

Financial Statements of the Government of New Zealand

For the Eleven Months
Ended 31 May 2005



1 July 2005

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Officers for Enquiries

Glenn Phillips (phone 64-4-471-5102) (E-mail: glenn.phillips@treasury.govt.nz)
Kamlesh Patel (phone 64-4-471-5094) (E-mail: kamlesh.patel@treasury.govt.nz)

Budget and Macroeconomic Branch
The Treasury (1 The Terrace)
PO Box 3724, Wellington
NEW ZEALAND
Facsimile: 64-4-499-0992



COMMENTARY

CROWN FINANCIAL STATEMENTS – MAY 2005

The Government of New Zealand has a series of long term fiscal objectives, including objectives on the operating balance, revenue, expenses, debt and net worth, to maintain fiscal responsibility.

To enable progress towards these long term objectives, the Government has outlined where its focus will be. Taken together this enables interested parties to assess the picture of the fiscal performance of the Government.

In summary, given the long term debt to GDP objective and a policy of prefunding future expenses (i.e. the purpose of the NZS Fund) it requires a level of operating balance sufficient to generate cashflow to cover capital investment.

Within the full set of financial statements, each individual statement provides a different set of information to assess the overall performance (e.g. expenses in the operating statement gives an indication of size of Government and the cashflow from operating and investing provides the amount left over or required to be financed after all spending, operating and capital, is taken into account).

These financial statements provide a snap-shot of progress towards the long term fiscal objectives and the performance against the latest set of fiscal forecasts released in the Budget Economic and Fiscal Update on 19 May 2005.

A summary of the long term objectives are outlined below.

Long-term fiscal objectives	To achieve the objectives of fiscal policy, the Government's high-level focus is on:
<p>Operating balance: Operating surplus on average over the economic cycle sufficient to meet the requirements for contributions to the NZS Fund and ensure consistency with the long-term debt objective.</p>	<ul style="list-style-type: none"> • Operating surpluses (measured by the OBERAC) during the build-up phase of the NZS Fund. The focus is on core Crown revenues and expenses, with tax-to-GDP and core Crown expenses-to-GDP around current levels. • Because the OBERAC surplus includes the net (after-tax) return on the NZS Fund, which the NZS Fund will retain, the Government is effectively targeting OBERAC surpluses excluding the NZS Fund's retained investment returns.
<p>Revenue: Ensure sufficient revenue to meet the operating balance objective.</p>	<ul style="list-style-type: none"> • A robust, broad-based tax system that raises revenue in a fair and efficient way. • State Owned Enterprises (SOEs) and Crown entities contributing to surpluses, consistent with their legislation and Government policy.
<p>Expenses: Ensure expenses are consistent with the operating balance objective.</p>	
<p>Debt: Manage total debt at prudent levels. Gross sovereign-issued debt as a percentage of GDP slowly reducing over the longer term and passing through 20% of GDP before 2015.</p>	<ul style="list-style-type: none"> • SOEs will have debt structures that reflect best commercial practice. Changes in the level of debt will reflect specific circumstances. • Gross sovereign-issued debt-to-GDP will be reducing during the period ahead of the major demographic changes associated with population ageing. • Net debt, with NZS Fund assets, is expected to fall towards minus 15% of GDP by 2015 (ie, a net financial asset position).
<p>Net worth: Increase net worth consistent with the operating balance objective.</p>	<ul style="list-style-type: none"> • Increasing net worth consistent with the operating balance objective will see net worth at above 50% of GDP by 2015. • The NZS Fund is expected to be 21% of GDP by 2015. • Consistent with the net worth objective, there will also be a focus on quality investment.

SUMMARY

The Crown financial statements for the eleven months ended 31 May 2005 are compared against forecasts based on the 2005 Budget Economic and Fiscal Update (2005 BEFU).

Net cash flow from core operating and investing activity was \$3.3 billion which was \$708 million higher-than-forecast, reflecting higher than forecast tax receipts of \$418 million (primarily corporate tax) and delays in the purchase of physical assets and advances.

Gross sovereign-issued debt (GSID) was \$35.4 billion (24.2% of GDP), at the same level as the revised BEFU forecast.

Net core Crown debt was \$11.2 billion, which was around \$0.7 billion lower-than-forecast, reflecting higher than forecast tax receipts, delays in purchases of physical assets and higher issues of circulating currency (not forecast as a matter of policy)..

The **operating balance** was \$7.5 billion, which was \$675 million higher-than-forecast due to:

- higher-than-forecast tax revenue of \$544 million largely due to corporate tax (\$368m), net other persons (\$93m) and source deductions (\$61m). Corporate taxes are ahead of forecast largely due to higher-than-expected terminal tax assessments being lodged in May;
- investment income being higher-than-forecast by \$79 million, reflecting investment gains by the GSF, NZS Fund, EQC and ACC on their financial assets portfolios due to movements in global equity markets;
- expenses are \$52 million lower than forecast due to two offsetting factors:
 - \$330 million of core Crown expenditure delays in Health (\$116 million), Economic and Industrial Services (\$90 million), Education (\$50 million) and other (\$74 million); and
 - recognition of the estimated Kyoto liability of \$307 million.

The **OBERAC** was \$7.4 billion, which was \$79 million lower than the operating balance, reflecting the removal of investment gains on the investment asset portfolios held by the GSF, NZS Fund, EQC and ACC.

Table 1 – Summary Fiscal Indicators

\$ million	May	May	Variance \$m	June 2005 Forecast	June 2004 Actual
	2005 Actual YTD	2005 Forecast YTD			
Net cash flow from core operating and investing activity	3,285	2,577	708	2,413	520
Gross sovereign-issued debt	35,386	35,386	-	34,111	35,527
% of GDP	24.2	24.2	-	22.6	25.3
Net core Crown debt	11,165	11,883	(718)	11,533	15,204
% of GDP	7.6	8.1	(0.5)	7.7	10.8
Total Crown debt	36,542	36,542	-	35,695	36,825
Operating balance	7,461	6,786	675	5,891	7,424
OBERAC	7,382	6,786	596	7,445	6,629
Net worth	43,525	42,850	675	41,972	35,463

New Zealand's liability under the Kyoto Protocol for the first Commitment Period

New Zealand's obligations under the Kyoto Protocol

New Zealand is a signatory to the Kyoto Protocol, which imposes legally binding emission reduction targets on New Zealand, over the First Commitment Period (CP1 – 2008-2012). The Protocol entered into force on 16 February 2005, as a result of Russia's decision to ratify.

The position of each country for CP1 is calculated in an agreed manner. Countries may sell any surplus units to countries that need to purchase units to make up a deficit in meeting their Kyoto obligations through domestic action. Alternatively, they can choose to hold on to any surplus emission units to count against emission obligations in future commitment periods.

New Zealand projected net emissions position over the First Commitment Period

The estimate of New Zealand's net position has been revised downwards over the last year, from a net surplus of 32.6 million tonnes (Mt) of CO₂-e¹ in 2004, to a net deficit of 36.2 Mt (under a "median" scenario). The substantial revision is attributable to changes in two key variables: higher modelled emission from energy and industrial processes and a reduction in the offsetting carbon removals from forest sinks.

Accounting for the estimated liability

In previous revised forecasts there was insufficient certainty around the robustness of the outcome in terms of some of the variables used. This did not allow the quantity of the asset/liability to be measured and, therefore, required recognition of a contingent liability (as was the case in the 2005 Budget Economic and Fiscal Update). In addition, at the time previous estimates were published, the determination of a market price was also less reliable.

Over the last year there has been extensive review of the robustness of the assumptions and methodologies underpinning the projections, including improvements to the energy forecasting model and the revision of the sink estimates in light of recent scientific research. This work has significantly reduced the uncertainty around the estimates. While there will be continued fluctuations around the net position in the future, Treasury expects these changes to be small, compared to the very large revision seen in 2005.

This reduction in uncertainty, combined with the Protocol's entering into force, means that the value of New Zealand's Kyoto estimated liability can now in the view of the Treasury be measured with sufficient reliability as to require recognition in the Crown financial statements.

Valuing the estimated liability

The fiscal cost of meeting this liability depends on the quantum of the deficit, the price of Kyoto compliant units and the \$US/\$NZ exchange rate. Assuming an exchange rate of \$US0.7076 = \$NZ1 (based on 31 May 2005 exchange rate) and a carbon price of \$US6 per unit, the current valuation for purchasing 36.2 million units on the international market would be around \$307 million.

¹ Carbon dioxide equivalent – the universal unit of measurement used to indicate the global warming potential of each of the six greenhouse gases.

New Zealand's liability under the Kyoto Protocol for the first Commitment Period (continued)

Assurances around the net position estimate

A number of peer reviews have been completed or are to be commissioned in the near future, which will provide independent analysis of the various components of the net emissions projections:

- A peer review of the 2005 net emissions position calculation will shortly be commissioned by the Ministry for the Environment;
- Allen Consulting Group has undertaken a review of the Treasury's carbon price assumption;
- A review has been completed by Covec of the Ministry of Economic Development's Supply and Demand Energy Model (SADEM) total energy model, and confirmed its appropriateness for the intended purpose with recommended minor improvements to be largely implemented over the coming year. Castalia have completed a review of the electricity component of the 2005 energy greenhouse gas modelling results and recommended some improvements which are expected to have a small effect on emissions;
- The various components of the Carbon Accounting System (which will measure New Zealand's forest carbon sinks) will be subject to international expert peer review throughout the system's development and implementation; and
- The Ministry of Agriculture's livestock numbers projection model was re-developed by NZIER in 2003. The greenhouse gas emissions factors that are applied to the projected livestock numbers are based on research by AgResearch and other research institutes. This research programme was independently evaluated in 2005.

BREAKDOWN OF INDICATORS

DEBT

Core Crown Cash flow from operating and investing activities (page 38) was \$3,285 million. This represents \$46.6 billion of receipts (including tax receipts of \$43.5 billion) being utilised on:

- Operating payments including finance costs of \$25.2 billion; and
- Subsidies and transfer payments (e.g. NZ Superannuation and Unemployment benefit) of \$13.2 billion, giving a **cashflow from operating activities** of \$8.2 billion.

This is then used to fund:

- Contributions to the NZS Fund for partially funding future NZS payments of \$1.9 billion
- Purchase of physical assets (e.g. prisons, schools) of \$1.2 billion; and
- Other investment activity (including hospitals, housing, student loans and Reserve Bank reserves) of around \$1.8 billion.

Gross sovereign issued debt (page 21) was \$35.4 billion (24.2% of GDP) made up of:

- \$24.8 billion of domestic debt (including Government Stock and Treasury Bills); and
- \$10.6 billion of foreign denominated debt.

Net core crown debt (page 21) was \$11.2 billion made up of:

- Gross sovereign issued debt of \$35.4 billion; offset by financial assets including
- Marketable securities and deposits and cash of \$15.3 billion; and
- Advances (including student loans) of \$8.9 billion.

The cashflow is the primary driver of the movement in both debt indicators. On a month by month basis, the movement can be seen in net debt only, as the borrowing programme (which drives gross sovereign issued debt) is set on an annual basis, and reviewed six monthly (at the time of the Economic and Fiscal Updates).

OPERATING

The operating balance (page 16) was \$7.5 billion, which represents:

- \$47.6 billion of core crown revenue (including tax revenue of \$43.3 billion and \$2.4 billion of investment income)
- \$2.1 billion net surpluses (after payment of dividend to the Government) of state-owned enterprises and Crown entities (excluding ACC liability revaluation movements); offset by
- \$27 billion of core crown operating expenses including finance costs
- \$13.1 billion of subsidies and transfer payments; and
- \$2.1 billion of valuation expense movements of GSF and ACC.

The **OBERAC** was \$7.4 billion, which was \$79 million lower than the operating balance due to the removal of investment valuation gains on the asset portfolios held by ACC, EQC, GSF and NZSF.

NET WORTH

Net worth provides an indication of the difference between assets and liabilities. Net worth is currently \$43.5 billion.

Net worth is affected by two sources: operating balance and revaluations. Revaluations are not forecast as a matter of policy. Therefore the primary driver of variances in net worth during the financial year is the operating balance.

The major assets the Government invests in include:

- Financial assets (including student loans and marketable securities) of \$24.5 billion
- Government Superannuation Fund portfolio of \$3.3 billion
- New Zealand Superannuation Fund of \$5.3 billion
- Physical assets (including prisons and schools) of \$18.9 billion, including \$5.8 billion of revaluations
- Investment in State Owned Enterprises and Crown entities of \$23.7 billion, including asset portfolios in Accident Compensation Corporation and Earthquake Commission, physical assets including roading, hospitals, housing and liabilities including the ACC outstanding claims liability.²

The Government also has liabilities primarily gross sovereign issued debt (\$35.4 billion), the pension liability of the Government Superannuation Fund (\$14 billion) and other liabilities of \$8.7 billion.

² A further breakdown of the nature of the assets and liabilities of State owned enterprises and Crown entities can be found in the statement of segments on pages 24 to 27.

COMPARISON WITH PRIOR YEAR

Table 2 – Comparison with prior year

	31 May 2005 Actual \$m	31 May 2004 Actual \$m	Change \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	43,300	39,541	3,759	9.5
Other revenue	4,261	3,434	827	24.1
Total core Crown Revenue	47,561	42,975	4,586	10.7
Core Crown expenses				
Social security and welfare	13,291	12,909	(382)	(3.0)
GSF pension expenses (excl valuation)	958	904	(54)	(6.0)
GSF unfunded liability movement	492	264	(228)	(86.4)
Health	7,875	7,288	(587)	(8.1)
Education	7,282	6,883	(399)	(5.8)
Core government services	1,686	1,545	(141)	(9.1)
Law and order	1,777	1,658	(119)	(7.2)
Defence	1,141	1,097	(44)	(4.0)
Transport and communications	1,344	1,166	(178)	(15.3)
Economic and industrial services	1,294	1,052	(242)	(23.0)
Primary services	337	319	(18)	(5.6)
Heritage, culture and recreation	915	533	(382)	(71.7)
Housing and community development	134	117	(17)	(14.5)
Other	27	50	23	46.0
Finance costs	2,025	2,043	18	0.9
Net foreign-exchange losses/(gains)	1	35	34	97.1
Total core Crown Expenses	40,579	37,863	(2,716)	(7.2)
ACC unfunded liability movement	(1,656)	(551)	1,105	200.5
Net surplus of SOE/CE's	2,135	1,791	344	19.2
Operating Balance	7,461	6,903	558	8.1
OBERAC	7,382	6,803	579	8.5
Cash flows from operating and investing	3,285	489	2,796	-
Debt indicators				
Gross sovereign-issued debt	35,386	35,271	(115)	(0.3)
Net core Crown debt	11,165	15,452	4,287	27.7

Taxation revenue was \$3.8 billion (growth of 9.5%) higher than the eleven months ended 31 May 2004. This mainly comprised of growth in source deductions reflecting strength in the labour market, growth in companies tax driven by strong returns and growth in goods and services tax.

Other revenue was \$827 million higher than the previous year, mainly due to higher investment income earned by the NZ Superannuation Fund reflecting the increase in the assets held by the fund.

Total core Crown expenses (excluding GSF unfunded liability movement) were \$2.5 billion (growth of 6.6%) higher than the eleven months ended 31 May 2004. Significant movements within core Crown functional expenses were:

- **Social security and welfare** expenses were \$382 million higher than the previous year mainly due to the indexation of welfare benefits, partially offset by lower unemployment benefits due to the low unemployment rate;

- **Health** expenses were \$587 million higher than the previous year mainly due to the increase in payments to District Health Boards, reflecting increased funding to maintain and improve existing services levels;
- **Education** expenses were \$399 million higher than the previous year largely in primary, secondary school and early childhood education spending, largely due to the impact of demand-driven expenses (roll growth) as well as policy initiatives from Budget 2004;
- **Economic and industrial services** expenses were \$242 million higher than the previous year, mainly due to increase spending on employment related initiatives, electricity initiatives and flood relief payments.
- **Heritage, culture and recreation** expenses were \$382 million higher than the previous year, largely due to the recognition of the estimated Kyoto liability.

Cash flow from operating and investing was \$2,796 million higher than the previous year, reflecting that receipt growth has outpaced spending growth, mainly driven by tax receipts growth as previously mentioned.

Gross sovereign-issued debt (GSID) was \$115 million higher than the previous year mainly due to higher Reserve Bank borrowings (net debt neutral) offset by the maturity of debt which has not been rolled over and cash flow from operating and investing activities being applied to debt reduction.

Net core Crown debt has reduced by \$4.3 billion from the previous year primarily due to cash flows from operations (\$8.7 billion) and issues of circulating currency (\$0.2 billion), offset by purchase of investments (\$3.3 billion) and purchase of physical assets (\$1.3 billion).



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

as at 31 May 2005

1 Reporting Entity

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
- Reserve Bank of New Zealand
- Government Superannuation Fund
- Crown entities
- Departments
- State-owned enterprises
- Air New Zealand Limited
- New Zealand Superannuation Fund

A schedule of entities included in the Crown reporting entity was set out on pages 88 and 89 of the Financial Statements of the Government of New Zealand for the year ended 30 June 2004.

2 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), commercial forests and marketable securities, deposits & equity investments held for trading purposes. The accrual basis of accounting has been used unless otherwise stated.

These Financial Statements have been prepared on a going concern basis and the policies have been applied consistently throughout the period.

3 Specific Accounting Policies

The specific accounting policies of the Crown were described on pages 39 to 45 of the Financial Statements of the Government of New Zealand for the year ended 30 June 2004.

There have been no changes in the accounting policies during the period 1 July 2004 to 31 May 2005.

4 Forecast Results and Assumptions

The forecast results in these Financial Statements have been derived from the forecasts released in the 2005 Budget Economic and Fiscal Update (2005 BEFU), on 19 May 2005.

The assumptions underlying the preparation of forecasts are set out in the Statement of Accounting Policies and Forecast Assumptions reproduced in full on Treasury's website www.treasury.govt.nz/forecast/befu/2005.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

as at 31 May 2005

5 Comparative Figures

Comparative figures for the previous financial year to 30 June 2004 and comparative year-to-date period are presented in these Financial Statements.

Percentage variances between the actual and prior year balances exceeding 500% are not shown.

6 Outstanding Issues

While the fully consolidated Crown actuals and forecasts include the same reporting entities as previously, there are some issues still to be worked through. These issues may impact on the final form of the fully consolidated Crown forecasts and Crown Financial Statements.

The most significant issue is whether to combine tertiary education institution's (TEIs) in the Crown Financial Statements. The issue is not clear-cut. The Treasury, the Ministry of Education and TEIs are currently working through the issue, as outlined on page 56 of the 30 June 2004 Crown Financial Statements. The forecasts and actuals are continuing with the method of equity accounting TEIs.

STATEMENT OF FINANCIAL PERFORMANCE

for the eleven months ended 31 May 2005

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Revenue						
		Levied through the Crown's Sovereign Power						
42,532	39,096	Taxation revenue	1	42,820	42,276	544	1.3	45,980
2,986	2,766	Levies, fees, fines and penalties	1	2,856	2,856	-	-	3,079
45,518	41,862	Total Revenue Levied through the Crown's Sovereign Power	1	45,676	45,132	544	1.2	49,059
		Earned through the Crown's Operations						
10,200	9,442	Sales of goods and services	2	9,891	9,891	-	-	10,802
2,653	2,276	Investment income	3	2,958	2,879	79	2.7	3,127
2,016	1,943	Other revenue	4	2,287	2,287	-	-	2,277
14,869	13,661	Total Revenue Earned through the Crown's Operations		15,136	15,057	79	0.5	16,206
60,387	55,523	Total Crown Revenue		60,812	60,189	623	1.0	65,265
		Expenses						
		By input type						
15,466	14,187	Subsidies and transfer payments	5	14,496	14,496	-	-	15,947
12,501	11,309	Personnel expenses	6	12,252	12,252	-	-	13,505
22,662	20,079	Operating expenses	7	22,189	22,208	19	0.1	24,967
-	-	Forecast for future new spending		-	-	-	-	31
2,602	2,335	Finance costs		2,391	2,391	-	-	2,659
(29)	33	Net foreign-exchange (gains)/losses		3	36	33	91.7	36
(315)	264	Movement in total GSF liability	14	492	492	-	-	561
170	551	Movement in total ACC liability	15	1,656	1,656	-	-	1,807
53,057	48,758	Total Crown Expenses		53,479	53,531	52	0.1	59,513
7,330	6,765	Revenues less Expenses		7,333	6,658	675	0.9	5,752
139	138	Net surplus TEIs		128	128	-	-	139
7,469	6,903	Operating Balance (including minority interest)		7,461	6,786	675	9.9	5,891
(45)	-	Minority interest		-	-	-	-	-
7,424	6,903	Operating Balance		7,461	6,786	675	9.9	5,891

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

STATEMENT OF FINANCIAL PERFORMANCE (CONTINUED)

for the eleven months ended 31 May 2005

Below is an analysis of total Crown expenses and core Crown expenses by functional classification. This information reconciles to the segment information within the Statement of Segments.

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
		Note	Actual \$m	Forecast \$m	Variance \$m	%	
Total Crown expenses							
By functional classification							
16,038	15,032		16,586	16,586	-	-	18,430
660	1,168		1,449	1,449	-	-	1,581
7,623	6,910		7,735	7,851	116	1.5	8,552
8,349	7,547		7,746	7,796	50	0.6	8,703
1,670	1,486		1,624	1,648	24	1.5	1,843
2,022	1,827		1,922	1,922	-	-	2,188
1,259	1,048		1,100	1,100	-	-	1,271
5,443	4,619		5,020	5,020	-	-	5,794
4,070	3,684		4,196	4,286	90	2.1	4,759
1,074	981		1,214	1,214	-	-	1,149
1,609	1,489		1,842	1,581	(261)	(16.5)	1,787
615	548		624	624	-	-	706
52	51		27	27	-	-	24
2,602	2,335		2,391	2,391	-	-	2,659
(29)	33		3	36	33	91.7	36
-	-		-	-	-	-	31
53,057	48,758		53,479	53,531	52	0.1	59,513
Total Crown Expenses							
Core Crown expenses							
By functional classification							
14,252	12,909		13,291	13,291	-	-	14,736
660	1,168		1,450	1,450	-	-	1,581
8,111	7,288		7,875	7,991	116	1.5	8,815
7,585	6,883		7,282	7,332	50	0.7	8,068
1,741	1,545		1,686	1,710	24	1.4	1,962
1,843	1,658		1,777	1,777	-	-	2,019
1,311	1,097		1,141	1,141	-	-	1,321
1,461	1,166		1,344	1,344	-	-	1,596
1,192	1,052		1,294	1,384	90	6.5	1,629
368	319		337	337	-	-	409
634	533		915	654	(261)	(39.9)	756
139	117		134	134	-	-	169
52	50		27	27	-	-	24
2,252	2,043		2,025	2,025	-	-	2,190
7	35		1	21	20	95.2	21
-	-		-	-	-	-	31
41,608	37,863		40,579	40,618	39	0.1	45,327
Total Expenses							

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

STATEMENT OF CASH FLOWS

for the eleven months ended 31 May 2005

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
Cash Flows From Operations							
Cash was provided from							
42,308	38,847	Total tax receipts (refer Note 1)	43,063	42,645	418	1.0	46,116
2,852	2,718	Total other sovereign receipts (refer Note 1)	2,833	2,833	-	-	2,906
1,366	1,319	Interest	1,576	1,576	-	-	1,274
56	54	Dividends	59	59	-	-	66
10,478	9,582	Sales of goods and services	10,062	10,062	-	-	11,095
1,958	1,593	Other operating receipts	1,868	1,868	-	-	1,938
59,018	54,113	Total cash provided from operations	59,461	59,043	418	0.7	63,395
Cash was disbursed to							
15,370	14,186	Subsidies and transfer payments	14,499	14,499	-	-	16,052
32,398	29,347	Personnel and operating payments	31,335	31,335	-	-	34,005
2,256	2,123	Finance costs	1,963	1,963	-	-	2,402
-	-	Forecast for future new spending	-	-	-	-	31
50,024	45,656	Total cash disbursed to operations	47,797	47,797	-	-	52,490
8,994	8,457	Net Cash Flows From Operations	11,664	11,246	418	3.7	10,905
Cash Flows From Investing Activities							
Cash was provided from							
226	201	Sale of physical assets	217	217	-	-	316
226	201	Total cash provided from investing activities	217	217	-	-	316
Cash was disbursed to							
3,761	3,244	Purchase of physical assets	4,011	4,011	-	-	5,128
976	1,880	Net increase in advances	994	994	-	-	1,525
		Net purchase/(sale) of marketable securities,					
2,556	1,907	deposits & equity investments	7,627	7,627	-	-	5,819
-	-	Capital contingency provision	-	-	-	-	-
7,293	7,031	Total cash disbursed to investing activities	12,632	12,632	-	-	12,472
(7,067)	(6,830)	Net Cash Flows From Investing Activities	(12,415)	(12,415)	-	-	(12,156)
1,927	1,627	Net Cash Flows From Operating and Investing Activities	(751)	(1,169)	418	35.8	(1,251)
Cash Flows From Financing Activities							
Cash was Provided From							
114	147	Issues of circulating currency	255	205	50	24.4	205
129	(1,466)	Net issues/(repayment) of Government stock ¹	(1,153)	(1,153)	-	-	(831)
243	(1,319)	Total cash provided from financing activities	(898)	(948)	50	5.3	(626)
Cash was Disbursed to							
241	(330)	Net repayment/(issues) of other New Zealand-dollar borrowing	(2,436)	(2,436)	-	-	(1,699)
1,120	351	Net (issues)/repayment of foreign-currency borrowing	812	812	-	-	472
1,361	21	Total cash disbursed to financing activities	(1,624)	(1,624)	-	-	(1,227)
(1,118)	(1,340)	Net Cash Flows From Financing Activities	726	676	50	7.4	601
809	287	Net Movement in Cash	(25)	(493)	468	94.9	(650)
2,732	2,732	Opening Cash Balance	3,450	3,450	-	-	3,450
(91)	(77)	Foreign-exchange (losses)/gains on opening cash	24	24	-	-	19
3,450	2,942	Closing Cash Balance	3,449	2,981	468	15.7	2,819

¹ Net issues of Government stock include movements within government stock holdings of entities such as NZS Fund, GSF, ACC and EQC. The Bonds reconciliation at the end of these accounts outlines NZDMO issues.

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

STATEMENT OF CASH FLOWS (CONTINUED)

for the eleven months ended 31 May 2005

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
8,994	8,457	Net Cash Flows from Operations	11,664	11,246	418	4	10,905
		<i>Items included in the operating balance but not in net cash flows from operations</i>					
Valuation changes							
315	(264)	Decrease/(increase) in pension liabilities	(492)	(492)	-	-	(561)
(170)	(551)	(Increase)/decrease in ACC liabilities	(1,656)	(1,656)	-	-	(1,807)
(9)	-	National Provident Fund guarantee	-	-	-	-	-
(40)	-	Revaluation of commercial forests	-	-	-	-	-
(225)	(209)	Unrealised net foreign-exchange (losses)/gains	13	5	8	160	5
648	365	Other valuation changes	458	458	-	-	684
519	(659)	Total valuation changes	(1,677)	(1,685)	8	0.5	(1,679)
Property, plant & equipment asset movements							
(2,347)	(2,136)	Depreciation	(2,274)	(2,274)	-	-	(2,560)
15	-	(Loss)/gain on sale of physical assets	-	-	-	-	-
(2,332)	(2,136)	Total property, plant & equipment movements	(2,274)	(2,274)	-	-	(2,560)
Other Non-cash Items							
(80)	(65)	Student loans	(65)	(65)	-	-	(75)
(78)	(43)	Amortisation of goodwill	(82)	(82)	-	-	(96)
-	116	Accrued income from NZS Fund	-	-	-	-	411
139	62	Other	128	128	-	-	139
(19)	70	Total Other Non-cash Items	(19)	(19)	-	-	379
Movements in Working Capital							
468	368	(Decrease)/increase in taxes receivable	(1,174)	(1,174)	-	-	(176)
(24)	436	Increase/(decrease) in other receivables	141	141	-	-	(273)
48	43	Increase/(decrease) in inventories	60	60	-	-	51
(230)	324	(Increase)/decrease in payables	740	491	249	50.7	(756)
262	1,171	Total movements in working capital	(233)	(482)	249	51.7	(1,154)
7,424	6,903	Operating Balance	7,461	6,786	675	9.9	5,891

STATEMENT OF MOVEMENTS IN EQUITY

for the eleven months ended 31 May 2005

23,781	23,687	Opening Crown Balance	35,463	35,463	-	-	35,463
7,424	6,903	Operating balance for the period	7,461	6,786	675	9.9	5,891
45	-	Minority interest in operating balance	-	-	-	-	-
4,213	117	Net revaluations	601	601	-	-	618
11,682	7,020	Total Recognised Revenues and Expenses	8,062	7,387	675	9.1	6,509
35,463	30,707	Closing Crown Balance	43,525	42,850	675	1.6	41,972

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

STATEMENT OF FINANCIAL POSITION

as at 31 May 2005

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Note	Current Year Actual vs Forecast				Annual Forecast
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
Assets								
3,450	2,942	Cash and bank balances	8	3,449	2,981	468	15.7	2,819
		Marketable securities, deposits & equity investments	8	32,954	32,954	-	-	29,950
24,636	23,533	Advances	9	8,603	8,603	-	-	9,086
7,445	7,422	Receivables	10	9,617	9,617	-	-	10,138
10,587	10,947	Inventories		948	948	-	-	939
888	883	Other investments	11	216	216	-	-	234
259	248	Property, plant & equipment	12	59,872	59,872	-	-	60,794
57,940	53,306	Commercial forests		250	250	-	-	251
251	293	Investment in TEIs		4,508	4,508	-	-	4,518
4,367	4,486	Intangible assets		726	726	-	-	718
849	1,004	Forecast for new capital		-	-	-	-	-
-	-							
110,672	105,064	Total Assets		121,143	120,675	468	0.4	119,447
Liabilities								
12,486	10,970	Payables and provisions	13	12,863	13,070	207	1.6	13,309
3,009	3,042	Currency issued		3,176	3,176	-	-	3,214
		Borrowings - sovereign guaranteed		29,104	29,104	-	-	27,712
29,958	29,419	Borrowings - non-sovereign guaranteed		7,438	7,438	-	-	7,983
6,867	7,099	GSF Pension liability	14	14,034	14,034	-	-	14,103
13,542	14,121	ACC liability	15	11,003	11,003	-	-	11,154
9,347	9,706							
75,209	74,357	Total Liabilities		77,618	77,825	207	0.3	77,475
Total Assets less Total Liabilities								
35,463	30,707			43,525	42,850	675	1.6	41,972
Net Worth								
15,486	14,983	Taxpayer funds		22,967	22,292	(675)	(3.0)	21,514
19,838	15,724	Revaluation reserve	16	20,419	20,419	-	-	20,458
139	-	Minority interest		139	139	-	-	-
35,463	30,707	Net Worth		43,525	42,850	675	1.6	41,972

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

STATEMENT OF FINANCIAL POSITION (CONTINUED)

as at 31 May 2005

Following is an analysis of the NZS Fund and Gross and Net Debt information. The notes to the accounts provide breakdown of other key items.

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
1,884	1,884	Opening balance	3,956	3,956	-	-	3,956
1,879	1,701	Gross contribution	1,945	1,945	-	-	2,107
193	116	Income after tax	386	348	38	10.9	411
3,956	3,701	NZS Fund balance	6,287	6,249	38	0.6	6,474

New Zealand Superannuation Fund

Within MSDs & equity investments is the NZS Fund (except for cross holdings of investments with other parts of the Crown, for example the NZS Fund may hold NZ Government Stock). The following information includes all investments and income, including cross-holdings of NZ Government Stock and accrued interest on such stock.

Gross and Net Debt information

Definitions of debt:

Total Crown gross debt is the total borrowings (both sovereign-guaranteed and non-sovereign guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties.

The balance sheet splits total Crown debt into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that debt held by SOEs and Crown entities is not explicitly guaranteed by the Crown. Any such debt that may be guaranteed is included in the sovereign-guaranteed total. No debt of SOEs and Crown entities is currently guaranteed by the Crown.

Gross sovereign-issued debt is debt issued by the sovereign (i.e., core Crown) and includes Government stock held by the NZS Fund, GSF, ACC or EQC for example. In other words, the total sovereign-issued debt does not eliminate any internal cross-holdings held by these entities. The Government's debt objective uses this measure of debt.

		Total Crown Debt					
36,825	36,518	Total Crown gross debt	36,542	36,542	-	-	35,695
35,527	35,271	Gross sovereign-issued debt	35,386	35,386	-	-	34,111
		Core Crown Debt					
35,527	35,271	Gross sovereign-issued debt	35,386	35,386	-	-	34,111
(26,752)	(25,559)	Financial assets	(33,074)	(32,356)	(718)	(2.2)	(31,525)
8,775	9,712		2,312	3,030	(718)	(23.7)	2,586
6,429	5,740	NZS Fund and GSF financial assets	8,853	8,853	-	-	8,947
15,204	15,452	Net Core Crown Debt	11,165	11,883	(718)	(6.0)	11,533

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

STATEMENT OF BORROWINGS

as at 31 May 2005

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
Sovereign-Guaranteed Debt							
New Zealand-Dollar Debt							
17,351	17,251	Government stock	15,835	15,835	-	-	15,903
5,525	5,771	Treasury bills	5,839	5,839	-	-	4,750
(1,098)	(1,823)	Loans and foreign-exchange contracts	(3,798)	(3,798)	-	-	2,403
654	680	Retail stock	592	592	-	-	638
22,432	21,879	Total New Zealand-Dollar Debt	18,468	18,468	-	-	23,694
Foreign-Currency Debt							
3,079	3,431	United States dollars	6,194	6,194	-	-	(816)
1,015	899	Japanese yen	489	489	-	-	382
3,432	3,210	European and other currencies	3,953	3,953	-	-	4,452
7,526	7,540	Total Foreign-Currency Debt	10,636	10,636	-	-	4,018
29,958	29,419	Total Sovereign-Guaranteed Debt	29,104	29,104	-	-	27,712
Non-Sovereign-Guaranteed Debt							
4,283	5,360	New Zealand dollars	5,018	5,018	-	-	5,945
1,679	1,050	United States dollars	1,629	1,629	-	-	1,542
351	-	Japanese yen	184	184	-	-	-
554	689	European and other currencies	607	607	-	-	496
6,867	7,099	Total Non-Sovereign Debt	7,438	7,438	-	-	7,983
36,825	36,518	Total Borrowings (Gross Debt)	36,542	36,542	-	-	35,695
Less							
Financial Assets (including restricted assets)							
Marketable Securities, Deposits and Equity Investments							
7,089	8,313	New Zealand dollars	9,631	9,631	-	-	12,443
4,069	3,722	United States dollars	7,345	7,345	-	-	2,422
1,206	795	Japanese yen	835	835	-	-	417
2,814	1,760	European and other currencies	4,020	4,020	-	-	3,270
1,012	1,013	Reserve position at IMF	703	703	-	-	654
1,968	1,909	NZ equity investments	2,168	2,168	-	-	2,350
6,478	6,021	Foreign equity investments	8,252	8,252	-	-	8,394
24,636	23,533	Total Marketable Securities	32,954	32,954	-	-	29,950
		Deposits & Equity Investments					
		Advances and Cash					
5,995	5,978	Student loans	6,558	6,558	-	-	6,594
1,450	1,444	Other advances	2,045	2,045	-	-	2,492
3,450	2,942	Cash	3,449	2,981	468	15.7	2,819
10,895	10,364	Total Advances and Cash	12,052	11,584	468	4.0	11,905
35,531	33,897	Total Financial Assets	45,006	44,538	468	1.1	41,855
1,294	2,621	Borrowings less Financial Assets	(8,464)	(7,996)	468	5.9	(6,160)
6,862	6,735	Net New Zealand-dollar debt	(800)	(332)	468	141.0	2,988
(5,568)	(4,114)	Net foreign-currency debt	(7,664)	(7,664)	-	-	(9,148)
1,294	2,621	Borrowings less Financial Assets	(8,464)	(7,996)	468	5.9	(6,160)

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

STATEMENT OF COMMITMENTS

as at 31 May 2005

	As at 31 May 2005 \$m	As at 30 June 2004 \$m	As at 31 May 2004 \$m
Capital Commitments			
Specialist military equipment	858	86	79
Land and buildings	1,785	1,611	1,469
Other property, plant and equipment	904	1,012	846
Other capital commitments	103	400	140
TEIs	60	60	32
Total Capital Commitments	3,710	3,169	2,566
Operating Commitments			
Non-cancellable accommodation leases	1,484	1,492	1,304
Other non-cancellable leases	2,318	2,330	2,473
Non-cancellable contracts for the supply of goods and services	4,573	2,253	3,591
Other operating commitments	2,493	3,567	1,356
TEIs	325	325	316
Total Operating Commitments	11,193	9,967	9,040
Total Commitments	14,903	13,136	11,606
Total Commitments by Institutional Segment			
Core Crown	6,050	3,530	6,174
Crown entities	6,673	7,413	3,258
State-owned enterprises	2,180	2,193	2,174
Total Commitments	14,903	13,136	11,606

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 May 2005

Quantifiable Contingent Liabilities	As at 31 May 2005 \$m	As at 30 June 2004 \$m	As at 31 June 2005 \$m
Guarantees and Indemnities	157	292	248
Uncalled Capital	2,221	2,528	2,439
Legal Proceedings and Disputes	784	794	616
Other Contingent Liabilities	1,335	1,371	1,422
Total Quantifiable Contingent Liabilities	4,497	4,985	4,725
Total Quantifiable Contingent Liabilities by Institutional Segment			
Core Crown	4,226	4,734	4,461
Crown entities	11	53	10
State-owned enterprises	260	198	254
Total Quantifiable Contingent Liabilities	4,497	4,985	4,725
Quantifiable Contingent Assets			
Core Crown - Education and Transport	121	157	129
Total Quantifiable Contingent Assets	121	157	129

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

STATEMENT OF SEGMENTS

Financial Performance and Financial Position by institutional form

Statement of Financial Performance (institutional form) for the eleven months ended 31 May 2005 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast			
	Core Crown		Crown entities	
	Actual May 2004/05 \$m	Forecast May 2004/05 \$m	Actual May 2004/05 \$m	Forecast May 2004/05 \$m
Revenue				
Taxation revenue	43,300	42,756	-	-
Other sovereign levied income	594	594	2,304	2,304
Sales of goods and services	708	708	1,570	1,570
Investment income	2,395	2,345	1,008	979
Other revenues	564	564	15,626	15,626
Total revenue	47,561	46,967	20,508	20,479
Expenses by input type				
Subsidies and transfer payments	13,085	13,085	1,411	1,411
Personnel expenses	4,356	4,356	6,350	6,350
Operating expenses	20,620	20,639	10,918	10,918
Finance costs	2,025	2,025	240	240
FX losses/(gains)	1	21	88	70
GSF and ACC liability revaluation movts	492	492	1,656	1,656
Total expenses	40,579	40,618	20,663	20,645
Expenses by functional classification				
Social security and welfare	13,291	13,291	3,345	3,345
Health	7,875	7,991	6,063	6,063
Education	7,282	7,332	5,026	5,026
Other functional classifications	10,105	9,958	5,901	5,901
Forecast for future new spending	-	-	-	-
Finance costs and FX losses/(gains)	2,026	2,046	328	310
Total expenses	40,579	40,618	20,663	20,645
Net surplus of TEIs	-	-	128	128
Minority interest	-	-	-	-
Operating balance	6,982	6,349	(27)	(38)

Statement of Financial Position (institutional form) as at 31 May 2005 (actual to forecast)

(\$ million)	Core Crown		Crown entities	
	Actual May 2004/05 \$m	Forecast May 2004/05 \$m	Actual May 2004/05 \$m	Forecast May 2004/05 \$m
	Assets			
Financial assets	33,074	32,356	15,628	15,848
Physical assets	18,869	18,869	29,381	29,381
Investment in SOEs & CE (including TEIs)	23,666	23,666	4,496	4,496
Other assets	7,923	8,641	2,205	1,985
Total assets	83,532	83,532	51,710	51,710
Liabilities				
Borrowings	34,219	34,219	3,827	3,827
Other liabilities	22,734	22,734	16,190	16,190
Total liabilities	56,953	56,953	20,017	20,017
Net worth	26,579	26,579	31,693	31,693
Taxpayer funds	20,744	20,744	19,165	19,165
Revaluation reserves	5,835	5,835	12,528	12,528
Net worth	26,579	26,579	31,693	31,693
Analysis of financial assets and borrowings				
Advances and cash	9,411	8,693	1,805	2,025
MSDs and equity investments	23,663	23,663	13,823	13,823
Total financial assets	33,074	32,356	15,628	15,848
Borrowings - Sovereign guaranteed	34,219	34,219	-	-
Borrowings - Non-sovereign guaranteed	-	-	3,827	3,827
Total borrowings	34,219	34,219	3,827	3,827
Borrowings less financial assets	1,145	1,863	(11,801)	(12,021)
Net Crown debt	11,165	11,883		
Gross sovereign-issued debt	35,386	35,386		

Net Crown debt and gross sovereign-issued debt differ from the analysis above due to elimination of cross-holdings of Govt stock and adding back the NZS Fund and GSF assets.

STATEMENT OF SEGMENTS (CONTINUED)

Financial Performance and Financial Position by institutional form

Statement of Financial Performance (institutional form) for the eleven months ended 31 May 2005 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	May	May	May	May	May	May
	2004/05	2004/05	2004/05	2004/05	2004/05	2004/05
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue						
Taxation revenue	-	-	(480)	(320)	42,820	42,276
Other sovereign levied income	-	-	(42)	(42)	2,856	2,856
Sales of goods and services	8,025	8,025	(412)	(289)	9,891	9,891
Investment income	182	182	(627)	(627)	2,958	2,879
Other revenues	628	628	(14,531)	(14,531)	2,287	2,287
Total revenue	8,835	8,835	(16,092)	(15,809)	60,812	60,189
Expenses by input type						
Subsidies and transfer payments	-	-	-	-	14,496	14,496
Personnel expenses	1,551	1,551	(5)	(5)	12,252	12,252
Operating expenses	6,094	6,094	(15,443)	(15,443)	22,189	22,208
Finance costs	320	320	(194)	(194)	2,391	2,391
FX losses/(gains)	(59)	(55)	(27)	-	3	36
GSF and ACC liability revaluation movts	-	-	-	-	2,148	2,148
Total expenses	7,906	7,910	(15,669)	(15,642)	53,479	53,531
Expenses by functional classification						
Social security and welfare	-	-	(50)	(50)	16,586	16,586
Health	-	-	(6,203)	(6,203)	7,735	7,851
Education	-	-	(4,562)	(4,562)	7,746	7,796
Other functional classifications	7,645	7,645	(4,633)	(4,633)	19,018	18,871
Forecast for future new spending	-	-	-	-	-	-
Finance costs and FX losses/(gains)	261	265	(221)	(194)	2,394	2,427
Total expenses	7,906	7,910	(15,669)	(15,642)	53,479	53,531
Net surplus of TEIs	-	-	-	-	128	128
Minority interest	-	-	-	-	-	-
Operating balance	929	925	(423)	(167)	7,461	6,786

Statement of Financial Position (institutional form) as at 31 May 2005 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	May	May	May	May	May	May
	2004/05	2004/05	2004/05	2004/05	2004/05	2004/05
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Financial assets	3,512	3,542	(7,208)	(7,208)	45,006	44,538
Physical assets	11,622	11,622	-	-	59,872	59,872
Investment in SOEs & CE (including TEIs)	-	-	(23,654)	(23,654)	4,508	4,508
Other assets	2,249	2,243	(620)	(1,112)	11,757	11,757
Total assets	17,383	17,407	(31,482)	(31,974)	121,143	120,675
Liabilities						
Borrowings	5,704	5,704	(7,208)	(7,208)	36,542	36,542
Other liabilities	3,238	3,238	(1,086)	(879)	41,076	41,283
Total liabilities	8,942	8,942	(8,294)	(8,087)	77,618	77,825
Net worth	8,441	8,465	(23,188)	(23,887)	43,525	42,850
Taxpayer funds	6,385	6,409	(23,188)	(23,887)	23,106	22,431
Revaluation reserves	2,056	2,056	-	-	20,419	20,419
Net worth	8,441	8,465	(23,188)	(23,887)	43,525	42,850
Analysis of financial assets and borrowings						
Advances and cash	2,929	2,959	(2,093)	(2,093)	12,052	11,584
MSDs and equity investments	583	583	(5,115)	(5,115)	32,954	32,954
Total financial assets	3,512	3,542	(7,208)	(7,208)	45,006	44,538
Borrowings - Sovereign guaranteed	-	-	(5,115)	(5,115)	29,104	29,104
Borrowings - Non-sovereign guaranteed	5,704	5,704	(2,093)	(2,093)	7,438	7,438
Total borrowings	5,704	5,704	(7,208)	(7,208)	36,542	36,542
Borrowings less financial assets	2,192	2,162	-	-	(8,464)	(7,996)

STATEMENT OF SEGMENTS (CONTINUED)

Financial Performance and Financial Position by institutional form

Forecast Statement of Financial Performance (institutional form) for the year ended 30 June 2005 (compared to actual 30 June 2004)

(\$ million)	Prior Year Actual vs Current Year Forecast			
	Core Crown		Crown entities	
	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m
Revenue				
Taxation revenue	43,008	46,455	-	-
Other sovereign levied income	611	650	2,415	2,476
Sales of goods and services	736	746	1,700	1,694
Investment income	1,999	2,526	984	1,020
Other revenues	578	768	16,073	16,881
Total revenue	46,932	51,145	21,172	22,071
Expenses by input type				
Subsidies and transfer payments	14,058	14,418	1,408	1,529
Personnel expenses	4,315	4,757	6,566	6,999
Operating expenses	21,291	23,380	11,200	11,967
Finance costs	2,252	2,190	235	258
FX losses/(gains)	7	21	23	70
GSF and ACC liability movements	(315)	561	170	1,807
Total expenses	41,608	45,327	19,602	22,630
Expenses by functional classification				
Social security and welfare	14,252	14,736	2,199	4,127
Health	8,111	8,815	6,613	7,201
Education	7,585	8,068	6,175	6,173
Other functional classifications	9,401	11,466	4,357	4,801
Forecast for future new spending	-	31	-	-
Finance costs and FX losses/(gains)	2,259	2,211	258	328
Total expenses	41,608	45,327	19,602	22,630
Net surplus of TEIs	-	-	139	139
Minority interest	-	-	-	-
Operating balance	5,324	5,818	1,709	(420)

Forecast Statement of Financial Position (institutional form) as at 30 June 2005 (compared to actual 30 June 2004)

(\$ million)	Core Crown		Crown entities	
	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m
	Assets			
Financial assets	26,752	31,525	13,117	14,521
Physical assets	18,675	19,190	28,884	29,596
Investment in SOEs & CE (including TEIs)	23,162	23,711	4,367	4,518
Other assets	9,088	8,372	2,589	2,339
Total assets	77,677	82,798	48,957	50,974
Liabilities				
Borrowings	34,719	33,115	3,757	3,744
Other liabilities	23,489	24,394	13,539	15,854
Total liabilities	58,208	57,509	17,296	19,598
Net worth	19,469	25,289	31,661	31,376
Taxpayer Funds	13,626	19,446	19,126	18,840
Revaluation reserves	5,843	5,843	12,535	12,536
Minority interest	-	-	-	-
Net worth	19,469	25,289	31,661	31,376
Analysis of financial assets and borrowings				
Advances and cash	8,919	9,152	1,794	1,824
MSDs and equity investments	17,833	22,373	11,323	12,697
Total financial assets	26,752	31,525	13,117	14,521
Borrowings - Sovereign guaranteed	34,719	33,115	-	-
Borrowings - Non-sovereign guaranteed	-	-	3,757	3,744
Total borrowings	34,719	33,115	3,757	3,744
Borrowings less financial assets	7,967	1,590	(9,360)	(10,777)
Net Crown debt	15,204	11,533		
Gross sovereign-issued debt	35,527	34,111		

Net Crown debt and gross sovereign-issued debt differ from the analysis above due to elimination of cross-holdings of Govt stock and adding back the NZS Fund and GSF assets.

STATEMENT OF SEGMENTS (CONTINUED)

Financial Performance and Financial Position by institutional form

Forecast Statement of Financial Performance (institutional form) for the year ended 30 June 2005 (compared to actual 30 June 2004)

(\$ million)	Prior Year Actual vs Current Year Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m
Revenue						
Taxation revenue	-	-	(476)	(475)	42,532	45,980
Other sovereign levied income	-	-	(40)	(47)	2,986	3,079
Sales of goods and services	8,209	8,796	(445)	(434)	10,200	10,802
Investment income	132	182	(462)	(601)	2,653	3,127
Other revenues	616	688	(15,251)	(16,060)	2,016	2,277
Total revenue	8,957	9,666	(16,674)	(17,617)	60,387	65,265
Expenses by input type						
Subsidies and transfer payments	-	-	-	-	15,466	15,947
Personnel expenses	1,624	1,755	(4)	(6)	12,501	13,505
Operating expenses	6,377	6,670	(16,206)	(17,019)	22,662	24,998
Finance costs	298	365	(183)	(154)	2,602	2,659
FX losses/(gains)	(59)	(55)	-	-	(29)	36
GSF and ACC liability revaluation movts	-	-	-	-	(145)	2,368
Total expenses	8,240	8,735	(16,393)	(17,179)	53,057	59,513
Expenses by functional classification						
Social security and welfare	-	-	(413)	(433)	16,038	18,430
Health	-	-	(7,101)	(7,464)	7,623	8,552
Education	-	-	(5,411)	(5,538)	8,349	8,703
Other functional classifications	8,001	8,425	(3,285)	(3,590)	18,474	21,102
Forecast for future new spending	-	-	-	-	-	31
Finance costs and FX losses/(gains)	239	310	(183)	(154)	2,573	2,695
Total expenses	8,240	8,735	(16,393)	(17,179)	53,057	59,513
Net surplus of TEIs	-	-	-	-	139	139
Minority interest	(45)	-	-	-	(45)	-
Operating balance	672	931	(281)	(438)	7,424	5,891

Forecast Statement of Financial Position (institutional form) as at 30 June 2005 (compared to actual 30 June 2004)

(\$ million)	Prior Year Actual vs Current Year Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m
Assets						
Financial assets	2,750	3,523	(7,088)	(7,714)	35,531	41,855
Physical assets	10,381	12,008	-	-	57,940	60,794
Investment in SOEs & CE (including TEIs)	-	-	(23,162)	(23,711)	4,367	4,518
Other assets	2,147	2,390	(990)	(821)	12,834	12,280
Total assets	15,278	17,921	(31,240)	(32,246)	110,672	119,447
Liabilities						
Borrowings	5,437	6,550	(7,088)	(7,714)	36,825	35,695
Other liabilities	2,830	2,883	(1,474)	(1,351)	38,384	41,780
Total liabilities	8,267	9,433	(8,562)	(9,065)	75,209	77,475
Net worth	7,011	8,488	(22,678)	(23,181)	35,463	41,972
Taxpayer Funds	5,412	6,409	(22,678)	(23,181)	15,486	21,514
Revaluation reserves	1,460	2,079	-	-	19,838	20,458
Minority interest	139	-	-	-	139	-
Net worth	7,011	8,488	(22,678)	(23,181)	35,463	41,972
Analysis of financial assets and borrowings						
Advances and cash	2,305	3,131	(2,123)	(2,202)	10,895	11,905
MSDs and equity investments	445	392	(4,965)	(5,512)	24,636	29,950
Total financial assets	2,750	3,523	(7,088)	(7,714)	35,531	41,855
Borrowings - Sovereign guaranteed	-	-	(4,761)	(5,403)	29,958	27,712
Borrowings - Non-sovereign guaranteed	5,437	6,550	(2,327)	(2,311)	6,867	7,983
Total borrowings	5,437	6,550	(7,088)	(7,714)	36,825	35,695
Borrowings less financial assets	2,687	3,027	-	-	1,294	(6,160)

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
NOTE 1: Revenue Collected Through the Crown's Sovereign Power				
Income Tax Revenue (accrual)				
Individuals				
16,908	15,494	Source deductions	16,680	18,189
4,027	3,794	Other persons	3,904	3,982
(860)	(734)	Refunds	(803)	(894)
410	374	Fringe benefit tax	405	444
20,485	18,928	Total Individuals	20,186	21,721
Corporate Tax				
6,099	5,609	Gross companies tax	7,011	7,223
(180)	(143)	Refunds	(220)	(150)
800	696	Non-resident withholding tax	819	924
139	150	Foreign-source dividend w/holding payments	196	167
6,858	6,312	Total Corporate Tax	7,806	8,164
Other Income Tax				
1,188	1,067	Resident w/holding tax on interest income	1,369	1,420
49	55	Resident w/holding tax on dividend income	55	65
2	2	Estate and gift duties	2	3
1,239	1,124	Total Other Income Tax	1,426	1,488
28,582	26,364	Total Income Tax	29,418	31,373
Goods and Services Tax				
16,603	15,119	Gross goods and services tax	15,850	17,264
(6,885)	(6,271)	Refunds	(6,513)	(7,050)
9,718	8,848	Total Goods and Services Tax	9,337	10,214
Other Taxation				
947	864	Petroleum fuels excise	743	815
819	764	Tobacco excise	758	800
720	651	Customs duty	870	929
667	615	Road user charges	657	727
476	442	Alcohol excise	453	484
261	238	Gaming duties	261	288
211	189	Motor vehicle fees	199	216
75	70	Energy resources levies	66	75
56	51	Approved issuer levy and cheque duty	58	59
4,232	3,884	Total Other Indirect Taxation	4,065	4,393
13,950	12,732	Total Indirect Taxation	13,402	14,607
42,532	39,096	Total Tax Revenue Collected	42,820	45,980
Other Sovereign Revenues (accrual)				
1,989	1,846	ACC levies	1,892	2,034
233	215	Fire Service levies	228	241
78	72	EQC levies	74	80
686	633	Other miscellaneous items	662	724
2,986	2,766	Total Other Sovereign Revenues	2,856	3,079
45,518	41,862	Total Sovereign Revenue	45,676	49,059

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
NOTE 1: Receipts Collected Through the Crown's Sovereign Power				
Income Tax Receipts (cash)				
Individuals				
17,012	15,506	Source deductions	16,663	18,189
4,352	4,184	Other persons	4,454	4,561
(1,406)	(1,245)	Refunds	(1,210)	(1,369)
410	377	Fringe benefit tax	393	432
20,368	18,822	Total Individuals	20,300	21,813
Corporate Tax				
7,169	6,609	Gross companies tax	7,782	7,940
(1,088)	(1,019)	Refunds	(647)	(751)
776	745	Non-resident withholding tax	899	913
128	115	Foreign-source dividend w/holding payments	186	180
6,985	6,450	Total Corporate Tax	8,220	8,282
Other Income Tax				
1,217	1,126	Resident w/holding tax on interest income	1,383	1,418
53	51	Resident w/holding tax on dividend income	56	65
2	2	Estate and gift duties	2	2
1,272	1,179	Total Other Income Tax	1,441	1,485
28,625	26,451	Total Income Tax	29,961	31,580
Goods and Services Tax				
15,768	14,276	Gross goods and services tax	15,169	16,591
(6,313)	(5,770)	Refunds	(6,114)	(6,483)
9,455	8,506	Total Goods and Services Tax	9,055	10,108
Other Taxation				
944	884	Petroleum fuels excise	731	815
800	735	Tobacco excise	763	810
726	670	Customs duty	902	959
668	616	Road user charges	658	723
476	434	Alcohol excise	438	484
260	243	Gaming duties	256	285
223	189	Motor vehicle fees	174	216
75	69	Energy resources levies	67	77
56	50	Approved issuer levy and cheque duty	58	59
4,228	3,890	Total Other Indirect Taxation	4,047	4,428
13,683	12,396	Total Indirect Taxation	13,102	14,536
42,308	38,847	Total Tax Receipts Collected	43,063	46,116
Other Sovereign Receipts (cash)				
2,008	1,928	ACC levies	2,001	1,980
233	215	Fire Service levies	228	241
79	73	EQC levies	74	81
532	502	Other miscellaneous items	530	604
2,852	2,718	Total Other Sovereign Receipts	2,833	2,906
45,160	41,565	Total Sovereign Receipts	45,896	49,022

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m	Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
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NOTE 2: Sale of Goods and Services

The Statement of Institutional Segments shows the sale of goods and services as a total for each area of the Crown Estate (ie, total sales for core Crown, Crown entities and SOEs). The total for Crown entities includes such items as lottery sales, housing rental, CRI sales and so on. The total sales of SOEs represents the majority of their income from electricity generation and distribution services, postal services, advertising, air travel sales and so on.

NOTE 3: Investment Income

Investment Income			
1,428	1,174	1,814	1,839
447	408	455	505
76	54	55	65
701	629	625	712
1	11	9	6
2,653	2,276	2,958	3,127

NOTE 4: Other Revenue

(40)	-	-	-
110	99	97	95
18	36	42	48
22	22	27	27
1,906	1,786	2,121	2,107
2,016	1,943	2,287	2,277

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
NOTE 5: Subsidies and Transfer Payments				
		Social Assistance Grants		
5,889	5,396	New Zealand superannuation	5,567	6,082
1,407	1,373	ACC payments	1,411	1,530
1,569	1,440	Domestic purposes benefit	1,425	1,549
1,084	1,010	Unemployment benefit	773	831
833	752	Family support	742	915
380	341	Student allowances	322	369
3,931	3,545	Other social assistance grants	3,863	4,190
110	103	Subsidies	107	134
		Other Transfer Payments		
238	202	Official development assistance	255	311
25	25	Other	31	36
15,466	14,187	Total Subsidies and Transfer Payments	14,496	15,947

NOTE 6: Personnel Expenses

The Statement of Institutional Segments shows the personnel expenses as a total for each area of the Crown Estate (ie, total personnel expenses for core Crown, Crown entities and SOEs).

975	904	GSF pension costs	957	1,020
90	72	Other pension expenses	99	105
11,436	10,333	Other personnel expenses	11,196	12,380
12,501	11,309	Total Personnel Expenses	12,252	13,505

NOTE 7: Operating Expenses

Operating expenses relate to those expenses incurred in the course of undertaking the functions and activities of every entity included in the Crown financial statements, excluding those separately identified in the Statement of Financial Performance and other notes. Items disclosed separately are those required by accounting standards (and are expanded on further in the annual Crown financial statements). These include depreciation, rental costs and goodwill amortised.

Other operating costs is the large residual. Most of it represents the payment made for services provided by third parties (roading maintenance for example) or for raw materials (fuel, medicines or inventory for example). It also includes other day-to-day operating costs.

		Depreciation expenses:		
749	691	Buildings	734	805
103	107	Electricity distribution networks	97	116
146	137	Electricity generation assets	155	181
180	164	Specialist military equipment (SME)	168	181
219	194	State highways	214	233
91	126	Aircraft (excluding SME)	161	184
789	627	Other plant and equipment	696	796
70	90	Other assets	49	64
2,347	2,136	Total depreciation costs	2,274	2,560
		Other operating expenses:		
775	638	Rental and leasing costs	651	714
459	163	Change in provision for doubtful debts	436	606
84	64	Write off of bad debts	77	64
78	43	Goodwill amortised	82	96
309	253	Grants paid	313	348
347	323	Lottery prize payments	316	337
(15)	-	Loss/(gain) on sale of assets	-	-
-	-	Kyoto liability	303	-
18,278	16,459	Other operating expenses	17,737	20,242
22,662	20,079	Total Operating Expenses	22,189	24,967

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
NOTE 8: Cash and Marketable Securities, Deposits & Equity Investments				
By category:				
3,450	2,942	Total cash	3,449	2,819
15,178	14,591	Marketable securities and deposits	21,831	18,552
8,446	7,929	Equity investments (eg, shares)	10,420	10,744
1,012	1,013	Reserve position at the IMF	703	654
24,636	23,533	Total MSDs and Equity Investments	32,954	29,950
28,086	26,475	Cash and MSDs & Equity Investments	36,403	32,769
By portfolio management:				
11,313	11,427	Reserve Bank and DMO managed funds	15,015	13,342
3,410	2,736	NZS Fund	5,304	5,827
3,019	3,004	Government Superannuation Fund	3,326	3,120
1,589	1,572	EQC portfolio	1,638	5,287
4,276	3,596	ACC portfolio	6,215	1,553
1,029	1,198	Other holdings	1,456	821
24,636	23,533	Total MSDs & Equity Investments	32,954	29,950

The asset values above are net of any cross-holdings. For example the asset portfolios of the GSF, EQC and ACC currently all hold amounts of NZ Government Stock. For financial reporting purposes these amounts are eliminated within the consolidated financial statements. The total portfolios are shown below, along with commentary on the restricted nature of some of the assets (for example the GSF assets are only available for the payment of GSF benefits – because of the restricted nature of these assets they are excluded from the definition of net debt).

Nature of financial assets – some are restricted in their purpose

Within the financial assets above, several portfolios are restricted in their nature in that they are only available to meet very specified purposes and are not available (by statute or other reasons) for general use by the Crown. It is for this reason that such assets are excluded from the definition of net debt – one of the Crown's key fiscal policy indicators.

New Zealand Superannuation Fund

The assets of the NZS Fund is the Government's means of building up assets to partially pre-fund future NZS expenses and may only be used for NZ Superannuation. The assets in this fund total \$6.2 billion, which have largely been invested in New Zealand Treasury Bills, and is therefore eliminated from the Statement of Financial Position as it is an internal Government holding. The Government's contributions to the NZS Fund are calculated over a 40-year rolling horizon to ensure Superannuation entitlements over the next 40 years can be met.

Government Superannuation Fund

The GSF Authority administers the financial assets of the GSF totalling over \$3.4 billion. These assets result from contributions by beneficiaries built up through time and can only be applied to the ongoing payment of GSF benefits (as provided by the GSF Act). Also refer Note 14 Outstanding Liability associated with GSF benefits.

EQC – Natural Disaster Fund (NDF)

The EQC is New Zealand's primary provider of seismic disaster insurance to residential property owners. EQC administers the NDF, comprising capital and reserves. EQC draws on the NDF money to pay out claims for damage caused by natural disasters.

ACC portfolio

The ACC manages the ACC scheme. At present there is a substantial outstanding claims liability associated with past claims of around \$11 billion. To manage the payment of these claims in the future, ACC is building up a matching portfolio of assets. The target is to have the residual claims fully funded by 2014. Also refer Note

Individual portfolio information (including cross holdings of NZ Government Stock, excluding cash holdings)

3,956	3,701	NZS Fund	5,783	6,474
3,375	3,333	GSF net assets (including portfolio)	3,453	3,510
6,176	5,555	ACC portfolio	8,432	7,635
4,367	4,366	EQC portfolio	4,525	4,533

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
NOTE 9: Advances				
5,995	5,978	Student loans (see analysis below)	6,558	6,594
1,038	991	Kiwibank mortgages	1,519	1,851
72	72	Residential care loans	76	83
48	47	Maori development rural lending	49	48
25	27	Forestry encouragement loans	24	-
6	5	Catchment authorities	5	-
261	302	Other	372	510
7,445	7,422	Total Advances	8,603	9,086
Analysis of Student Loans				
Outstanding balance				
6,821	6,772	Total loans outstanding (including interest)	7,455	7,495
(826)	(794)	Total provisions (capital and interest)	(897)	(901)
5,995	5,978	Total Student Loans	6,558	6,594
Movement during the year				
5,370	5,370	Opening balance	5,995	5,995
999	940	Amount advanced in current year	913	979
447	408	Interest accrued on outstanding loan balance	455	505
(294)	(267)	Repayment of base capital	(285)	(313)
(216)	(194)	Repayment of accrued interest	(235)	(253)
(319)	(287)	Interest written off and movement in provision for interest write-offs and doubtful debts	(292)	(327)
8	8	Other movements	7	8
5,995	5,978	Closing Balance	6,558	6,594
NOTE 10: Receivables				
5,843	5,743	Taxes receivable	4,669	5,667
4,294	4,592	Accounts receivable	4,217	4,114
156	172	Receivable from the sale and purchase of Maui gas	121	116
294	440	Prepayments	610	241
10,587	10,947	Total Receivables	9,617	10,138
NOTE 11: Other Investments				
82	79	International Bank for Reconstruction and Developments	72	72
89	82	Asian Development Bank	78	78
88	87	Other	66	84
259	248	Total Other Investments	216	234

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
NOTE 12: Property, Plant and Equipment				
By Type				
Gross Carrying Value				
9,509	6,979	Land (valuation)	9,780	9,684
464	456	Properties intended for sale (valuation)	419	491
18,138	16,865	Buildings (valuation)	18,653	19,242
2,409	2,190	Electricity distribution network (valuation)	2,118	2,136
4,915	4,150	Electricity generation assets (valuation)	6,098	6,274
1,149	1,398	Aircraft (ex SME) (valuation)	1,472	1,594
13,082	12,964	State highways (valuation)	13,584	13,612
2,780	2,841	Specialist military equipment (valuation)	3,031	3,082
8,402	9,006	Other plant and equipment (cost)	8,869	8,836
5,262	5,285	Other assets (valuation)	5,508	5,181
66,110	62,134	Total Gross Carrying Value	69,532	70,132
Accumulated Depreciation				
1,356	1,839	Buildings	2,061	2,094
451	233	Electricity distribution network	181	213
416	286	Electricity generation assets	543	564
-	188	Aircraft (ex SME)	161	184
-	193	State highways	214	234
482	468	Specialist military equipment	640	647
5,141	5,153	Other plant and equipment	5,487	5,104
324	468	Other assets	372	298
8,170	8,828	Total Accumulated Depreciation	9,659	9,338
Net Carrying Value				
9,509	6,979	Land (valuation)	9,780	9,684
464	456	Properties intended for sale (valuation)	419	491
16,782	15,026	Buildings (valuation)	16,592	17,148
1,958	1,957	Electricity distribution network (valuation)	1,937	1,923
4,499	3,864	Electricity generation assets (valuation)	5,555	5,710
1,149	1,210	Aircraft (ex SME) (valuation)	1,311	1,410
13,082	12,771	State highways (valuation)	13,370	13,378
2,298	2,373	Specialist military equipment (valuation)	2,391	2,435
3,261	3,853	Other plant and equipment (cost)	3,382	3,732
4,938	4,817	Other assets (valuation)	5,136	4,883
57,940	53,306	Total Net Carrying Value	59,872	60,794
By holding				
57,357	52,947	Freehold assets	59,478	60,429
583	359	Leasehold assets	394	365
57,940	53,306	Total Net Carrying Value	59,872	60,794
NOTE 13: Payables and Provisions				
7,493	6,181	Accounts payable and accruals	8,462	8,289
2,355	2,156	Taxes repayable	1,304	2,326
485	528	Provisions	590	541
-	-	Kyoto liability	303	-
891	882	National Provident Fund guarantee	891	891
1,262	1,223	Provision for employee entitlements	1,313	1,262
12,486	10,970	Total Payables and Provisions	12,863	13,309

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: GSF Liability

Calculation information

The Government Superannuation Fund (GSF) assets and liabilities have been calculated by the Government Actuary as at 28 February 2005 for inclusion within the 2005 Budget Economic and Fiscal Update (BEFU). The liability arises from closed schemes for past and present public sector employees (set out in the GSF Act 1956). A projected Aggregate Funding method is used for the valuation, based on membership data as at the balance date. The funding method requires the benefits payable from the GSF in respect of past service to be calculated and then discounted back to the valuation date.

The GSF liability included in the 2005 BEFU was calculated using discount rates derived from the market yield curve as at the balance date (28 February 2005). This resulted in a long-term after-tax discount rate of 4.0% (4.4% at 30 June 2004). The other principal long-term financial assumptions used in the calculation remain unchanged from 30 June 2004, which were an inflation rate of 2.0%, and an annual salary increases rate, before any promotional effects of 3.0%.

Presentation and forecast approach

The projected gross liability is included within total liabilities. The GSF has available to it a portfolio of assets that partially offset the gross liability. The assets (less cross holdings of NZ Government stock) are included in the asset portion of the Crown's overall balance sheet.

Regular revaluations occur as part of Crown forecasting processes for the December and Budget Economic and Fiscal Updates. Within the monthly Crown financial statements the projected liability will be assumed to be static. The asset position is based on forecasts of contributions, investment returns (based on an expected long-run average rate of return) and benefit payments.

The assets of the GSF scheme will fluctuate during the year due to changes in the market value of its investments, particularly the equity investments. These movements will be reflected in the monthly accounts as part of investment income (movements in asset values) and will likely differ from the monthly forecasts. Movements in the value of the assets will also reflect differences in contribution income and benefit payments.

Volatility in monthly results

The forecasts assume a constant long-term rate of return, reflecting a forecast of the long-term average rate of return for a given portfolio mix. The actual results will almost always differ from the long-run average, particularly reflecting the short-term volatility of equity asset values. Such volatility is to be expected. The key objective is that over the longer-term, the long-run average rate of return is achieved.

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
GSF liability and asset information				
Gross GSF liability				
13,857	13,857	Opening gross liability	13,542	13,542
(315)	264	Net projected change	492	561
13,542	14,121	Closing gross liability	14,034	14,103
Less net assets available to the GSF scheme				
3,182	3,182	Opening asset value	3,375	3,375
315	264	Net projected change:		
		- Investment valuation changes	199	261
(122)	(113)	- Contributions and other income less membership payments	(121)	(126)
193	151	Total projected change	78	135
3,375	3,333	Closing net asset values	3,453	3,510
Net unfunded liability of the GSF schemes				
10,675	10,675	Opening unfunded liability	10,167	10,167
(508)	113	Net projected change	414	426
10,167	10,788	Net unfunded liability	10,581	10,593

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: ACC Claims Liability

Calculation information

PricewaterhouseCoopers Actuarial Pty Ltd have prepared the independent actuarial estimate of the ACC claims liability as at 31 March 2005 (which has been used as the basis for the forecast information). This estimate includes the expected future payments relating to accidents that occurred prior to valuation date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected administrative expenses of managing these claims.

Key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI) of 2.5% (unchanged from 30 June 2004) and discount rate of 6.2% (6.5% at 30 June 2004). The other key variable in each valuation is the assumed rate at which long-term claimants will leave the scheme over the period. This assessment is largely based on scheme history.

Presentation approach

The projected gross liability is included within total liabilities. The ACC has available to it a portfolio of assets that partially offset the gross liability. The assets (less cross holdings of NZ Government stock) are included in the asset portion of the Crown's overall balance sheet.

Within the monthly Crown financial statements, the projected liability is presumed to move from the opening position to the projected closing position evenly each month. This is reflected in the actual monthly accounts and is updated as part of regular valuations performed for Crown forecast purposes. The assets held by ACC may fluctuate due to changes in asset values, particularly the equity markets. These movements will also be reflected in the monthly accounts as part of investment income (movements in asset values).

Volatility in monthly results

The forecasts presume a rate of return, reflecting a forecast of the long-term average rate of return for a given portfolio mix. The actual results will almost always differ from the long-run average, particularly reflecting the short-term volatility of equity asset values. Such volatility is to be expected. The key objective is that over the longer-term, the long-run average rate of return is achieved.

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
ACC liability and asset information				
Gross ACC liability				
9,155	9,155	Opening gross liability	9,347	9,347
192	551	Net projected change	1,656	1,807
9,347	9,706	Closing gross liability	11,003	11,154
Less net assets available to ACC				
4,901	4,901	Opening net asset value	5,969	5,969
1,068	939	Net projected change	997	933
5,969	5,840	Closing net asset values	6,966	6,902
Net ACC reserves (net liability)				
(4,254)	(4,254)	Opening reserves position	(3,378)	(3,378)
876	388	Net projected change	(659)	(874)
(3,378)	(3,866)	Closing reserves position (net liability)	(4,037)	(4,252)

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m	Actual 31 May 2005 \$m	Annual Budget Forecast 12 Months \$m
NOTE 16: Revaluation Reserves			
<i>Movement in Asset Revaluation Reserves</i>			
15,624	15,624	19,838	19,838
		Opening Balance	
Net Revaluations			
3,855	101	1	18
308	-	-	-
-	-	600	600
50	16	-	-
4,213	117	601	618
1	(17)	(20)	2
19,838	15,724	20,419	20,458
		Closing Asset Revaluation Reserve	

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 May 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
Reconciliation of Net Core Crown Cash Flow From Operations With Net Cash Proceeds From Domestic Bonds							
This statement outlines the Core Crown Bonds reconciliation. Government stock balances and flows between the NZDMO, NZS Fund and the GSF are not eliminated. This presents the complete activity of the NZDMO bond programme.							
Core Crown Cash Flows from Operations							
42,777	39,149	Total tax receipts	43,532	43,114	418	1.0	46,815
428	387	Total other sovereign receipts	435	435	-	-	500
1,129	1,209	Interest, profits and dividends	1,656	1,656	-	-	1,234
534	1,078	Sale of goods & services and other receipts	957	957	-	-	1,400
(14,250)	(13,032)	Subsidies and transfer payments	(13,236)	(13,236)	-	-	(14,522)
(23,198)	(21,972)	Personnel and operating costs	(23,260)	(23,260)	-	-	(25,132)
(1,977)	(1,934)	Finance costs	(1,931)	(1,931)	-	-	(2,013)
-	-	Forecasts for future new spending	-	-	-	-	(31)
5,443	4,885	Net Cash Flows From Operations	8,153	7,735	418	5.4	8,251
Investing flows							
<i>Net advances</i>							
(701)	(669)	Student loans	(628)	(628)	-	-	-
(503)	(503)	Housing New Zealand Corporation	(34)	(44)	10	22.7	-
(614)	(392)	District health boards and RHMU	50	50	-	-	-
44	44	Tranz Rail New Zealand Limited	-	-	-	-	-
-	-	NZ Railways Corporation	(15)	(15)	-	-	-
49	46	Other	33	3	30	-	(742)
(1,725)	(1,474)	Total Net Advances	(594)	(634)	40	6.3	(742)
(1,299)	(1,234)	Net purchase of physical assets	(1,201)	(1,451)	250	17.2	(1,693)
<i>Net investments</i>							
(28)	(13)	District health boards	(66)	(66)	-	-	-
78	93	Housing New Zealand Corporation	(134)	(134)	-	-	-
-	-	Air NZ	(168)	(168)	-	-	-
(70)	(67)	Other	(138)	(138)	-	-	(596)
(1,879)	(1,701)	Net purchase of MSDs/equities by NZS Fund	(1,945)	(1,945)	-	-	(2,107)
-	-	Purchase of Reserve Bank reserves	(622)	(622)	-	-	(700)
-	-	Forecast new capital spending	-	-	-	-	-
(1,899)	(1,688)	Net (purchase)/sale of Investments	(3,073)	(3,073)	-	-	(3,403)
520	489	(Required to be financed)/Available for debt repayment	3,285	2,577	708	27.5	2,413
<i>Used in:</i>							
541	(60)	Other net (purchase)/sale of marketable securities and deposits	(3,970)	(3,025)	(945)	(31.2)	(2,401)
1,061	429	Total Investing activities	(685)	(448)	(237)	(52.9)	12
2	527	Net (repayment)/issue of other New Zealand-dollar borrowing	(1,167)	(1,167)	-	-	(1,492)
(216)	(377)	Net (repayment)/issue of foreign currency borrowing	2,430	2,430	-	-	1,650
(250)	82	Net outflows/(inflow) of cash	(102)	(102)	-	-	176
114	147	Issues of circulating currency	255	205	50	24.4	205
(350)	379		1,416	1,366	50	3.7	539
711	808	Net Repayment of/(Cash Proceeds from) Domestic Bonds	731	918	(187)	(20.4)	551
Gross Cash Proceeds from Domestic Bonds							
2,212	2,115	Domestic bonds (market)	1,945	1,859	86	4.6	2,150
478	478	Domestic bonds (non-market)	459	459	-	-	434
2,690	2,593	Total Gross Cash Proceeds from Domestic Bonds	2,404	2,217	187	8.4	2,584
(3,044)	(3,044)	Repayment of domestic bonds (market)	(2,797)	(2,797)	-	-	(2,797)
(357)	(357)	Repayment of domestic bonds (non-market)	(338)	(338)	-	-	(338)
(711)	(808)	Net (Repayments of)/Cash Proceeds from Domestic Bonds	(731)	(918)	187	20.4	(551)