

Financial Statements of the Government of New Zealand

For the Eleven Months Ended
31 May 2009



Prepared by The Treasury
3 July 2009

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The URL for this site is <http://www.treasury.govt.nz>

978-0-478-33076-2 (Print)
978-0-478-33077-9 (Online)

New Zealand Government



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CONTENTS

Commentary

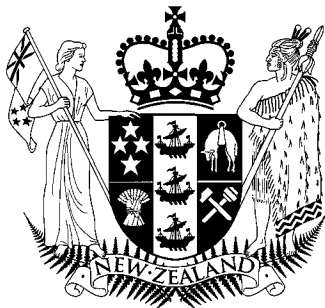
Summary	2
Year-on-Year Perspective	9

Financial Statements

Statement of Accounting Policies	12
<i>The statement outlines the summary accounting policies underpinning the preparation of the financial statements of the Government. It refers readers to the Treasury website where the accounting policies are set out in full.</i>	
Statement of Financial Performance	14
<i>The statement outlines the operating results of the total Government (i.e., the revenues and expenses of all departments + Reserve Bank + NZS Fund (core Crown), SOEs (including Air New Zealand), and Crown entities). Expense by functional class is also shown for total Crown and core Crown.</i>	
Statement of Cash Flows	16
<i>The statement sets out the cash flows that result from the operating, investing and financing activities of the Government. The net cash flows from operations are reconciled to the operating balance reported in the statement of financial performance.</i>	
Statement of Comprehensive Income	18
<i>The statement reports changes in net worth due to the operating balance, items of income or expense that are recognised directly in net worth, the effect of certain accounting changes, and corrections of errors.</i>	
Statement of Financial Position	19
<i>The statement outlines the balance sheet of the total Government (i.e., the assets and liabilities of the core Crown, SOEs, and Crown entities).</i>	
Statement of Borrowings	20
<i>The statement outlines total borrowings (split by sovereign-guaranteed debt and non sovereign-guaranteed debt), including the calculation of the core Crown debt indicators.</i>	
Statement of Commitments	21
<i>The statement outlines the commitments of the total Government by type and segment.</i>	
Statement of Contingent Liabilities and Assets	21
<i>The statement outlines the contingent liabilities and assets of the total Government by type and segment.</i>	
Notes to the Financial Statements	22
<i>The notes are an integral part of the financial statements, providing further explanatory material to that provided in the main statements.</i>	

Officer for Enquiries

Kamlesh Patel (phone 64-4-917-6094) (E-mail: kamlesh.patel@treasury.govt.nz)
Macroeconomic Group
The Treasury (1 The Terrace)
PO Box 3724, Wellington
NEW ZEALAND
Facsimile: 64-4-499-0437



COMMENTARY

SUMMARY

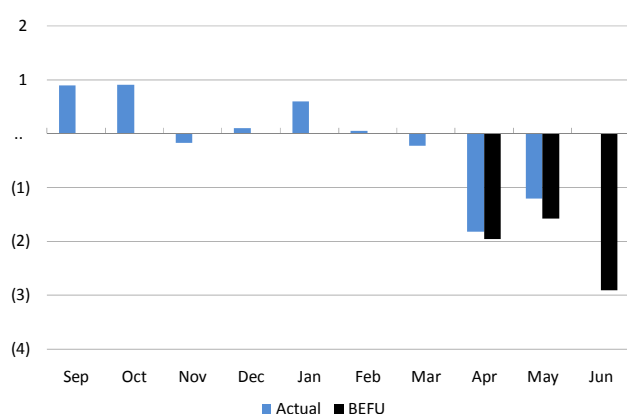
The Financial Statements of the Government provide a record of the Government's financial performance over the eleven months ended 31 May 2009 and its financial position as at 31 May 2009.

The results are compared against forecast tracks that are based on the forecasts in the *2009 Budget Economic and Fiscal Update (BEFU)*, which was released on 28 May 2009.

Results for the eleven months ended 31 May 2009:

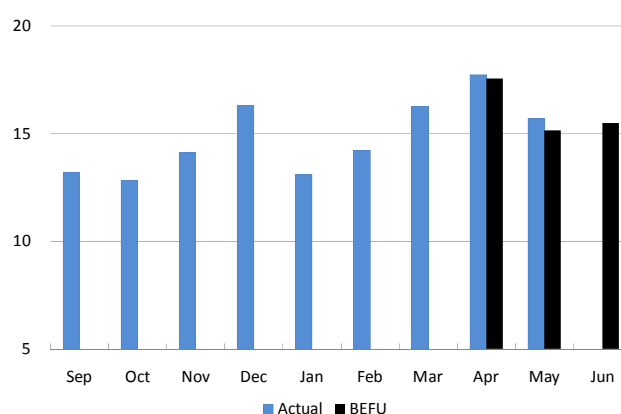
- Tax revenue was on forecast, but corporate tax receipts were \$0.4b lower than forecast. This was mainly due to lower-than-forecast provisional tax payments, indicating business profitability in the current year is weaker than expected.
- We are not seeing any significant benefit payment variances at this stage and overall Core Crown expenditure was \$0.4b lower than forecast.
- The Operating Balance Before Gains and Losses (OBEGAL) was a deficit of \$1.2 billion (\$0.4 billion lower than the forecast \$1.6b deficit) due mainly to the core Crown expenditure variance mentioned above.
- The operating balance was a deficit of \$7.2b (\$1.2b lower than the forecast \$8.4b deficit). This variance was mainly due to:
 - The NZS Fund and ACC have reported higher-than-forecast investment gains of \$1.2b and \$0.5b (respectively) in April and May and although they remain in a loss position for the year-to-date, their recent results contributed to the favourable operating balance variance as at 31 May.
 - The investment gains were partly offset by \$0.7b of negative valuation movements in financial assets and financial liabilities held by the Reserve Bank and NZ Debt Management Office (NZDMO).
- The residual cash deficit was \$1.0b lower than forecast due mainly to a delayed IMF Reserve transaction payment and funding returned from the NZ Fast Forward Fund earlier than expected.
- Net debt¹ was close to forecast as negative valuation movements in financial assets and financial liabilities held by the Reserve Bank and NZDMO were partially offset by a lower-than-expected residual cash deficit.

Figure 1 – Operating balance before gains and losses (\$ billions)



Source: The Treasury

Figure 2 – Net Debt¹ (\$ billions)



Source: The Treasury

¹ Net core Crown debt excluding NZS Fund, student loans and other advances.

Valuation of Crown Assets and Liabilities

The Government has significant holdings of assets and liabilities, the values of which are likely to have been affected by the financial and economic crisis. While the consequential impact of this decline has been reflected in the value of financial instruments such as share investments, a number of non-financial assets and liabilities such as property, plant and equipment are valued on a periodic basis. As a result, some assets and liabilities may not have been revalued since the 2008 annual financial statements were published in October 2008.

For example, the Government has holdings of \$106 billion of property, plant and equipment, \$100 billion of which are subject to valuation. As a result of previous valuation increases, a property, plant and equipment reserve of \$59 billion is reported in these financial statements. Given the amount of these reserves, it is unlikely that a decline in the value of these assets will impact the operating balance.

A number of revaluation exercises are currently underway and are planned to be completed in time for the 2009 annual financial statements (published in early October). The results of these valuations are, therefore, not reported in these interim financial statements.

Table 1 – Key indicators for the eleven months ended 31 May 2009 compared to BEFU

	Year to date				Full Year
	May 2009	May 2009 BEFU	Variance to BEFU	Variance to BEFU	June 2009 BEFU
	Actual ²	Forecast ²	\$m	%	Forecast ³
\$ million					
Core Crown					
Core Crown revenue (excl. NZS Fund) ¹	53,768	53,799	(31)	(0.1)	58,392
Core Crown expenses	55,368	55,855	487	0.9	62,363
NZS Fund operating balance	(2,817)	(3,339)	522	(15.6)	(3,260)
Core Crown residual cash	(7,135)	(8,180)	1,045	12.8	(8,458)
Gross debt ⁴	41,042	42,629	1,586	3.7	44,217
as a percentage of GDP	22.8%	23.7%			24.8%
Net debt ⁵	15,687	15,140	(547)	(3.6)	15,482
as a percentage of GDP	8.7%	8.4%			8.7%
Net debt (incl. NZS Fund) ⁵	3,874	2,581	(1,293)	50.1	3,814
as a percentage of GDP	2.2 %	1.4 %			2.1 %
Total Crown					
OBEGAL	(1,209)	(1,641)	432	(26.3)	(2,916)
Net gains/(losses) and other items	(5,952)	(6,690)	738		(6,387)
Operating balance	(7,161)	(8,331)	1,170	(14.0)	(9,303)

1 For the purposes of this indicator, the NZS Fund is treated as a third party (i.e. its revenue is not included but the tax it pays is)

2 Using GDP for the year ended 31 March 2009 of \$179,912 million (Source: Statistics New Zealand)

3 Using forecast GDP for the year ended 30 June 2009 of \$178,523 million (Source: Treasury)

4 Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills

5 Net core Crown debt less student loans and other advances

Core Crown includes Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand but excludes State-owned enterprises and Crown entities.

Table 2 – Key indicator variances for the eleven months ended 31 May 2009 compared to BEFU

Key Indicator	Variance	Key Drivers
Core Crown		
Core Crown revenue (excl. NZS Fund)	-\$31 million (lower than forecast)	<ul style="list-style-type: none"> Core Crown tax and other revenue was in line with forecast.
Core Crown expenses	\$487 million (lower than forecast)	<ul style="list-style-type: none"> Core Crown expenses were \$487m lower than forecast due to lower-than-forecast spending across a number of entities. The largest of these included: <ul style="list-style-type: none"> impairment of sovereign receivables was \$79m lower than forecast KiwiSaver employer and family tax credits were \$73m and \$46m lower than forecast (respectively) unemployment and NZ superannuation benefits were \$26m and \$12m lower than forecast (respectively) early childhood education expenditure was \$25m lower than forecast mainly due to lower-than-expected demand for funded child hours for over 2-year-olds in early childhood education.
NZS Fund operating balance deficit	\$522 million (lower than forecast)	<ul style="list-style-type: none"> The NZS Fund's operating balance deficit was lower than forecast. This is due to strong returns being recorded in April and May. The annualised investment return for the month of May was 3.47%. The Fund's annualised return since inception (September 2003) is now 3.83%, up from a recent low of 1.91% in February. The risk-free rate of return (Treasury bills) is 6.73%.
Core Crown residual cash deficit	\$1,045 million (lower than forecast)	<ul style="list-style-type: none"> Net purchases of investments were \$663m lower than forecast mainly due to the earlier-than-expected return of \$700m to the Crown from the NZ Fast Forward Fund. Net increases in advances were \$633m lower than forecast. This was mainly due to a \$515m IMF Reserve transaction that was planned for the May quarter, but that did not occur. However, we expect this variance in advances will narrow by year end because another, unplanned IMF Reserve transaction for \$147m is currently being processed. These were partially offset by Core Crown tax receipts, which were \$228m lower than forecast (refer to table 5). This variance was mainly due to: <ul style="list-style-type: none"> Corporate tax receipts were \$443m (5.8%) lower than forecast. Lower-than-forecast provisional tax contributed almost \$300m to the shortfall and this indicates that entities' current year (2008/09) profitability is weaker than expected. The remainder of the variance was due to lower-than-forecast terminal tax that relates to lower-than-expected final profits in previous tax years. Other individuals tax receipts were \$137m (4.4%) lower than forecast. This variance was mainly due to lower-than-forecast provisional tax, again indicating current year profitability was weaker than expected, and a timing difference arising from a shift in the March quarter FBT date from 31 May to 2 June.

Key Indicator	Variance	Key Drivers
Core Crown residual cash deficit (continued)		<p>Partially offset by:</p> <ul style="list-style-type: none"> – NZS Fund tax receipts were \$223m (113.2%) higher than forecast. The Fund has effectively overpaid approximately \$200m into tax pools as a form of investment. – GST receipts were \$156m (1.6%) higher than forecast, broadly in line with expectations.
Gross debt	\$1,586 million (lower than forecast)	<ul style="list-style-type: none"> • Gross debt was \$41,042m compared to a forecast of \$42,629m. The variance was mainly due to: <ul style="list-style-type: none"> – The earlier-than-expected return of funding from the NZ Fast Forward Fund (\$700m). – Lower than forecast issuance of Treasury Bills (\$295m). – Revaluation of Government Stock (\$257m). – The rest of the variance was mainly due to changes in derivative values, driven by movements in foreign exchange and interest rate movements since completion of the forecasts.
Net debt	-\$547 million (higher than forecast)	<ul style="list-style-type: none"> • Net debt was \$15,687m compared to a forecast of \$15,140m. The variance was mainly due to: <ul style="list-style-type: none"> – Valuation changes to financial assets and liabilities held by NZ DMO and the Reserve Bank of approximately \$1,100m (driven by movements in exchange rates and interest rates). – This was partly offset by the lower-than-forecast \$1,045m residual cash deficit (as noted above), although \$515m of the variance in residual cash relates to an advance transaction and is therefore excluded from net debt.

Item/indicator	Variance	Key drivers
Total Crown		
OBEGAL deficit (Operating balance before gains and losses)	\$432 million (lower than forecast)	<ul style="list-style-type: none"> • Total Crown revenue was \$208m lower than forecast. This was mainly due to lower-than-forecast spot prices for electricity sold by electricity companies. • Total Crown expenditure was \$640m lower than forecast. This was mainly due to the variance in core Crown expenses (as mentioned above); plus another \$165m (approximately) due to lower-than-forecast spot prices for electricity bought by electricity companies.
Operating balance deficit	\$1,170 million (lower than forecast)	<ul style="list-style-type: none"> • Along with the OBEGAL variance above, net losses of \$5,952m were recorded compared to forecast net losses of \$6,690m (a variance of \$738m). The main contributors to this variance were: <ul style="list-style-type: none"> – The NZS Fund and ACC reported gains on their investment portfolios in April and May that were \$1,179m and \$491m higher than forecast (respectively). (These figures are on an individual entity basis and include inter-entity transactions). – These movements take the year-to-date net losses on the investment portfolios of the NZS Fund, ACC and EQC to \$3,539m, \$88m and \$315m respectively. A total improvement of \$330m since last month. – Partly offsetting these gains were lower than forecast net gains of \$740m recorded by the Reserve Bank and NZDMO primarily relating to foreign exchange rate movements on financial instruments.

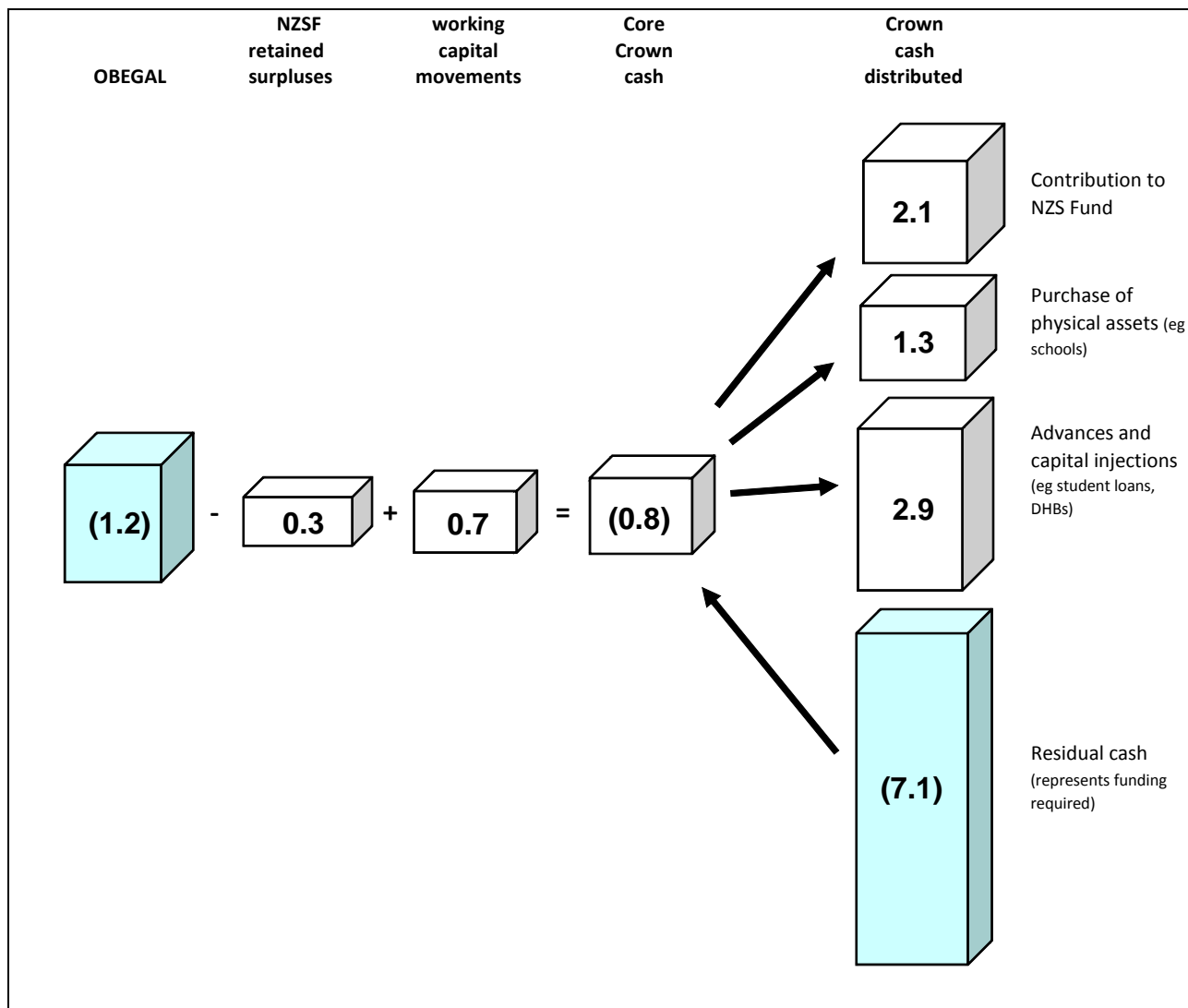
Table 3 – Reconciliation of Total Crown OBEGAL to core Crown residual cash

Amounts in \$ millions		Year to date		Full Year		
		May 2009	May 2009	Variance	Variance	June 2009
	Fiscal Indicators/Financial Statements	Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP ¹	29.8%	29.8%			30.0%
Taxes...	Taxation	49,099	49,204	(105)	(0.2)	53,523
... combined with other revenue ...	Core Crown other revenue, gains and losses	1,535	1,420	115	8.1	2,096
... fund core crown expenses ...	Core Crown expenses	(55,368)	(55,855)	487	(0.9)	(62,363)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(2,427)	(3,100)	673	(21.7)	(2,559)
... results in a net operating balance (surplus or deficit)...	Operating balance	(7,161)	(8,331)	1,170	(14.0)	(9,303)
...part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	5,952	6,690	(738)	(11.0)	6,387
... and so we have developed an operating indicator excluding these items.	OBEGAL	(1,209)	(1,641)	432	(26.3)	(2,916)
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. gains and losses)	(274)	(229)	(45)	19.7	(379)
" " " "	Net retained surpluses of SOEs and Crown entities	(43)	(93)	50	(53.8)	(1,088)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	725	1,389	(664)	(47.8)	3,242
The operating cash flow that results, needs to provide sufficient funds for	Core Crown Cash flow from Operations	(801)	(574)	(227)	39.5	(1,141)
- building up assets in NZ Superannuation	Contribution to NZS Fund	(2,069)	(2,071)	2	(0.1)	(2,242)
- meeting the capital expenditure budget, and	Purchase of physical assets	(1,367)	(1,341)	(26)	1.9	(1,503)
- making advances (e.g. to students and DHBs)	Advances and Capital injections	(2,898)	(4,194)	1,296	(30.9)	(3,572)
with a residual impact on debt that allows it to remain at prudent levels	Residual Cash	(7,135)	(8,180)	1,045	(12.8)	(8,458)
	... and as a percentage of GDP	-4.0%	-4.5%			-4.7%

¹ GDP for the eleven months ended 31 May (actual and forecast) is the actual data for the year ended 31 March 2009 (Source: Statistics New Zealand) extrapolated for eleven months.

Figure 3 – Application of core Crown cash flows (\$billions)

This diagram shows how the OBEGAL translates into cash available to the core Crown and how this cash was spent.



YEAR - ON - YEAR PERSPECTIVE

Table 4 – Comparison with previous year

	May 2009 Actual \$m	May 2008 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	49,647	52,264	(2,617)	(5.0)
Other revenue	4,470	4,693	(223)	(4.8)
Total Core Crown Revenue	54,117	56,957	(2,840)	(5.0)
Core Crown expenses				
Social security and welfare	17,356	16,138	1,218	7.5
GSF pension expenses	620	653	(33)	(5.1)
Health	11,216	10,320	896	8.7
Education	9,744	8,938	806	9.0
Core government services	3,038	2,728	310	11.4
Law and order	2,755	2,616	139	5.3
Defence	1,594	1,383	211	15.3
Transport and communications	2,265	1,939	326	16.8
Economic and industrial services	2,763	2,558	205	8.0
Primary services	463	403	60	14.9
Heritage, culture and recreation	943	999	(56)	(5.6)
Housing and community development	253	224	29	12.9
Other	112	53	59	111.3
Finance costs	2,246	2,201	45	2.0
Total Core Crown Expenses	55,368	51,153	4,215	8.2
Net surplus of SOE/CE's	42	1,465	(1,423)	(97.1)
OBEGAL	(1,209)	7,269	(8,478)	(116.6)
Total gains/(losses)	(6,226)	(2,047)	(4,179)	(204.2)
Other operating items	274	141	133	94.3
Operating Balance	(7,161)	5,363	(12,524)	(233.5)
Core Crown residual cash	(7,135)	1,864	(8,999)	(482.8)
Debt indicators				
Gross debt²	41,042	32,195	8,847	27.5
Net debt³	15,687	11,711	3,976	34.0

1 Due to the seasonal nature of some expenditure it is not appropriate to annualise these changes.

2 Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills.

3 Net core Crown debt excluding NZS Fund, student loans and other advances.

Revenue and Expenses

Total **taxation revenue** for the eleven months ended 31 May 2009 has decreased by \$2.6 billion (5.0%) on the same period last year. The decrease was primarily in corporate and other individuals' tax and was partly offset by increases in GST. The decline in both corporate and other individuals' tax is due to the 2008 tax cuts, declining profits and falling provisional tax assessments. Falling provisional tax mainly relates to 2008/09 tax year activity. Growth in GST relates to unusual seasonal patterns recorded for GST in early 2008.

Total **core Crown expenses** have increased by \$4.2 billion (8.2%) on the same period last year. The significant movements within core Crown functional expenses were as follows:

Functional expense	Movement from Previous year	Main drivers of the change
Social security and welfare	+ \$1.2 billion	<ul style="list-style-type: none">• Indexation of welfare benefits
Health	+ \$0.9 billion	<ul style="list-style-type: none">• Funding provided in the 2008 Budget to maintain and improve existing service levels
Education	+ \$0.8 billion	<ul style="list-style-type: none">• Higher demand-driven expenses from roll growth• Funding provided in the 2008 Budget
Transport and communications	+ \$0.3 billion	<ul style="list-style-type: none">• Mainly due to the write-off of goodwill on the acquisition of KiwiRail from Toll Holding Limited
Core government services	+ \$0.3 billion	<ul style="list-style-type: none">• Mainly due to policy initiatives from the 2008 Budget
Other	+ \$0.7 billion	<ul style="list-style-type: none">• Mainly due to policy initiatives from the 2008 Budget
Total	+ \$4.2 billion	

Total Gains and losses were in a net loss position of \$6.2 billion for the period ended 31 May 2009, compared to \$2.0 billion for the same period last year. The \$4.2 billion difference is due to:

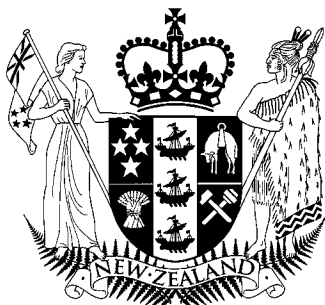
- lower than expected investment returns experienced in the 2008/09 financial year primarily resulting from the downturn in financial markets
- an increase in the ACC unfunded liability since May 2008 due to increases in expected claim costs driven primarily by economic assumptions (e.g., discount and inflation rates), and
- an increase in the GSF net pension liability since May 2008 due to a decrease in the discount rate and lower than expected investment performance.

The **core Crown residual cash** deficit increased by \$9.0 billion compared to the same period last year. This is primarily due to:

- a decrease of \$2.9 billion in tax receipts largely due to corporate tax, other individuals' tax and GST. The fall in corporate and other individuals' tax receipts was due to the 2008 tax cuts, one less due date during the period, declining profits and a decline in provisional tax
- the purchase of KiwiRail Holdings Limited, and
- the increase in core Crown expenses (as noted above).

Gross debt has increased as a result of the issuance of debt to meet higher cash deficits, the issuance of Reserve Bank bills and valuation movements.

Net debt has increased as a result of the issuance of debt to meet higher cash deficits, but not to the same extent as Gross debt. Some debt instruments issued (such as Reserve Bank bills) were issued for liquidity management purposes and have corresponding assets that partly offset the debt instruments' impact on net debt.



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

1 Reporting Entity

These financial statements are the consolidated financial statements for the Government 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 (SOEs)
- Air New Zealand Limited
- New Zealand Superannuation Fund

A schedule of the entities that are included in the Government reporting entity was set out on pages 139 and 140 of the *2009 Budget Economic and Fiscal Update* released on 28 May 2009.

With the exception of the prior year comparative figures, all actual, forecast and comparative figures presented in these financial statements are unaudited.

2 General Accounting Policies

These financial statements comply with generally accepted accounting practice and with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as applicable for public benefit entities. The measurement base applied is historical cost adjusted for revaluations of property, plant and equipment (where appropriate), commercial forests; and marketable securities, deposits and 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. All other policies have been applied consistently throughout the period.

3 Specific Accounting Policies

The specific accounting policies of the Crown are detailed on the Treasury's internet site:

<http://www.treasury.govt.nz/publications/guidance/finmgmt-reporting/accounting/>

4 Forecasts and Assumptions

The forecasts in these financial statements have been derived from the forecasts released in the *2009 Budget Economic and Fiscal Update* (BEFU), on 28 May 2009.

The assumptions underlying the preparation of forecasts are set out in the Statement of Accounting Policies and Forecast Assumptions reproduced in full on the Treasury's internet site:

<http://www.treasury.govt.nz/budget/forecasts/befu2009>

STATEMENT OF ACCOUNTING POLICIES (*CONTINUED*)

5 Comparative Figures

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

6 Variance Percentages

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

STATEMENT OF FINANCIAL PERFORMANCE

for the eleven months ended 31 May 2009

Year to 30 Jun 2008	11 Months to 31 May 2008		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Revenue						
56,372	51,890	Taxation revenue	1	49,099	49,204	(105)	(0.2)	53,523
3,879	3,550	Other sovereign revenue	1	3,750	3,752	(2)	(0.1)	4,114
60,251	55,440	Total Revenue Levied through the Crown's Sovereign Power		52,849	52,956	(107)	(0.2)	57,637
15,399	13,180	Sales of goods and services		13,616	13,684	(68)	(0.5)	15,248
3,214	2,986	Interest revenue and dividends	2	3,131	3,123	8	0.3	2,999
2,615	2,498	Other revenue		2,872	2,913	(41)	(1.4)	3,075
21,228	18,664	Total revenue earned through the Crown's operations		19,619	19,720	(101)	(0.5)	21,322
81,479	74,104	Total revenue (excluding gains)		72,468	72,676	(208)	(0.3)	78,959
		Expenses						
18,374	16,662	Social assistance and official development assistance	3	18,183	18,362	179	1.0	20,182
16,478	15,027	Personnel expenses	4	16,532	16,486	(46)	(0.3)	18,031
3,670	3,294	Depreciation and amortisation	5	3,835	3,924	89	2.3	4,283
30,656	26,166	Other operating expenses	5	28,025	28,766	741	2.6	32,605
3,101	2,808	Interest expenses	6	3,316	3,318	2	0.1	3,358
3,563	2,878	Insurance expenses	7	3,786	3,639	(147)	(4.0)	3,916
-	-	Forecast new operating spending	5	-	-	-	-	-
-	-	Top-down expense adjustment	5	-	(178)	(178)	(100.0)	(500)
75,842	66,835	Total expenses (excluding losses)		73,677	74,317	640	0.9	81,875
5,637	7,269	Operating balance before gains/(losses)		(1,209)	(1,641)	432	26.3	(2,916)
(617)	109	Net gains/(losses) on financial instruments	8	(2,666)	(3,356)	690	20.6	(3,266)
(2,925)	(2,156)	Net gains/(losses) on non-financial instruments	9	(3,560)	(3,638)	78	2.1	(3,450)
(3,542)	(2,047)	Total gains/(losses)		(6,226)	(6,994)	768	11.0	(6,716)
334	141	Net surplus/(deficit) from associates and joint ventures		270	303	(33)	(10.9)	333
2,429	5,363	Operating balance from continuing activities		(7,165)	(8,332)	1,167	14.0	(9,299)
22	-	Gain/(loss) from discontinued operations		4	1	3	300.0	(4)
2,451	5,363	Operating balance (including minority interest)		(7,161)	(8,331)	1,170	14.0	(9,303)
(67)	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
2,384	5,363	Operating Balance	10	(7,161)	(8,331)	1,170	14.0	(9,303)

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

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the eleven months ended 31 May 2009

Year to 30 Jun 2008 Actual \$m	11 Months to 31 May 2008 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Total Crown expenses							
21,509	19,049	Social security and welfare	21,248	21,130	(118)	(0.6)	23,409
690	653	GSF pension expenses	620	616	(4)	(0.6)	680
10,809	9,723	Health	10,872	10,817	(55)	(0.5)	11,947
10,397	9,647	Education	10,603	10,640	37	0.3	11,844
3,274	2,680	Core government services	2,953	3,135	182	5.8	3,813
3,082	2,835	Law and order	2,928	3,001	73	2.4	3,358
1,525	1,351	Defence	1,554	1,554	-	-	1,687
7,424	6,345	Transport and communications	8,102	8,198	96	1.2	9,349
9,038	7,508	Economic and industrial services	6,936	7,494	558	7.4	8,055
1,459	1,216	Primary services	1,280	1,319	39	3.0	1,437
2,337	2,125	Heritage, culture and recreation	2,210	2,180	(30)	(1.4)	2,414
938	837	Housing and community development	947	973	26	2.7	904
259	58	Other	108	120	12	10.0	120
3,101	2,808	Finance costs	3,316	3,318	2	0.1	3,358
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(178)	(178)	(100.0)	(500)
75,842	66,835	Total Crown expenses excluding losses	73,677	74,317	640	0.9	81,875

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by the Crown, Departments and the Reserve Bank, but not Crown entities and SOEs.

Year to 30 Jun 2008 Actual \$m	11 Months to 31 May 2008 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Core Crown							
		Core Crown expenses					
17,877	16,138	Social security and welfare	17,356	17,526	170	1.0	19,475
690	653	GSF pension expenses	620	616	(4)	(0.6)	680
11,297	10,320	Health	11,216	11,260	44	0.4	12,395
9,551	8,938	Education	9,744	9,777	33	0.3	10,964
3,371	2,728	Core government services	3,037	3,108	71	2.3	3,853
2,894	2,616	Law and order	2,755	2,812	57	2.0	3,116
1,562	1,383	Defence	1,594	1,596	2	0.1	1,735
2,244	1,939	Transport and communications	2,265	2,344	79	3.4	2,954
2,889	2,558	Economic and industrial services	2,763	2,878	115	4.0	3,145
541	403	Primary services	463	467	4	0.9	545
1,107	999	Heritage, culture and recreation	943	952	9	0.9	1,062
260	224	Housing and community development	253	290	37	12.8	312
254	53	Other	112	115	3	2.6	120
2,460	2,201	Finance costs	2,246	2,290	44	1.9	2,507
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(178)	(178)	(100.0)	(500)
56,997	51,153	Total core Crown expenses excluding losses	55,367	55,853	486	0.9	62,363

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

STATEMENT OF CASH FLOWS

for the eleven months ended 31 May 2009

Year to 30 Jun 2008 Actual \$m	11 Months to 31 May 2008 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
Cash Flows From Operations							
Cash was provided from							
55,168	50,917	Taxation receipts	47,607	48,032	(425)	(0.9)	52,266
3,460	3,268	Other sovereign receipts	3,440	3,533	(93)	(2.6)	3,733
14,635	12,548	Sales of goods and services	14,950	14,961	(11)	(0.1)	16,458
3,111	2,751	Interest and dividends	2,854	2,858	(4)	(0.1)	2,731
2,211	2,339	Other operating receipts	2,506	2,473	33	1.3	2,707
78,585	71,823	Total cash provided from operations	71,357	71,857	(500)	(0.7)	77,895
Cash was disbursed to							
18,026	16,606	Social assistance and official development assistance	17,991	17,987	(4)	-	19,863
45,972	42,171	Personnel and operating payments	46,896	47,254	358	0.8	52,281
2,820	2,746	Interest payments	2,917	2,977	60	2.0	2,907
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(178)	(178)	(100.0)	(400)
66,818	61,523	Total cash disbursed to operations	67,804	68,040	236	0.3	74,651
11,767	10,300	Net cash flows from operations	3,553	3,817	(264)	(6.9)	3,244
Cash Flows From Investing Activities							
Cash was provided from/(disbursed to)							
(4,922)	(4,379)	Net purchase of physical assets	(4,895)	(5,529)	634	11.5	(6,106)
(6,080)	(7,463)	Net purchase of shares and other securities	(2,405)	(6,032)	3,627	60.1	(7,678)
(320)	(228)	Net purchase of intangible assets	(288)	(350)	62	17.7	(391)
(2,646)	(307)	Net (issue)/repayment of advances	(1,104)	(1,118)	14	1.3	(1,013)
(363)	(277)	Net acquisition of investments in associates	(350)	(328)	(22)	(6.7)	(313)
-	-	Capital contingency provision	-	-	-	-	-
-	-	Top-down capital adjustment	-	150	(150)	(100.0)	275
(14,331)	(12,654)	Net cash flows from investing activities	(9,042)	(13,207)	4,165	31.5	(15,226)
(2,564)	(2,354)	Net cash flows from operating and investing activities	(5,489)	(9,390)	3,901	41.5	(11,982)
Cash Flows From Financing Activities							
Cash was provided from/(disbursed to)							
86	172	Issues of circulating currency	519	509	10	2.0	509
1,674	1,404	Net issue/(repayment) of Government stock ¹	1,606	1,632	(26)	(1.6)	2,451
1,099	1,192	Net issue/(repayment) of foreign currency borrowing	(2,122)	(4,764)	2,642	55.5	(5,636)
(697)	351	Net issue/(repayment) of other New Zealand dollar borrowing	7,847	13,893	(6,046)	(43.5)	16,076
2,162	3,119	Net cash flows from financing activities	7,850	11,270	(3,420)	(30.3)	13,400
(402)	765	Net movement in cash	2,361	1,880	481	25.6	1,418
4,162	4,163	Opening Cash Balance	3,804	3,804	-	-	3,804
44	(6)	Foreign-exchange gains/(losses) on opening cash	(211)	162	(373)	(230.2)	131
3,804	4,922	Closing Cash Balance	5,954	5,846	108	1.8	5,353

1 Net issues of Government stock include movements within government stock holdings of entities such as NZS Fund, ACC and EQC. The Reconciliation of Core Crown Operating Cash Flows to Residual Core Crown Cash (note 18) outlines proceeds and repayments of domestic bonds.

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 2009

Year to 30 Jun 2008 Actual \$m	11 Months to 31 May 2008 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
11,767	10,300	Net Cash Flows from Operations	3,553	3,817	(264)	(6.9)	3,244
		Items included in the operating balance but not in net cash flows from operations.					
		Gains/(losses)					
(617)	109	Gains/(losses) on other financial instruments	(2,666)	(3,356)	690	20.6	(3,266)
(2,925)	(2,156)	Gains/(losses) on other non-financial instruments	(3,560)	(3,638)	78	2.1	(3,450)
(3,542)	(2,047)	Total gains/(losses)	(6,226)	(6,994)	768	11.0	(6,716)
		Other Non-cash Items in Operating Balance					
(3,670)	(3,294)	Depreciation and amortisation	(3,835)	(3,924)	89	2.3	(4,283)
(559)	(569)	Write-down on initial recognition of loans	(586)	(599)	13	2.2	(718)
213	203	Impairment on financial assets (excluding receivables)	19	18	1	5.6	15
2	(7)	Decrease/(increase) in defined benefit retirement plan liabilities	(11)	(60)	49	81.7	(39)
(1,358)	(995)	Decrease/(increase) in insurance liabilities	(1,998)	(1,729)	(269)	(15.6)	(1,557)
334	141	Other	270	302	(32)	(10.6)	333
(5,038)	(4,521)	Total other non-cash Items	(6,141)	(5,992)	(149)	(2.5)	(6,249)
		Movements in Working Capital					
2,100	1,872	Increase/(decrease) in receivables	243	(125)	368	294.4	(371)
(179)	174	Increase/(decrease) in accrued interest	(122)	(75)	(47)	(62.7)	(182)
138	85	Increase/(decrease) in inventories	194	163	31	19.0	134
77	55	Increase/(decrease) in prepayments	67	68	(1)	(1.5)	(8)
(326)	(178)	Decrease/(increase) in deferred revenue	12	(14)	26	185.7	74
(2,613)	(377)	Decrease/(increase) in payables	1,259	821	438	53.3	771
(803)	1,631	Total movements in working capital	1,653	838	815	97.3	418
2,384	5,363	Operating Balance	(7,161)	(8,331)	1,170	14.0	(9,303)

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

STATEMENT OF COMPREHENSIVE INCOME

for the eleven months ended 31 May 2009

Year to 30 Jun 2008 Actual \$m	11 Months to 31 May 2008 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
6,214	1	Revaluation of physical assets	262	275	(13)	(4.7)	(707)
9	(91)	Effective portion of changes in value of cash flow hedges	257	609	(352)	(57.8)	4
22	7	Net change in fair value of cash flow hedges transferred to operating balance	(4)	(8)	4	50.0	(1)
(60)	(39)	Net change in fair value of cash flow hedges transferred to the hedged item	64	63	1	1.6	65
17	1	Foreign currency translation differences for foreign operations	23	82	(59)	(72.0)	76
11	10	Valuation gains/(losses) on investments available for sale taken to reserves	31	59	(28)	(47.5)	49
-	-	Other movements	-	-	-	-	1
6,213	(111)	Comprehensive income for the year	633	1,080	(447)	(41.4)	(513)
2,451	5,363	Operating Balance (including minority interest)	(7,161)	(8,331)	1,170	14.0	(9,303)
8,664	5,252	Total comprehensive income	(6,528)	(7,251)	723	10.0	(9,816)
Attributable to:							
83	-	- minority interest in Air New Zealand	-	-	-	-	-
8,581	5,252	- the Crown	(6,528)	(7,251)	723	10.0	(9,816)
8,664	5,252	Total comprehensive income	(6,528)	(7,251)	723	10.0	(9,816)

STATEMENT OF FINANCIAL POSITION

as at 31 May 2009

As at 30 June 2008 Actual \$m	As at 31 May 2008 Actual \$m		Current Year Actual vs Forecast					Annual Forecast \$m
			Note	Actual \$m	Forecast \$m	Variance \$m	%	
Assets								
3,804	4,922	Cash and cash equivalents	11	5,954	5,846	108	1.8	5,353
14,158	13,931	Receivables	11	14,401	14,033	368	2.6	13,787
		Marketable securities, deposits and						
41,189	39,761	derivatives in gain	11	47,455	54,751	(7,296)	(13.3)	54,676
12,964	13,702	Share investments	11	11,362	10,502	860	8.2	10,664
12,948	13,577	Advances	11	16,142	16,081	61	0.4	15,042
964	912	Inventory		1,159	1,127	32	2.8	1,099
1,663	1,352	Other assets		1,265	1,586	(321)	(20.2)	1,547
103,329	97,089	Property, plant & equipment	12	105,856	106,271	(415)	(0.4)	106,498
8,065	7,295	Equity accounted investments ¹		8,679	8,644	35	0.4	8,805
1,751	1,713	Intangible assets and goodwill ²		2,078	2,152	(74)	(3.4)	1,928
-	-	Forecast for new capital spending		-	-	-	-	-
-	-	Top-down capital adjustment		-	(150)	150	100.0	(275)
200,835	194,254	Total assets		214,351	220,843	(6,492)	(2.9)	219,124
Liabilities								
3,530	3,619	Issued currency		4,049	4,042	(7)	(0.2)	4,039
10,895	9,071	Payables	14	8,565	9,490	925	9.7	9,949
1,292	1,144	Deferred revenue		1,280	1,305	25	1.9	1,218
46,110	46,742	Borrowings		61,950	68,644	6,694	9.8	69,156
20,484	19,625	Insurance liabilities	15	24,490	24,343	(147)	(0.6)	24,136
8,257	8,075	Retirement plan liabilities		10,646	10,695	49	0.5	10,557
4,753	3,900	Provisions	16	4,386	4,061	(325)	(8.0)	4,371
95,321	92,176	Total liabilities		115,366	122,580	7,214	5.9	123,426
105,514	102,078	Total assets less total liabilities		98,985	98,263	722	0.7	95,698
Net Worth								
46,700	49,602	Taxpayer funds	17	39,599	38,516	1,083	2.8	37,534
58,566	52,426	Revaluation reserve	17	58,768	58,696	72	0.1	57,723
(134)	(246)	Other reserves	17	236	669	(433)	(64.7)	59
105,132	101,782	Total net worth attributable to the		98,603	97,881	722	0.7	95,316
		Net worth attributable to minority						
382	296	in Air New Zealand		382	382	-	-	382
105,514	102,078	Total net worth		98,985	98,263	722	0.7	95,698

¹ Tertiary education institutions constitute most equity accounted investments.

² Intangible assets as at 31 May 2009 includes the Kyoto net asset, previously a net liability (refer Note 16).

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

STATEMENT OF BORROWINGS

as at 31 May 2009

As at 30 June 2008 Actual \$m	As at 31 May 2008 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
18,516	18,261	Government stock ¹	20,926	21,134	208	1.0	21,237
1,484	1,383	Treasury bills	5,938	6,248	310	5.0	7,140
423	419	Government retail stock	495	584	89	15.2	581
7,750	7,987	Settlement deposits with Reserve Bank	7,839	9,432	1,593	16.9	9,432
1,591	1,483	Derivatives in loss ²	2,182	4,118	1,936	47.0	4,127
955	954	Finance lease liabilities	1,034	1,108	74	6.7	1,444
15,391	16,255	Other borrowings	23,536	26,020	2,484	9.5	25,195
46,110	46,742	Total borrowings	61,950	68,644	6,694	9.8	69,156
33,192	33,457	Sovereign-guaranteed debt	44,297	50,605	6,308	12.5	51,654
12,918	13,285	Non sovereign-guaranteed debt	17,653	18,039	386	2.1	17,502
46,110	46,742	Total borrowings	61,950	68,644	6,694	9.8	69,156
Net Debt:							
37,336	37,574	Core Crown borrowings	49,337	56,839	7,502	13.2	57,329
409	570	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	395	(1,626)	(2,021)	(124.3)	(528)
37,745	38,144	Gross sovereign-issued debt	49,732	55,213	5,481	9.9	56,801
40,421	40,069	Less core Crown financial assets	45,858	52,632	(6,774)	(12.9)	52,987
(2,676)	(1,925)	Net core Crown debt (incl NZS Fund)³	3,874	2,581	(1,293)	(50.1)	3,814
12,934	13,380	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets	11,813	12,559	(746)	(5.9)	11,668
10,258	11,455	Net core Crown debt (excl NZS Fund)⁴	15,687	15,140	(547)	(3.6)	15,482
Gross Debt:							
37,745	38,144	Gross sovereign-issued debt	49,732	55,213	5,481	9.9	56,801
(7,955)	(8,122)	Less Reserve Bank settlement cash and Reserve Bank bills	(10,290)	(14,184)	(3,895)	(27.5)	(14,184)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash	1,600	1,600	-	-	1,600
31,390	31,622	Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills⁵	41,042	42,629	1,586	3.7	44,217

Notes on Borrowings

Total Borrowings represents the Government's debt obligations to external parties. Total borrowings can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non sovereign-guaranteed debt represents the debt obligations of SOEs and Crown entities that are not explicitly guaranteed by the Crown.

1. Government stock includes \$395 million of infrastructure bonds.

2. Derivatives are included in either borrowings (as a liability) or marketable securities, deposits and equity investments (as an asset) depending on their value at balance date. This treatment leads to fluctuations in individual items within the Statement of Borrowings, primarily due to exchange rate movements.

3. Net Core Crown Debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the credit-worthiness of a country. However, as some financial assets are held for public policy rather than treasury management purposes, they are excluded from the net debt indicator (eg advances and receivables).

4. NZS Fund is excluded from net core Crown debt as these assets are set aside to meet part of the future cost of New Zealand superannuation.

5. Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the NZS Fund, ACC and EQC. GSID excludes debt instruments issued by the Reserve Bank for liquidity management purposes (specifically settlement cash and bank bills). In addition, the Reserve Bank has used \$1.6b of settlement cash to purchase reserves that were to have been funded by DMO borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

The composition of these debt indicators has been re-specified in the latest Budget as part of the reformulation of the Government's fiscal strategy. The two main changes were:

- i) Reserve Bank bills are now deducted from GSID as, like settlement cash, these bills are a vehicle for managing liquidity in financial markets.
- ii) The definition of net debt now excludes advances.

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

STATEMENT OF COMMITMENTS

as at 31 May 2009

	As at 31 May 2009 \$m	As at 30 June 2008 \$m	As at 31 May 2008 \$m
Capital Commitments			
Specialist military equipment	895	873	832
Land and buildings	1,160	1,121	746
Other property, plant and equipment	4,048	4,303	2,586
Other capital commitments	329	304	113
Tertiary Education Institutions	209	209	90
Total capital commitments	6,641	6,810	4,367
Operating Commitments			
Non-cancellable accommodation leases	1,236	2,460	2,257
Other non-cancellable leases	1,931	2,390	2,319
Non-cancellable contracts for the supply of goods and services	2,080	2,157	1,730
Other operating commitments	6,162	7,995	8,995
Tertiary Education Institutions	315	315	303
Total operating commitments	11,724	15,317	15,604
Total commitments	18,365	22,127	19,971
Total Commitments by Segment			
Core Crown	9,690	19,627	12,636
Crown entities	10,011	15,830	9,897
State-owned Enterprises	4,579	4,724	3,538
Inter-segment eliminations	(5,915)	(18,054)	(6,100)
Total commitments	18,365	22,127	19,971

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 May 2009

	As at 31 May 2009 \$m	As at 30 June 2008 \$m	As at 31 May 2008 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	87	286	168
Uncalled capital	2,682	2,205	2,093
Legal proceedings and disputes	373	383	359
Other contingent liabilities	2,317	1,995	1,896
Total quantifiable contingent liabilities	5,459	4,869	4,516
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	5,385	4,685	4,373
Crown entities	7	86	52
State-owned Enterprises	67	98	91
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	5,459	4,869	4,516
Quantifiable Contingent Assets			
Core Crown	315	389	85
Crown entities	-	-	5
Total quantifiable contingent assets	315	389	90

The above table does not include the guarantee schemes in relation to financial institution deposits. Refer to Note 20 for information on these schemes.

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

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008	11 Months to 31 May 2008		Current Year Actual vs Forecast				Annual Forecast
Actual \$m	Actual \$m		Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Taxation Revenue (accrual)							
Individuals							
23,345	21,068	PAYE	21,113	20,994	119	0.6	22,967
5,071	4,693	Other persons	4,066	4,081	(15)	(0.4)	4,639
(1,470)	(1,218)	Refunds	(1,309)	(1,299)	(10)	(0.8)	(1,731)
522	460	Fringe benefit tax	469	461	8	1.7	499
27,468	25,003	Total individuals	24,339	24,237	102	0.4	26,374
Corporate Tax							
8,787	8,426	Gross companies tax	6,143	6,303	(160)	(2.5)	7,014
(242)	(215)	Refunds	(403)	(429)	26	6.1	(535)
1,506	1,421	Non-resident withholding tax	1,397	1,375	22	1.6	1,409
71	80	Foreign-source dividend w/holding payments	10	5	5	100.0	5
10,122	9,712	Total corporate tax	7,147	7,254	(107)	(1.5)	7,893
Other Income Tax							
2,699	2,425	Resident w/holding tax on interest income	2,435	2,515	(80)	(3.2)	2,763
69	67	Resident w/holding tax on dividend income	87	63	24	38.1	61
3	2	Estate and gift duties	1	1	-	-	2
2,771	2,494	Total other income tax	2,523	2,579	(56)	(2.2)	2,826
40,361	37,209	Total income tax	34,009	34,070	(61)	(0.2)	37,093
Goods and Services Tax							
20,631	18,788	Gross goods and services tax	18,895	19,887	(992)	(5.0)	22,248
(9,516)	(8,596)	Refunds	(8,351)	(9,275)	924	10.0	(10,655)
11,115	10,192	Total goods and services tax	10,544	10,612	(68)	(0.6)	11,593
Other Taxation							
819	717	Petroleum fuels excise	697	699	(2)	(0.3)	811
159	151	Tobacco excise	159	165	(6)	(3.6)	170
1,857	1,759	Customs duty	1,830	1,735	95	5.5	1,828
851	786	Road user charges	804	846	(42)	(5.0)	883
573	539	Alcohol excise	588	592	(4)	(0.7)	630
260	219	Gaming duties	195	199	(4)	(2.0)	215
226	207	Motor vehicle fees	163	170	(7)	(4.1)	171
46	42	Energy resources levies	35	33	2	6.1	37
105	69	Approved issuer levy and cheque duty	75	83	(8)	(9.6)	92
4,896	4,489	Total other indirect taxation	4,546	4,522	24	0.5	4,837
16,011	14,681	Total indirect taxation	15,090	15,134	(44)	(0.3)	16,430
56,372	51,890	Total taxation revenue	49,099	49,204	(105)	(0.2)	53,523
Other Sovereign Revenue (accrual)							
2,718	2,517	ACC levies	2,600	2,618	(18)	(0.7)	2,885
279	257	Fire Service levies	274	275	(1)	(0.4)	303
86	79	EQC levies	80	80	-	-	87
796	697	Other miscellaneous items	796	779	17	2.2	839
3,879	3,550	Total other sovereign revenue	3,750	3,752	(2)	(0.1)	4,114
60,251	55,440	Total sovereign revenue	52,849	52,956	(107)	(0.2)	57,637

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008 Actual \$m	11 Months to 31 May 2008 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
22,830	20,894	PAYE	20,902	20,869	33	0.2	22,767
5,469	5,168	Other persons	4,745	4,836	(91)	(1.9)	5,050
(2,171)	(1,923)	Refunds	(2,197)	(2,190)	(7)	(0.3)	(2,465)
489	495	Fringe benefit tax	454	493	(39)	(7.9)	500
26,617	24,634	Total individuals	23,904	24,008	(104)	(0.4)	25,852
Corporate Tax							
9,075	8,503	Gross companies tax	7,045	7,467	(422)	(5.7)	7,965
(1,026)	(864)	Refunds	(1,661)	(1,567)	(94)	(6.0)	(1,741)
1,638	1,597	Non-resident withholding tax	1,403	1,344	59	4.4	1,378
72	72	Foreign-source dividend w/holding payments	(2)	4	(6)	(150.0)	5
9,759	9,308	Total corporate tax	6,785	7,248	(463)	(6.4)	7,607
Other Income Tax							
2,616	2,400	Resident w/holding tax on interest income	2,443	2,553	(110)	(4.3)	2,746
40	42	Resident w/holding tax on dividend income	72	73	(1)	(1.4)	86
2	2	Estate and gift duties	1	1	-	-	2
2,658	2,444	Total other income tax	2,516	2,627	(111)	(4.2)	2,834
39,034	36,386	Total income tax	33,205	33,883	(678)	(2.0)	36,293
Goods and Services Tax							
20,085	18,141	Gross goods and services tax	18,187	18,403	(216)	(1.2)	20,566
(8,859)	(8,101)	Refunds	(8,221)	(8,652)	431	5.0	(9,455)
11,226	10,040	Total goods and services tax	9,966	9,751	215	2.2	11,111
Other Taxation							
809	738	Petroleum fuels excise	720	718	2	0.3	811
160	147	Tobacco excise	163	165	(2)	(1.2)	170
1,946	1,759	Customs duty	1,704	1,647	57	3.5	1,828
851	786	Road user charges	800	785	15	1.9	883
554	511	Alcohol excise	543	573	(30)	(5.2)	630
238	217	Gaming duties	207	208	(1)	(0.5)	224
223	217	Motor vehicle fees	173	175	(2)	(1.1)	171
42	38	Energy resources levies	33	32	1	3.1	43
85	78	Approved issuer levy and cheque duty	93	95	(2)	(2.1)	102
4,908	4,491	Total other indirect taxation	4,436	4,398	38	0.9	4,862
16,134	14,531	Total indirect taxation	14,402	14,149	253	1.8	15,973
55,168	50,917	Total tax receipts collected	47,607	48,032	(425)	(0.9)	52,266
Other Sovereign Receipts (cash)							
2,561	2,416	ACC levies	2,584	2,672	(88)	(3.3)	2,795
281	257	Fire Service levies	274	275	(1)	(0.4)	304
86	79	EQC levies	80	79	1	1.3	86
532	516	Other miscellaneous items	502	507	(5)	(1.0)	548
3,460	3,268	Total other sovereign receipts	3,440	3,533	(93)	(2.6)	3,733
58,628	54,185	Total sovereign receipts	51,047	51,565	(518)	(1.0)	55,999

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008	11 Months to 31 May 2008		Current Year Actual vs Forecast				Annual Forecast
Actual \$m	Actual \$m		Actual \$m	Forecast \$m	Variance \$m	%	Forecast \$m
NOTE 2: Interest Revenue and Dividends							
<i>By type</i>							
2,803	2,683	Interest revenue	2,784	2,789	(5)	(0.2)	2,621
411	303	Dividends	347	334	13	3.9	378
3,214	2,986	Total interest revenue and dividends	3,131	3,123	8	0.3	2,999
<i>By source</i>							
2,344	2,265	Core Crown	1,752	1,741	11	0.6	1,897
1,233	1,044	Crown entities	1,107	1,259	(152)	(12.1)	1,329
704	682	State-owned Enterprises	1,109	1,067	42	3.9	739
(1,067)	(1,005)	Inter-segment eliminations	(837)	(944)	107	11.3	(966)
3,214	2,986	Total interest revenue and dividends	3,131	3,123	8	0.3	2,999
NOTE 3: Social Assistance and Official Development Assistance							
7,348	6,722	New Zealand superannuation	7,077	7,089	12	0.2	7,746
1,478	1,354	Domestic purposes benefit	1,398	1,401	3	0.2	1,528
458	422	Unemployment benefit	521	547	26	4.8	588
1,216	1,109	Invalids benefit	1,154	1,155	1	0.1	1,258
1,897	1,705	Family tax credit	1,830	1,876	46	2.5	2,123
891	817	Accommodation supplement	901	905	4	0.4	988
582	534	Sickness benefit	559	559	-	-	610
386	345	Student allowances	391	388	(3)	(0.8)	429
278	255	Disability allowances	357	357	-	-	390
1,102	969	KiwiSaver	1,372	1,445	73	5.1	1,420
2,376	2,109	Other social assistance benefits	2,191	2,195	4	0.2	2,628
18,012	16,341	Total social assistance	17,751	17,917	166	0.9	19,708
362	321	Official development assistance	432	445	13	2.9	474
18,374	16,662	Total social assistance and official development assistance	18,183	18,362	179	1.0	20,182
NOTE 4: Personnel Expenses							
5,584	5,126	Core Crown	5,587	5,583	(4)	(0.1)	6,102
8,741	7,926	Crown entities	8,740	8,699	(41)	(0.5)	9,513
2,164	1,983	State-owned Enterprises	2,214	2,212	(2)	(0.1)	2,419
(11)	(8)	Inter-segment eliminations	(9)	(8)	1	12.5	(3)
16,478	15,027	Total personnel expenses	16,532	16,486	(46)	(0.3)	18,031
NOTE 5: Operating Expenses							
<i>By type</i>							
3,670	3,294	Depreciation and amortisation ¹	3,835	3,924	89	2.3	4,283
30,656	26,166	Other operating expenses	28,025	28,766	741	2.6	32,605
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(178)	(178)	(100.0)	(500)
34,326	29,460	Total operating expenses	31,860	32,512	652	2.0	36,388
<i>By source</i>							
30,432	27,035	Core Crown	29,148	29,386	238	0.8	33,289
15,754	12,957	Crown entities	15,233	15,088	(145)	(1.0)	16,469
10,945	9,486	State-owned Enterprises	9,373	9,726	353	3.6	10,696
(22,805)	(20,018)	Inter-segment eliminations	(21,894)	(21,688)	206	0.9	(24,066)
34,326	29,460	Total operating expenses	31,860	32,512	652	2.0	36,388

¹ Refer Note 19 regarding cost of KiwiRail Holdings Limited.

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008 Actual \$m	11 Months to 31 May 2008 Actual \$m	Current Year Actual vs Forecast				Annual Forecast \$m
		Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 6: Interest Expenses						
By type						
3,015	2,793	3,190	3,202	12	0.4	3,221
86	15	126	116	(10)	(8.6)	137
3,101	2,808	3,316	3,318	2	0.1	3,358
Total interest expenses						
By source						
2,460	2,201	2,246	2,290	44	1.9	2,507
248	207	183	231	48	20.8	248
870	814	1,347	1,342	(5)	(0.4)	1,185
(477)	(414)	(460)	(545)	(85)	(15.6)	(582)
3,101	2,808	3,316	3,318	2	0.1	3,358
Total interest expenses						
NOTE 7: Insurance Expenses						
By entity						
3,423	2,778	3,681	3,544	(137)	(3.9)	3,818
130	87	83	78	(5)	(6.4)	81
10	13	22	17	(5)	(29.4)	17
3,563	2,878	3,786	3,639	(147)	(4.0)	3,916
Total insurance expenses						
NOTE 8: Gains and Losses on Financial Instruments						
By source						
353	694	(1,837)	(1,914)	77	4.0	(1,788)
(743)	(388)	(527)	(1,036)	509	49.1	(1,037)
(37)	(129)	(89)	(153)	64	41.8	(179)
(190)	(68)	(213)	(253)	40	15.8	(262)
(617)	109	(2,666)	(3,356)	690	20.6	(3,266)
Net gains/(losses) on financial instruments						
NOTE 9: Gains and Losses on Non-Financial Instruments						
By type						
(1,098)	(906)	(2,378)	(2,378)	-	-	(2,262)
(1,709)	(1,213)	(2,008)	(2,130)	122	5.7	(2,095)
(118)	(37)	826	870	(44)	(5.1)	907
(2,925)	(2,156)	(3,560)	(3,638)	78	2.1	(3,450)
Net gains/(losses) on non-financial instruments						
By source						
(1,369)	(1,054)	(1,685)	(1,640)	(45)	(2.7)	(1,529)
(1,725)	(1,219)	(2,013)	(2,141)	128	6.0	(2,082)
170	117	138	143	(5)	(3.5)	162
(1)	-	-	-	-	-	(1)
(2,925)	(2,156)	(3,560)	(3,638)	78	2.1	(3,450)
Net gains/(losses) on non-financial instruments						
NOTE 10: Operating Balance						
By source						
3,891	5,453	(4,734)	(5,231)	497	9.5	(6,744)
(1,526)	(91)	(2,361)	(2,618)	257	9.8	(2,368)
723	642	819	655	164	25.0	665
(704)	(641)	(885)	(1,137)	252	22.2	(856)
2,384	5,363	(7,161)	(8,331)	1,170	14.0	(9,303)
Total operating balance						

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 May 2008 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
3,804	4,922	Cash and cash equivalents	5,954	5,846	108	1.8	5,353
7,398	7,213	Tax receivables	7,470	7,364	106	1.4	7,248
6,760	6,718	Trade and other receivables	6,931	6,669	262	3.9	6,539
6,741	6,517	Student loans	7,300	7,327	(27)	(0.4)	7,131
5,581	5,435	KiwiBank mortgages	8,188	7,905	283	3.6	7,219
2,787	1,927	Long-term deposits	4,285	3,147	1,138	36.2	2,789
188	183	Reserve position at the IMF	325	899	(574)	(63.8)	899
626	1,625	Other loans	654	849	(195)	(23.0)	692
12,964	13,702	Share investments	11,362	10,502	860	8.2	10,664
1,563	1,966	Derivatives in gain	4,835	3,147	1,688	53.6	2,934
36,651	35,685	Other marketable securities	38,010	47,558	(9,548)	(20.1)	48,054
85,063	85,893	Total financial assets	95,314	101,213	(5,899)	(5.8)	99,522
Financial assets by entity							
20,536	20,706	NZDMO	22,264	20,916	1,348	6.4	20,999
18,159	18,221	Reserve Bank of New Zealand	22,983	29,505	(6,522)	(22.1)	29,413
13,791	14,145	NZ Superannuation Fund	13,070	12,617	453	3.6	11,996
16,738	17,557	Other core Crown	19,208	19,052	156	0.8	17,653
(9,595)	(10,430)	Intra-segment eliminations	(10,815)	(8,675)	(2,140)	(24.7)	(6,797)
59,629	60,199	Total core Crown segment	66,710	73,415	(6,705)	(9.1)	73,264
12,958	13,292	ACC portfolio	14,096	13,524	572	4.2	13,503
5,615	5,684	EQC portfolio	5,685	5,795	(110)	(1.9)	5,820
6,835	6,759	Other Crown entities	6,778	6,324	454	7	6,424
(1,517)	(1,483)	Intra-segment eliminations	(1,306)	(604)	(702)	(116.2)	(1,420)
23,891	24,252	Total Crown entities segment	25,253	25,039	214	0.9	24,327
11,727	11,699	Total State-owned enterprises segment	14,998	15,495	(497)	(3.2)	13,991
(10,184)	(10,257)	Inter-segment eliminations	(11,647)	(12,736)	1,089	8.6	(12,060)
85,063	85,893	Total financial assets	95,314	101,213	(5,899)	(5.8)	99,522
NOTE 12: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
17,609	16,596	Land (valuation)	17,525	17,592	(67)	(0.4)	17,394
22,257	21,159	Buildings (valuation)	22,816	22,742	74	0.3	22,429
1,887	1,852	Electricity distribution network (cost)	2,013	2,296	(283)	(12.3)	2,255
11,202	10,784	Electricity generation assets (valuation)	11,715	11,661	54	0.5	11,800
2,071	2,052	Aircraft (excl military) (valuation)	1,906	1,989	(83)	(4.2)	2,133
20,947	20,024	State highways (valuation)	21,757	21,769	(12)	(0.1)	21,787
11,621	10,567	Rail network (valuation)	12,500	12,582	(82)	(0.7)	11,993
3,345	3,135	Specialist military equipment (valuation)	3,313	3,325	(12)	(0.4)	3,340
4,412	3,894	Other plant and equipment (cost)	4,338	4,357	(19)	(0.4)	5,397
7,978	7,026	Specified cultural and heritage assets (valuation)	7,973	7,958	15	0.2	7,970
103,329	97,089	Total net carrying value	105,856	106,271	(415)	(0.4)	106,498

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008 \$m	11 Months to 31 May 2008 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
385	340	Revenue	352	360	(8)	(2.2)	399
237	385	Less current tax expense	3	39	36	92.3	(83)
34	36	Less other expenses ¹	(371)	(1,000)	(629)	(62.9)	(840)
(995)	(347)	Add gains/(losses)	(3,537)	(4,660)	1,123	24.1	(4,582)
(881)	(428)	Operating balance	(2,817)	(3,339)	522	15.6	(3,260)
12,973	12,973	Opening net worth	14,212	14,212	-	-	14,212
2,104	1,939	Gross contribution from the Crown	2,070	2,071	(1)	-	2,242
(881)	(428)	Operating balance	(2,817)	(3,339)	522	15.6	(3,260)
16	1	Other movements in reserves	1	79	(78)	(98.7)	81
14,212	14,485	Closing net worth	13,466	13,023	443	3.4	13,275
comprising:							
13,791	14,145	Financial assets	13,070	12,617	453	3.6	11,996
421	340	Net other assets	396	406	(10)	(2.5)	1,279
14,212	14,485	Closing net worth	13,466	13,023	443	3.4	13,275
Core Crown revenue (excl NZS Fund)							
61,819	56,957	Core Crown revenue	54,117	54,120	(3)	-	58,874
385	340	Less NZS Fund revenue	352	360	(8)	(2.2)	399
237	385	Add back NZS Fund intra-segment revenue	3	39	(36)	(92.3)	(83)
61,671	57,002	Core Crown revenue (excl NZS Fund)	53,768	53,799	(31)	(0.1)	58,392
OBEGAL excluding NZS Fund							
5,637	7,269	Total Crown OBEGAL	(1,209)	(1,641)	432	26.3	(2,916)
385	340	Less NZS Fund revenue	352	360	(8)	(2.2)	399
97	82	Less NZS Fund external expenses	75	92	(17)	(18.5)	103
237	385	Add back NZS Fund tax	3	39	(36)	(92.3)	(83)
5,586	7,396	OBEGAL excluding NZS Fund	(1,483)	(1,870)	387	20.7	(3,295)

¹ NZS Fund other expenses include deferred tax expense/(credits)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 May 2008 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 14: Payables							
6,444	4,893	Accounts payable	4,670	5,039	369	7.3	5,498
4,451	4,178	Taxes repayable	3,896	4,451	555	12.5	4,451
10,895	9,071	Total payables	8,566	9,490	924	9.7	9,949
NOTE 15: Insurance liabilities							
20,374	19,550	ACC liability	24,313	24,157	(156)	(0.6)	23,958
97	63	EQC liability	85	91	6	6.6	91
13	12	Other insurance liabilities	92	95	3	3.2	87
20,484	19,625	Total insurance liabilities	24,490	24,343	(147)	(0.6)	24,136
NOTE 16: Provisions							
562	481	Provision for Kyoto ¹	-	-	-	-	-
907	780	Provision for National Provident Fund guarantee	1,002	964	(38)	(3.9)	978
2,220	1,812	Provision for employee entitlements	2,331	2,304	(27)	(1.2)	2,358
1,064	827	Other provisions	1,053	793	(260)	(32.8)	1,035
4,753	3,900	Total provisions	4,386	4,061	(325)	(8.0)	4,371
¹ The Crown's net position under the Kyoto protocol is a 9.6 million unit surplus (\$215 million net asset as at 31 May). The net asset is included in the intangible asset line within these financial statements. A full copy of the Net Position report 2009 can be found on the Ministry for the Environment's website: www.mfe.govt.nz							
NOTE 17: Changes in Net Worth							
44,222	44,222	Opening taxpayers funds	46,700	46,700	-	-	46,700
2,384	5,363	Operating balance excluding minority interest	(7,161)	(8,331)	1,170	14.0	(9,303)
94	17	Transfers from/(to) other reserves	60	147	(87)	(59.2)	137
46,700	49,602	Closing taxpayers funds	39,599	38,516	1,083	2.8	37,534
52,442	52,442	Opening revaluation reserve	58,566	58,566	-	-	58,566
6,214	1	Net revaluations	262	275	(13)	(4.7)	(707)
(90)	(17)	Transfers from/(to) other reserves	(60)	(145)	85	58.6	(136)
58,566	52,426	Closing revaluation reserve	58,768	58,696	72	0.1	57,723
(133)	(133)	Opening other reserves	(134)	(134)	-	-	(134)
(1)	(113)	Net movements	370	803	(433)	(53.9)	193
(134)	(246)	Closing other reserves	236	669	(433)	(64.7)	59

NOTES TO THE FINANCIAL STATEMENTS

Year 11 Months		Current Year Actual vs Forecast					
to 30 Jun	to 31 May					Annual	
2008	2008		Actual	Forecast	Variance	Forecast	
\$m	\$m		\$m	\$m	\$m	% \$m	
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
55,975	51,489	Total tax receipts	48,002	48,230	(228)	(0.5)	52,488
486	453	Total other sovereign receipts	458	463	(5)	(1.1)	503
2,128	1,965	Interest, profits and dividends	1,352	1,318	34	2.6	1,417
1,411	1,307	Sale of goods & services and other receipts	2,129	2,177	(48)	(2.2)	2,203
(18,171)	(16,733)	Subsidies and transfer payments	(18,195)	(18,215)	20	0.1	(22,087)
(32,183)	(29,659)	Personnel and operating costs	(32,577)	(32,646)	69	0.2	(33,781)
(2,354)	(2,207)	Finance costs	(1,970)	(2,079)	109	5.2	(2,284)
-	-	Forecast for future new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	178	(178)	(100.0)	400
7,292	6,615	Net cash flows from core Crown operations	(801)	(574)	(227)	(39.5)	(1,141)
(1,433)	(1,256)	Net purchase of physical assets	(1,367)	(1,491)	124	8.3	(1,778)
(1,254)	(1,030)	Net increase in advances	(953)	(1,586)	633	39.9	(1,640)
(444)	(525)	Net purchase of investments	(1,945)	(2,608)	663	25.4	(1,932)
(2,104)	(1,940)	Contribution to NZ Superannuation Fund	(2,069)	(2,071)	2	0.1	(2,242)
-	-	Forecast for future new capital spending	-	-	-	-	-
-	-	Top-down capital adjustment	-	150	(150)	(100.0)	275
2,057	1,864	Residual cash	(7,135)	(8,180)	1,045	12.8	(8,458)
Financed by:							
(3,595)	(3,984)	Other net sale/(purchase) of marketable securities and deposits	(1,372)	(4,857)	3,485	71.8	(4,335)
(1,538)	(2,120)	Total operating and investing activities	(8,507)	(13,037)	4,530	34.7	(12,793)
Used in:							
(1,585)	(1,016)	Net (repayment)/issue of other New Zealand dollar borrowing	9,585	16,288	(6,703)	(41.2)	16,266
901	1,000	Net (repayment)/issue of foreign currency borrowing	(2,457)	(5,051)	2,594	51.4	(6,069)
86	172	Issues of circulating currency	519	509	10	2.0	509
249	33	Decrease/(increase) in cash	(1,232)	(1,131)	(101)	(8.9)	(1,143)
(349)	189		6,415	10,615	(4,200)	(39.6)	9,563
(1,887)	(1,931)	Net cash inflow/(outflow) to be offset by domestic bonds	(2,092)	(2,422)	330	13.6	(3,230)
Gross Cash Proceeds from Domestic Bonds							
1,757	1,561	Domestic bonds (market)	4,843	5,065	(222)	(4.4)	5,852
130	130	Domestic bonds (non-market)	514	572	(58)	(10.1)	593
1,887	1,691	Total gross cash proceeds from domestic bonds	5,357	5,637	(280)	(5.0)	6,445
-	200	Repayment of domestic bonds (market)	(2,750)	(2,700)	(50)	(1.9)	(2,700)
-	40	Repayment of domestic bonds (non-market)	(515)	(515)	-	-	(515)
-	240	Total repayment of domestic bonds	(3,265)	(3,215)	(50)	(1.6)	(3,215)
1,887	1,931	Net (repayments of)/cash proceeds from domestic bonds	2,092	2,422	(330)	(13.6)	3,230

NOTES TO THE FINANCIAL STATEMENTS

Note 19: Acquisition of Toll (NZ) Limited

On 1 July 2008, negotiations were completed and an agreement was signed for the purchase of 100% of the shares in Toll (New Zealand) Limited. Prior to the acquisition, assets and operations not integral to the rail operation were separated out of Toll (New Zealand) Limited. On acquisition by the Government, the company was renamed KiwiRail Holdings Limited.

Ownership of the rail business is intended to place the Government in a better position to integrate rail planning and funding with its wider transport policy, and to ensure capital investment for improving the rolling stock.

The cost of acquisition of the company was \$690 million, settled in cash on 1 July. An audited assessment as at May 2009 of the fair value of the assets acquired and liabilities assumed through this purchase was \$369 million. No goodwill has been recognised and the difference between the assessment of the fair value of the assets acquired and liabilities assumed and the cost of acquisition has been charged to the statement of financial performance.

In the eleven months ended 31 May 2009, revenue earned by KiwiRail Holdings Limited of \$599 million and an operating surplus of \$3 million has been included in the financial statements of the Government.

Note 20: Crown Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility

The Government provides two guarantee schemes in relation to financial institution deposits; the retail deposit scheme and the wholesale funding guarantee facility.

As at 31 May 2009, guarantees have been triggered for two entities, Mascot Finance and Strata Finance, and the estimated net cost associated with these guarantees has been included in the Statement of Financial Performance. The likelihood that any further guarantees will be called is not considered probable at this time. Therefore no additional provision has been made in these financial statements. Information on the Government's exposure as a result of these schemes and management of this exposure is detailed below.

Retail Deposit Scheme

On 12 October 2008 the Minister of Finance announced an opt-in retail deposit guarantee scheme. The objective of the two year opt-in retail deposit scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. Under the retail deposit guarantee scheme, fees are payable to the government by participating institutions if they hold significant deposits (i.e., greater than \$5 billion) or if they experience significant growth in deposits (i.e., greater than 10% per annum). Approved deposit takers to date are listed on the Treasury web-site.

The Government is managing its exposure to this risk both through the prudential regulation processes for registered banks, and by requiring other deposit takers who sign the guarantee to agree to certain controls on their business including:

- some restrictions on distributions to shareholders
- some assurance that the business dealings of the deposit taker are on arms-length terms
- the ability for the Crown to appoint an inspector
- the ability for the Crown to withdraw the guarantee if the business is being deliberately operated in a way to undermine the intention of the guarantee, and
- personal undertakings from directors to ensure the non-bank deposit takers comply with the guarantee.

As at 31 May 2009, 89 financial institutions had joined the scheme and deposits totalling \$126.3 billion had been guaranteed. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of the financial institution in the event the guarantee is called upon. The Crown assesses the potential loss associated with the guaranteed entities as being in the range of \$650 - \$700 million under a liquidation scenario for all guaranteed non-bank deposit taking entities. This liquidation scenario assumes that all such guaranteed entities default, but that default does not expose the Crown to a potential loss in all instances. The forecasts assume that the retail deposit guarantee scheme will finish in October 2010. Risks associated either with extending the scheme, or second round effects of finishing at that time that are not quantifiable at the present time.

Wholesale Funding Guarantee Facility

On 1 November 2008 the Minister of Finance announced an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility is to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors remain highly risk averse and where many other governments have offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government receives a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued.

Deposit-taking financial institutions seeking to utilise the wholesale funding guarantee facility will be expected to have applied for a guarantee under the Crown retail deposit guarantee scheme. In addition to the risk management under the retail scheme, the Government further manages its risk exposure by:

- limiting the availability of the scheme to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- limiting the amount of debt covered by the guarantee to debt up to 125 percent of the total stock of eligible types of debt in issue prior to the intensification of the crisis
- establishing additional capital buffers by requiring an additional two percent Tier 1 capital buffer above the four percent regulatory minimum, and
- requiring the debt issuer to hedge and manage any foreign exchange risk.

As at 31 May 2009, \$2.0 billion wholesale securities had been guaranteed. Subsequent to balance date, additional wholesale securities totalling \$305 million have been guaranteed.