists mainly of tax revenue. Other revenue includes interest, dividends, and sales of goods and services.

Core crown revenue excluding the NZS Fund represents the revenue available to meet the Government's spending needs and treats the NZS Fund as a third party (ie, its revenue is not included but the tax it pays is).

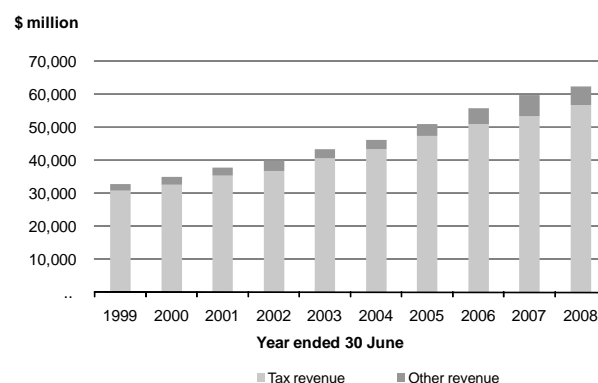
Core Crown revenue excluding the NZS Fund was \$143 million (0.2%) lower than forecast at \$61,671 million. While interest revenue was \$219 million (8.5%) lower than forecast due to changes in interest rates and investment levels, this was partially offset by core Crown tax revenue being \$74 million (0.1%) higher than forecast. While core Crown tax revenue was largely on target, there were two compensating variances within this result.

- source deduction revenue was \$613 million (2.7%) higher than forecast largely due to higher than forecast wage growth, offset by
- GST revenue was \$662 million (5.6%) lower than forecast due in the main to weaker-than-expected domestic consumption. In addition the forecast assumed the gap would close between GST revenue and receipts but this did not eventuate.

Compared to last year, core Crown revenue excluding the NZS Fund increased by \$3,189 million (5.5%). This increase was mainly in source deductions tax revenue, caused by high wage and employment growth.

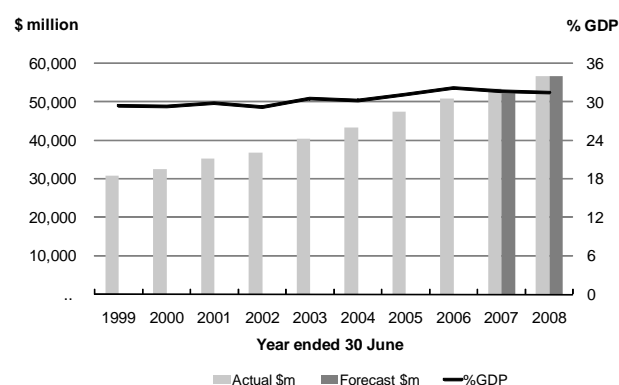
Core Crown tax revenue has increased as a percentage of GDP since 1999 as a result of the progressive nature of the personal tax scale (coupled with the introduction of the 39% personal income tax rate), growth in taxable corporate profits ahead of GDP growth, and increases in interest rates which have led to increases in withholding taxes on interest-bearing deposits.

**Figure 2** – Core Crown revenue excluding the NZS Fund



Source: The Treasury

**Figure 3** – Core Crown tax revenue



Source: The Treasury

## Expenses

**Table 4** – Breakdown of expenses

Year ended 30 June \$ million	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Forecast Original Budget	Forecast Est Actuals	Actual 2008
Social security and welfare	13,907	14,252	14,682	15,598	16,768	17,698	18,071	17,877
Health	7,501	8,111	8,813	9,547	10,355	11,613	11,343	11,297
Education	7,016	7,585	7,930	9,914	9,269	9,719	10,046	9,551
Core government services	2,130	2,091	2,567	2,507	4,817	2,479	3,222	3,371
Other core Crown expenses	9,343	9,843	10,903	11,754	12,795	14,587	14,682	14,901
<b>Core Crown expenses</b>	<b>39,897</b>	<b>41,882</b>	<b>44,895</b>	<b>49,320</b>	<b>54,004</b>	<b>56,096</b>	<b>57,364</b>	<b>56,997</b>
Crown entities, SOE and eliminations	12,347	11,816	13,397	15,015	14,725	15,818	17,222	18,845
<b>Total Crown expenses</b>	<b>52,245</b>	<b>53,698</b>	<b>58,292</b>	<b>64,334</b>	<b>68,729</b>	<b>71,914</b>	<b>74,586</b>	<b>75,842</b>

Core Crown expenses represent the day-to-day operating spending of the Government (ie, it does not include purchases of physical assets or capital spending).

Core Crown expenses were \$367 million (0.6%) lower than forecast at \$56,997 million. The main variances were:

- social security and welfare expenses were \$194 million (1.1%) lower than forecast mainly relating to lower than forecast family assistance expenditure
- education expenses were \$495 million (4.9%) lower than forecast as the impairment of student loans was \$491 million lower than expected
- core government expenses were \$149 million (4.6%) higher than forecast. Impairment of tax receivables was \$265 million higher than expected reflecting an increase in the underlying overdue debt. This variance was partially offset by underspends across a number of departments (none of which was individually significant), and
- other core Crown expenses were \$219 million (1.5%) higher than forecast due in the main to treaty settlements being earlier than forecast.

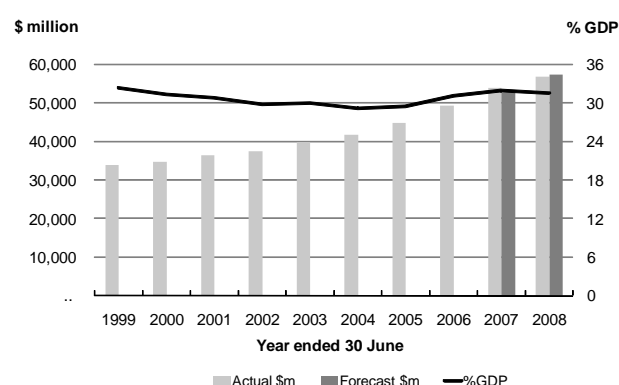
In comparison to the previous year, Core Crown expenses were \$2,993 million (5.5%) higher. Significant expenditure increases were:

- annual indexation of welfare benefits
- expense initiatives introduced in the 2007 Budget (including the introduction of KiwiSaver), and
- higher demand-driven education expenses.

This increase was partially offset by a decrease in sovereign receivable impairment expenses resulting from a large one-off tax receivable impairment in the year ended 30 June 2007.

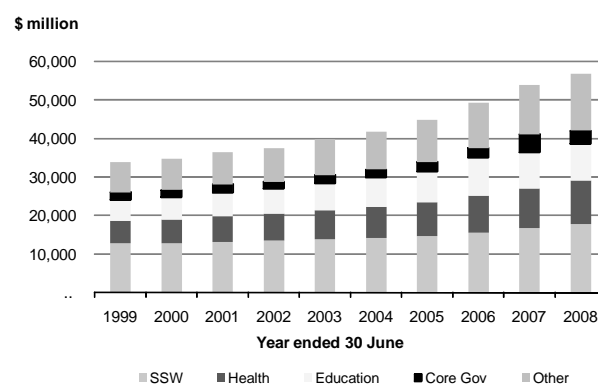
Core Crown expenses have increased as a percentage of GDP by 1.6% since 2003 (30.1% in 2003 to 31.7% in 2008) with the introduction of major Government policies such as Working for Families and KiwiSaver.

**Figure 4** – Core Crown expenses



Source: The Treasury

**Figure 5** – Core Crown expenses by sector



Source: The Treasury

## Surpluses

**Table 5** – Total Crown OBEGAL and total Crown operating balance

Year ended 30 June \$ million	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Forecast Original Budget	Forecast Est Actuals	Actual 2008
Total Crown OBEGAL	4,366	5,573	7,075	7,091	5,860	4,958	5,227	5,637
Total Crown gains/(losses)	(2,745)	1,736	(1,144)	2,451	2,162	1,473	(2,668)	(3,253)
Total Crown Operating balance	1,621	7,309	5,931	9,542	8,022	6,431	2,559	2,384

### OBEGAL

OBEGAL is the operating balance before gains and losses for the total Crown. By excluding gains and losses the OBEGAL gives a more direct indication of the underlying stewardship of the Government.

OBEGAL was \$410 million (7.8%) higher than forecast for the year ended 30 June 2008 primarily as a result of a forecasting error included in the Budget. A portion of ACC's actuarial loss was forecast as an insurance expense. This error does not impact on the operating balance as it was a reclassification between expenses and losses.

Within this result, the electricity generating SOEs reported large, equal, and opposite variances in both revenue and expenses of approximately \$1,400 million. These variances resulted from higher than expected electricity spot prices.

The OBEGAL (excluding the NZS Fund retained revenue) is a measure of the operating balance that recognises that the NZS Fund has been set up to meet future spending pressures and as a result the returns it earns are not available to the Crown to meet current spending requirements. OBEGAL (excluding the NZS Fund retained revenue) was \$5,586 million for the year; \$367 million lower than forecast.

### Operating Balance

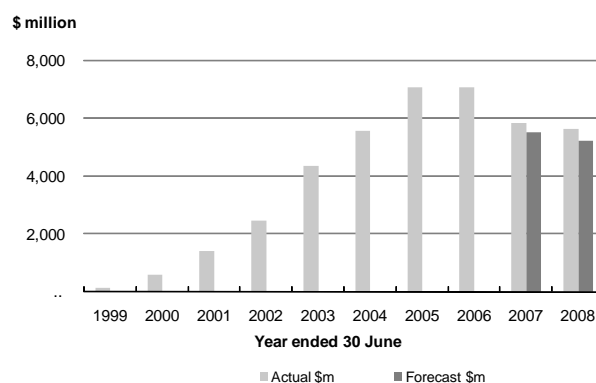
The operating balance shows whether the government sector has generated enough revenues (including gains) to cover its expenses (including losses) in any given year.

The operating balance for the total Crown was \$175 million (6.8%) lower than forecast at \$2,384 million.

Losses of \$3,253 million resulted in a decline in the operating balance for the year ended 30 June 2008 and were \$585 million (21.9%) more than forecast. These losses compare to gains of \$2,162 million for the previous year. The difference is a reflection of the recent decline in overseas equity markets and increases in the ACC claims and GSF liabilities.

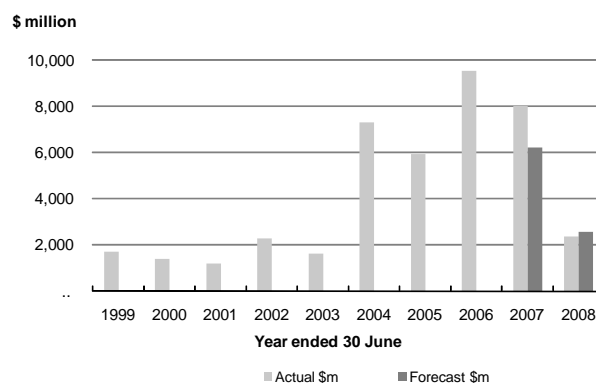
The total Crown operating balance is not drawn upon to fund core Crown operations, as current policy is for the NZS Fund, SOEs and CEs to retain a portion of their

**Figure 6** – OBEGAL



Source: The Treasury

**Figure 7** – Operating balance



Source: The Treasury



surpluses for the purpose of achieving their long-term objectives. For the year ended 30 June 2008 SOEs and CEs recorded an overall deficit of \$803 million. This deficit includes an operating deficit of \$2,408 million in ACC due to equity market and ACC claims liability losses mentioned above. When ACC is excluded the SOE and CE surpluses totalled \$1,605 million (refer pages 164 to 166 for a breakdown by individual entity).

During the year \$575 million was returned to the Crown as dividends.

## Cash Position

**Table 6** – Residual cash reconciliation

Year ended 30 June \$ million	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Forecast Original Budget	Forecast Est Actuals	Actual 2008
<b>Net core Crown cash flow from operations</b>	4,856	5,443	8,560	8,859	8,586	5,038	7,018	7,292
Contributions to NZS Fund	(1,200)	(1,879)	(2,107)	(2,337)	(2,048)	(2,103)	(2,103)	(2,104)
Purchase of physical assets	(1,059)	(1,299)	(1,372)	(1,826)	(1,755)	(1,803)	(1,544)	(1,433)
Advances and capital injections	(1,380)	(1,745)	(1,977)	(1,711)	(1,990)	(2,108)	(2,463)	(1,698)
<b>Core Crown residual cash</b>	<b>1,217</b>	<b>520</b>	<b>3,104</b>	<b>2,985</b>	<b>2,793</b>	<b>(976)</b>	<b>908</b>	<b>2,057</b>

Core Crown residual cash represents the core Crown cash surplus (or deficit) after operating and investing cash requirements (including contributions to the NZS Fund) are met. It represents the money available to the Government to invest, repay debt or, alternatively, the money the Government needs to fund in any given year.

Residual cash was \$1,149 million higher than forecast for the year ended 30 June 2008 at \$2,057 million. Increases in the cash surplus were mainly due to:

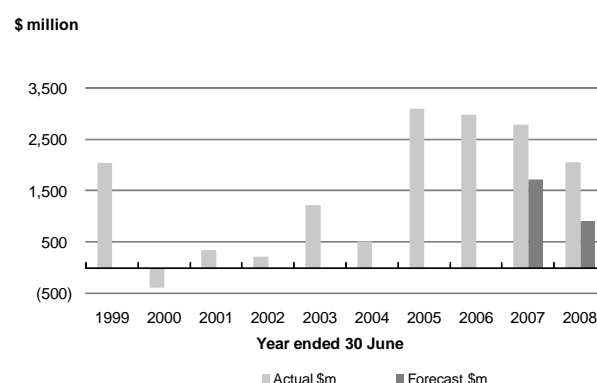
- the delay in the \$690 million KiwiRail purchase from 30 June to 1 July
- KiwiSaver payments being \$210 million lower than forecast with regards to kick-start payments and employer tax credits, and
- department cash requirements being \$545 million less than expected.

These surpluses were partially offset by tax receipts which were \$417 million (0.7%) lower than forecast. In particular, the following tax types were lower than forecast:

- corporate tax receipts were \$419 million (4.0%) lower than forecast due in the main to lower-than-expected provisional tax receipts through May and June from large corporate entities
- GST receipts were \$148 million (1.3%) lower than forecast reflecting the effects of recent economic activity, and
- net other individuals tax receipts were \$130 million (3.3%) lower than forecast due to lower than expected provisional tax payments from the agricultural sector.

In contrast, stronger than expected wage growth contributed to source deduction tax receipts being \$124 million (0.5%) higher than forecast.

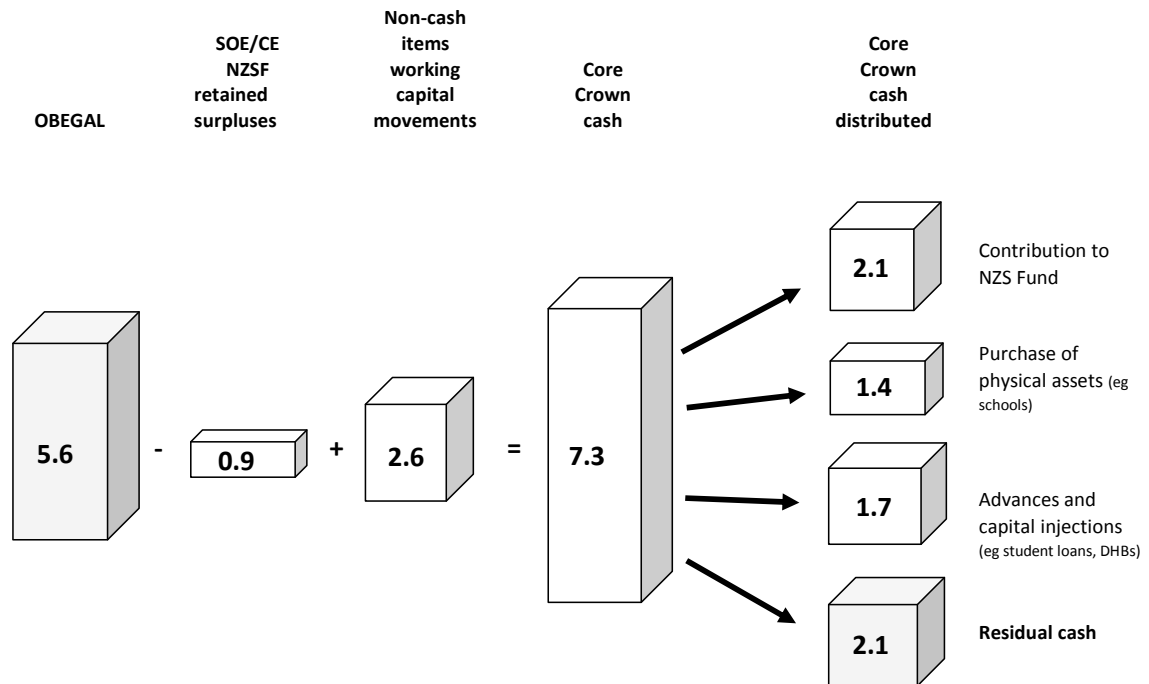
**Figure 8** – Residual cash



Source: The Treasury

Over recent years residual cash surpluses have reflected strong economic growth coupled with some departmental underspending.

**Table 7** – Application of core Crown residual cash for the year ended 30 June 2008 (\$ billion)



The residual cash of \$2,057 million has resulted in an increase in core Crown financial assets as discussed on page 15.

## Capital Investment

Core Crown purchases of physical assets (\$1,433 million) and advances and capital injections (\$1,698 million) represent the capital investment of the core Crown (refer Table 6).

Advances and capital injections are often used by CEs and SOEs to purchase physical assets (such as roading and rail assets). Therefore, to obtain a complete picture of the Government's capital investment it is necessary to "look through" core Crown advances and capital injections and consider total Crown physical asset purchases.

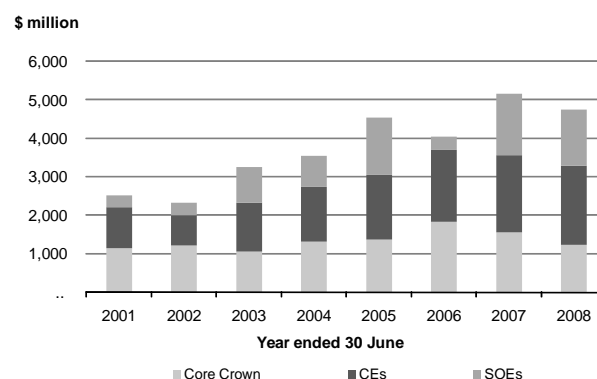
Figures 9 to 11, therefore, show the purchase of physical assets (referred to as "PPE") of the total Crown, offset by asset disposals.

Total Crown net PPE purchases for the current financial year included:

- \$986 million on state highway roading
- \$571 million on electricity generation assets
- \$509 million on education facilities such as schools
- \$446 million by district health boards
- \$320 million on specialist military equipment, and
- \$234 million on rail assets (excluding KiwiRail).

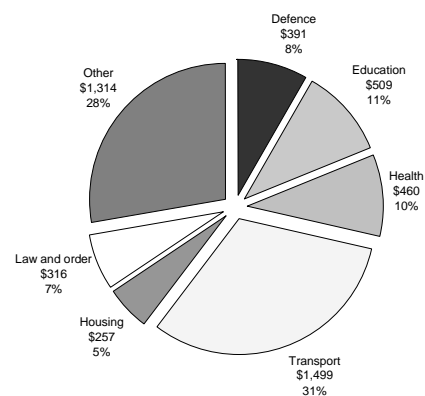
The \$690 million purchase of KiwiRail occurred on 1 July and is therefore not included in this capital investment analysis.

**Figure 9** – Total Crown net purchases of PPE (\$ million)



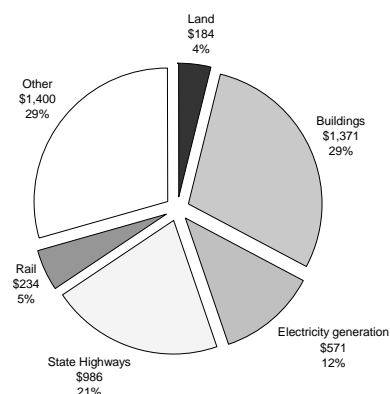
Source: The Treasury

**Figure 10** – Total Crown net purchases of PPE by sector (\$m and % of total) for year ended 30 June 2008



Source: The Treasury

**Figure 11** – Total Crown net purchases of PPE by asset type (\$m and % of total) for year ended 30 June 2008



Source: The Treasury

## Debt

**Table 8 – Gross sovereign-issued debt (GSID) and net core Crown debt**

Year ended 30 June	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Actual
\$ million	2003	2004	2005	2006	2007	Original Budget	Est Actuals	2008
Gross sovereign-issued debt	36,617	36,017	35,478	35,867	36,805	40,400	37,673	37,745
Less Reserve Bank settlement cash (incl. Kiwibank)	-	-	-	(1,964)	(7,758)	(7,523)	(7,510)	(7,955)
Add back changes to DMO borrowing due to settlement cash	-	-	-	-	1,600	1,600	1,600	1,600
<b>Gross sovereign-issued debt excluding settlement cash</b>	<b>36,617</b>	<b>36,017</b>	<b>35,478</b>	<b>33,903</b>	<b>30,647</b>	<b>34,477</b>	<b>31,763</b>	<b>31,390</b>
Gross sovereign-issued debt	36,617	36,017	35,478	35,867	36,805	40,400	37,673	37,745
Less core Crown financial assets	(20,524)	(24,404)	(30,940)	(37,684)	(44,272)	(51,184)	(48,927)	(50,698)
<b>Net core Crown debt (incl NZS Fund)</b>	<b>16,093</b>	<b>11,613</b>	<b>4,538</b>	<b>(1,817)</b>	<b>(7,467)</b>	<b>(10,784)</b>	<b>(11,254)</b>	<b>(12,953)</b>
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	1,884	3,956	6,555	9,861	11,576	15,439	13,100	12,934
<b>Net core Crown debt</b>	<b>17,977</b>	<b>15,569</b>	<b>11,093</b>	<b>8,044</b>	<b>4,109</b>	<b>4,655</b>	<b>1,846</b>	<b>(19)</b>

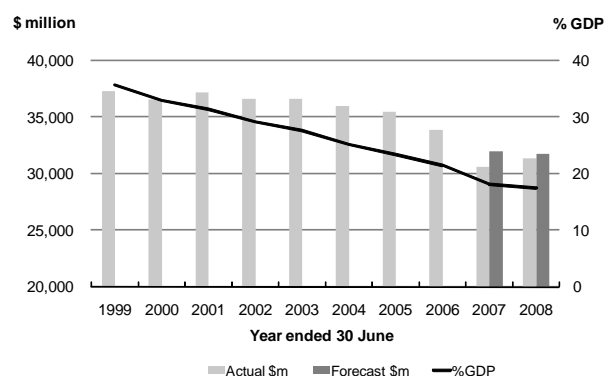
### Gross Sovereign-issued Debt (GSID)

GSID (excluding settlement cash) represents the debt issued by the sovereign (ie, core Crown) and includes Government stock held by the NZS Fund, ACC and EQC but excludes money deposited with the Reserve Bank by banks (settlement cash).

GSID (excluding settlement cash) was lower than forecast by \$373 million (1.2%) at \$31,390 million (17.4% of GDP). This result reflected lower than forecast levels of domestic bonds issuance (refer table 9) partially offset by higher than forecast derivative liabilities.

One of the key components of GSID is the domestic bond programme. Table 9 sets out the historical net issuances and repayments.

**Figure 12 – GSID (excluding settlement cash)**



Source: The Treasury

**Table 9 – Net bond issuance**

Year ended 30 June	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Actual
\$ million	2003	2004	2005	2006	2007	Original Budget	Est Actuals	2008
Domestic bonds (market)	2,551	2,212	2,146	2,375	2,294	2,520	2,415	1,757
Repayment of domestic bonds (market)	(2,823)	(3,044)	(2,797)	(2,574)	(2,777)	-	-	-
<b>Net increase/(decrease) in market domestic bonds</b>	<b>(272)</b>	<b>(832)</b>	<b>(651)</b>	<b>(199)</b>	<b>(483)</b>	<b>2,520</b>	<b>2,415</b>	<b>1,757</b>
Domestic bonds (non-market)	279	478	459	740	570	208	189	130
Repayment of domestic bonds (non-market)	(737)	(357)	(338)	(375)	(421)	-	-	-
<b>Net increase/(decrease) in non-market domestic bonds</b>	<b>(458)</b>	<b>121</b>	<b>121</b>	<b>365</b>	<b>149</b>	<b>208</b>	<b>189</b>	<b>130</b>
<b>Net total bond issuance/(repayment)</b>	<b>(730)</b>	<b>(711)</b>	<b>(530)</b>	<b>166</b>	<b>(334)</b>	<b>2,728</b>	<b>2,604</b>	<b>1,887</b>

## Net Core Crown Debt

Net core Crown debt equates to core Crown borrowings (gross sovereign-issued debt) less core Crown financial assets (excluding the financial assets of the NZS Fund).

By deducting financial assets (excluding the NZS Fund), net debt can provide additional information about the sustainability of the Government's accounts. However, it is important to view net debt alongside GSID (excluding settlement cash) as some financial assets are not very easily converted to cash (eg, student loans) in the short term.

Net core Crown debt was lower than forecast by \$1,865 million (101%) which resulted in a net asset position of \$19 million at 30 June 2008. This position is a result of the higher than forecast residual cash surplus in addition to net valuation gains on financial assets and financial liabilities.

Net core Crown debt has decreased by \$4,128 million since 30 June 2007. Table 10 provides a breakdown of core Crown net debt by portfolio.

The majority of the decrease in net core Crown debt was in the financial instruments administered by the New Zealand Debt Management Office (NZDMO) (\$2,776 million).

NZDMO financial assets have increased by \$3,594 million which has been primarily financed by:

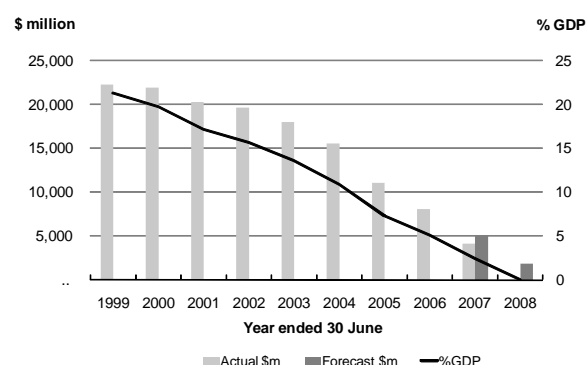
- the current year's residual cash surplus of \$2,057 million, and
- additional borrowings as NZDMO has continued its recent practice of maintaining a smooth bond issuance program year to year.

NZDMO borrowings have increased by around \$818 million. As mentioned above the majority of the additional borrowings have been invested in financial assets, so are net debt neutral.

**Table 10** – Net core Crown debt by portfolio

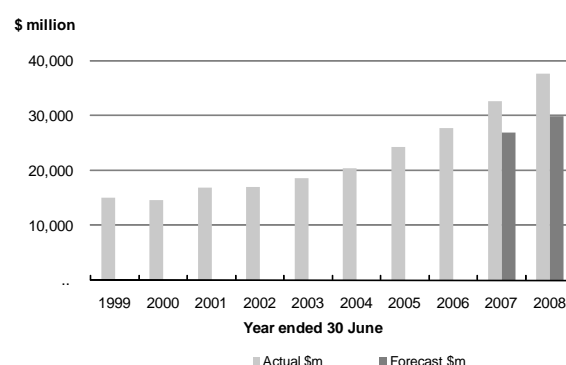
\$ million	Year ended 30 June 2008					Year ended 30 June 2007				
	NZDMO	Reserve Bank	Student loans	Other	Total	NZDMO	Reserve Bank	Student loans	Other	Total
Core Crown borrowings	28,861	8,689	-	195	37,745	28,043	8,508	-	254	36,805
Core Crown financial assets	17,001	13,735	6,741	287	37,764	13,407	13,023	6,011	255	32,696
<b>Net core Crown debt</b>	<b>11,860</b>	<b>(5,046)</b>	<b>(6,741)</b>	<b>(92)</b>	<b>(19)</b>	<b>14,636</b>	<b>(4,515)</b>	<b>(6,011)</b>	<b>(1)</b>	<b>4,109</b>

**Figure 13** – Net core Crown debt



Source: The Treasury

**Figure 14** – Core Crown financial assets (excluding NZS Fund)



Source: The Treasury

## NZS Fund

**Table 11** – NZS Fund net worth

Year ended 30 June \$ million	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Forecast Original Budget	Forecast Est Actuals	Actual 2008
<b>Opening net worth</b>	615	1,884	3,956	6,555	9,855	12,910	12,973	12,973
Revenue	69	131	191	359	436	447	381	385
Less current tax expense	-	(77)	(234)	(468)	(707)	(349)	(259)	(237)
Less other expenses	-	(7)	(22)	(52)	52	-	(51)	(34)
Gains/(losses)	-	146	557	1,130	1,313	866	(686)	(995)
<b>Operating balance</b>	69	193	492	969	1,094	964	(615)	(881)
Gross contribution from the Crown	1,200	1,879	2,107	2,337	2,048	2,103	2,103	2,104
Other movements in reserves	-	-	-	(6)	(24)	-	-	16
<b>Closing net worth</b>	1,884	3,956	6,555	9,855	12,973	15,977	14,461	14,212

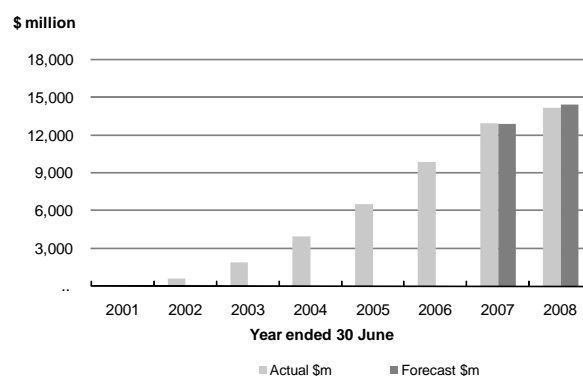
The NZS Fund (“the Fund”) is an important component of the Government’s fiscal strategy. The Fund’s assets provide the means for the Government to partially pre-fund future fiscal pressures, particularly those pressures arising from an ageing population.

The Government’s contributions to the Fund are calculated over a 40 year rolling horizon to ensure that superannuation entitlements over the next 40 years can be met.

The Fund made an operating loss of \$881 million for the year ended 30 June 2008. This compares to an operating profit of \$1,094 million in the previous year and a forecast loss of \$615 million for the current year. This loss results from the downturn in equity markets (particularly the United States). The Fund’s full year return was -4.92% bringing its annualised return since inception to 10.34%. This return compares to the risk-free rate of return for the same period of 6.73%.

The Fund’s net worth at 30 June 2008 was \$14,212 million, an increase of \$1,239 million since 30 June 2007. \$2,104 million of this increase is from Government contributions which were offset by the Fund’s investment performance.

**Figure 15** – NZS Fund net worth



Source: The Treasury

## Historical Financial Information

Year ended 30 June	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
\$ million	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
<b>Statement of financial performance</b>										
Core Crown tax revenue	30,875	32,598	35,345	36,809	40,518	43,358	47,468	50,973	53,477	56,747
Core Crown other revenue	2,005	2,348	2,497	3,136	2,922	2,861	3,577	4,762	4,734	5,072
Core Crown revenue	32,880	34,946	37,842	39,945	43,440	46,219	51,045	55,735	58,211	61,819
Crown entities, SOE revenue and eliminations	7,086	6,666	7,259	10,003	13,170	13,051	14,322	15,690	16,378	19,660
<b>Total Crown revenue</b>	<b>39,966</b>	<b>41,612</b>	<b>45,101</b>	<b>49,948</b>	<b>56,611</b>	<b>59,271</b>	<b>65,367</b>	<b>71,425</b>	<b>74,589</b>	<b>81,479</b>
Social security and welfare	12,889	12,883	13,207	13,485	13,907	14,252	14,682	15,598	16,768	17,877
Health	5,875	6,146	6,660	7,032	7,501	8,111	8,813	9,547	10,355	11,297
Education	5,337	5,712	6,136	6,473	7,016	7,585	7,930	9,914	9,269	9,551
Core government services	1,984	1,992	2,148	1,890	2,130	2,091	2,567	2,507	4,817	3,371
Other core Crown expenses	7,854	8,096	8,408	8,633	9,343	9,843	10,903	11,754	12,795	14,901
<b>Core Crown expenses</b>	<b>33,939</b>	<b>34,829</b>	<b>36,559</b>	<b>37,513</b>	<b>39,897</b>	<b>41,882</b>	<b>44,895</b>	<b>49,320</b>	<b>54,004</b>	<b>56,997</b>
Crown entities, SOE expenses and eliminations	5,899	6,189	7,120	9,964	12,347	11,816	13,397	15,015	14,725	18,845
<b>Total Crown expenses</b>	<b>39,838</b>	<b>41,018</b>	<b>43,679</b>	<b>47,476</b>	<b>52,245</b>	<b>53,698</b>	<b>58,292</b>	<b>64,334</b>	<b>68,729</b>	<b>75,842</b>
<b>OBEGAL</b>	<b>128</b>	<b>594</b>	<b>1,422</b>	<b>2,471</b>	<b>4,366</b>	<b>5,573</b>	<b>7,075</b>	<b>7,091</b>	<b>5,860</b>	<b>5,637</b>
Gains/(losses)	1,577	811	(214)	(185)	(2,745)	1,736	(1,144)	2,451	2,162	(3,253)
<b>Operating balance</b>	<b>1,705</b>	<b>1,405</b>	<b>1,208</b>	<b>2,286</b>	<b>1,621</b>	<b>7,309</b>	<b>5,931</b>	<b>9,542</b>	<b>8,022</b>	<b>2,384</b>
<b>Statement of financial position</b>										
Property, plant and equipment	42,102	43,609	45,954	50,536	52,667	57,940	67,494	89,141	95,598	103,329
Financial assets	18,564	18,756	21,419	22,497	27,799	32,654	42,005	66,396	73,719	85,063
Other assets	11,305	11,459	11,467	14,846	18,461	18,756	19,714	9,503	11,031	12,443
<b>Total assets</b>	<b>71,971</b>	<b>73,824</b>	<b>78,840</b>	<b>87,879</b>	<b>98,927</b>	<b>109,351</b>	<b>129,212</b>	<b>165,040</b>	<b>180,348</b>	<b>200,835</b>
Borrowings	38,715	37,527	38,130	38,492	39,327	37,720	37,728	40,027	41,898	46,110
Other liabilities	23,134	23,692	25,260	26,562	31,588	32,036	37,243	41,042	41,623	49,211
<b>Total liabilities</b>	<b>61,850</b>	<b>61,219</b>	<b>63,390</b>	<b>65,055</b>	<b>70,915</b>	<b>69,756</b>	<b>74,972</b>	<b>81,069</b>	<b>83,521</b>	<b>95,321</b>
<b>Net worth</b>	<b>10,121</b>	<b>12,605</b>	<b>15,450</b>	<b>22,825</b>	<b>28,012</b>	<b>39,595</b>	<b>54,240</b>	<b>83,971</b>	<b>96,827</b>	<b>105,514</b>
<b>Fiscal Indicators</b>										
Core Crown revenue (excl NZS Fund)	32,880	34,946	37,842	39,930	43,371	46,165	51,088	55,844	58,482	61,671
Core Crown expenses	33,939	34,829	36,559	37,513	39,897	41,882	44,895	49,320	54,004	56,997
OBEGAL	128	594	1,422	2,471	4,366	5,573	7,075	7,091	5,860	5,637
OBEGAL (excl NZS Fund)	128	594	1,422	2,456	4,297	5,526	7,140	7,252	6,250	5,586
Operating balance	1,705	1,405	1,208	2,286	1,621	7,309	5,931	9,542	8,022	2,384
Core Crown residual cash	2,048	(386)	349	216	1,217	520	3,104	2,985	2,793	2,057
GSID (excluding settlement cash)	37,307	36,580	37,194	36,650	36,617	36,017	35,478	33,903	30,647	31,390
Net core Crown debt	22,275	21,900	20,293	19,666	17,977	15,569	11,093	8,044	4,109	(19)
NZS Fund net worth	-	-	-	615	1,884	3,956	6,555	9,855	12,973	14,212

## Historical Financial Information (continued)

Year ended 30 June as % of GDP	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual
<b>GDP</b>	104,651	111,039	118,357	125,808	132,738	143,170	151,993	158,321	168,672	180,077
<b>Statement of financial performance</b>										
Core Crown tax revenue	29.5%	29.4%	29.9%	29.3%	30.5%	30.3%	31.2%	32.2%	31.7%	31.5%
Core Crown other revenue	1.9%	2.1%	2.1%	2.5%	2.2%	2.0%	2.4%	3.0%	2.8%	2.8%
Core Crown revenue	31.4%	31.5%	32.0%	31.8%	32.7%	32.3%	33.6%	35.2%	34.5%	34.3%
Crown entities, SOE and elimination revenue	6.8%	6.0%	6.1%	8.0%	9.9%	9.1%	9.4%	9.9%	9.7%	10.9%
<b>Total Crown revenue</b>	<b>38.2%</b>	<b>37.5%</b>	<b>38.1%</b>	<b>39.7%</b>	<b>42.6%</b>	<b>41.4%</b>	<b>43.0%</b>	<b>45.1%</b>	<b>44.2%</b>	<b>45.2%</b>
Social security and welfare	12.3%	11.6%	11.2%	10.7%	10.5%	10.0%	9.7%	9.9%	9.9%	9.9%
Health	5.6%	5.5%	5.6%	5.6%	5.7%	5.7%	5.8%	6.0%	6.1%	6.3%
Education	5.1%	5.1%	5.2%	5.1%	5.3%	5.3%	5.2%	6.3%	5.5%	5.3%
Core government services	1.9%	1.8%	1.8%	1.5%	1.6%	1.5%	1.7%	1.6%	2.9%	1.9%
Other core Crown expenses	7.5%	7.3%	7.1%	6.9%	7.0%	6.9%	7.2%	7.4%	7.6%	8.3%
<b>Core Crown expenses</b>	<b>32.4%</b>	<b>31.4%</b>	<b>30.9%</b>	<b>29.8%</b>	<b>30.1%</b>	<b>29.3%</b>	<b>29.5%</b>	<b>31.2%</b>	<b>32.0%</b>	<b>31.7%</b>
Crown entities, SOE and elimination expenses	5.6%	5.6%	6.0%	7.9%	9.3%	8.3%	8.8%	9.5%	8.7%	10.5%
<b>Total Crown expenses</b>	<b>38.1%</b>	<b>36.9%</b>	<b>36.9%</b>	<b>37.7%</b>	<b>39.4%</b>	<b>37.5%</b>	<b>38.4%</b>	<b>40.6%</b>	<b>40.7%</b>	<b>42.1%</b>
<b>OBEGAL</b>	<b>0.1%</b>	<b>0.5%</b>	<b>1.2%</b>	<b>2.0%</b>	<b>3.3%</b>	<b>3.9%</b>	<b>4.7%</b>	<b>4.5%</b>	<b>3.5%</b>	<b>3.1%</b>
Gains/(losses)	1.5%	0.7%	-0.2%	-0.1%	-2.1%	1.2%	-0.8%	1.5%	1.3%	-1.8%
<b>Operating balance</b>	<b>1.6%</b>	<b>1.3%</b>	<b>1.0%</b>	<b>1.8%</b>	<b>1.2%</b>	<b>5.1%</b>	<b>3.9%</b>	<b>6.0%</b>	<b>4.8%</b>	<b>1.3%</b>
<b>Statement of financial position</b>										
Property, plant and equipment	40.2%	39.3%	38.8%	40.2%	39.7%	40.5%	44.4%	56.3%	56.7%	57.4%
Financial assets	17.7%	16.9%	18.1%	17.9%	20.9%	22.8%	27.6%	41.9%	43.7%	47.2%
Other assets	10.8%	10.3%	9.7%	11.8%	13.9%	13.1%	13.0%	6.0%	6.5%	6.9%
<b>Total assets</b>	<b>68.8%</b>	<b>66.5%</b>	<b>66.6%</b>	<b>69.9%</b>	<b>74.5%</b>	<b>76.4%</b>	<b>85.0%</b>	<b>104.2%</b>	<b>106.9%</b>	<b>111.5%</b>
Borrowings	37.0%	33.8%	32.2%	30.6%	29.6%	26.3%	24.8%	25.3%	24.8%	25.6%
Other liabilities	22.1%	21.3%	21.3%	21.1%	23.8%	22.4%	24.5%	25.9%	24.7%	27.3%
<b>Total liabilities</b>	<b>59.1%</b>	<b>55.1%</b>	<b>53.6%</b>	<b>51.7%</b>	<b>53.4%</b>	<b>48.7%</b>	<b>49.3%</b>	<b>51.2%</b>	<b>49.5%</b>	<b>52.9%</b>
<b>Net worth</b>	<b>9.7%</b>	<b>11.4%</b>	<b>13.1%</b>	<b>18.1%</b>	<b>21.1%</b>	<b>27.7%</b>	<b>35.7%</b>	<b>53.0%</b>	<b>57.4%</b>	<b>58.6%</b>
<b>Fiscal Indicators</b>										
Core Crown revenue (excl NZS Fund)	31.4%	31.5%	32.0%	31.7%	32.7%	32.2%	33.6%	35.3%	34.7%	34.2%
Core Crown expenses	32.4%	31.4%	30.9%	29.8%	30.1%	29.3%	29.5%	31.2%	32.0%	31.7%
OBEGAL	0.1%	0.5%	1.2%	2.0%	3.3%	3.9%	4.7%	4.5%	3.5%	3.1%
OBEGAL (excl NZS Fund)	0.1%	0.5%	1.2%	2.0%	3.2%	3.9%	4.7%	4.6%	3.7%	3.1%
Operating balance	1.6%	1.3%	1.0%	1.8%	1.2%	5.1%	3.9%	6.0%	4.8%	1.3%
Core Crown residual cash	2.0%	-0.3%	0.3%	0.2%	0.9%	0.4%	2.0%	1.9%	1.7%	1.1%
GSID (excluding settlement cash)	35.6%	32.9%	31.4%	29.1%	27.6%	25.2%	23.3%	21.4%	18.2%	17.4%
Net core Crown debt	21.3%	19.7%	17.1%	15.6%	13.5%	10.9%	7.3%	5.1%	2.4%	0.0%
NZS Fund net worth	0.0%	0.0%	0.0%	0.5%	1.4%	2.8%	4.3%	6.2%	7.7%	7.9%