

Financial Statements of the Government of New Zealand

For the Three Months Ended
30 September 2008



Prepared by The Treasury
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New Zealand Government



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COMMENTARY

S U M M A R Y

Results for the three months ended 30 September 2008

- OBEGAL was \$0.5 billion higher than forecast, at \$0.9 billion. This variance was due mainly to tax revenue, which was \$0.5 billion (3.9%) higher than forecast. While most tax revenue types were broadly in line with forecast, there are two items to note:
 - Corporate tax and GST revenue were increased by \$0.2 billion and \$0.1 billion respectively, as a result of the late reversal of accruals relating to an earlier period. These accrual reversals did not affect cash receipts.
 - Putting aside the impact of these accrual reversals, GST revenue was close to forecast, but corporate tax revenue was \$0.2 billion lower than forecast. Company income tax assessments were lower than expected in a period usually dominated by provisional tax payments from multi-national and finance sector companies. These companies are likely to be amongst those most affected by the current international financial turmoil.
- The total Crown operating balance was a \$0.8 billion deficit (\$1.7 billion lower than the forecast \$0.9 billion surplus). The two main features of this lower-than-expected result were:
 - \$1.8 billion related to losses on the investment portfolios of Crown financial institutions. This was mainly due to continuing turmoil in financial markets; and
 - \$0.4 billion related to a loss arising from a drop in the discount rate used for valuing ACC's outstanding claims liability.

These losses were partly offset by tax revenue which was \$0.5 billion higher than forecast, as noted above.

- The core Crown residual cash deficit was \$1.1 billion lower than forecast at \$3.2 billion. This was mainly due to delays in transferring \$0.7 billion for the NZ Fast Forward Fund pending the resolution of governance issues; and \$0.3 billion higher-than-expected petrol royalties received due to high oil prices earlier in the year.
- Gross debt was \$1.0 billion higher than forecast at \$31.9 billion. This was mainly due to valuation changes on financial instruments (particularly derivatives) and higher-than-expected issues of Government Stock.
- Net core Crown debt was \$1.4 billion lower than forecast at \$2.6 billion due mainly to the lower-than-expected residual cash deficit (noted above) and valuation changes on financial instruments.

Table 1 – Key indicators for the three months to 30 September 2008

	Year to date				Full Year
	September	September	Variance	Variance	PREFU
	2008	2008			June 2009
	Actual ²	Forecast ²	\$m	%	Forecast ³
\$ million					
Core Crown					
Core Crown revenue (excl. NZS Fund) ¹	15,450	15,063	387	2.6	61,102
Core Crown expenses	15,066	15,333	267	1.7	62,359
NZS Fund operating balance	(884)	231	(1,115)	(482.7)	986
Core Crown residual cash	(3,214)	(4,309)	1,095	(25.4)	(5,909)
GSID (excl. settlement cash)	31,931	30,884	(1,047)	(3.4)	32,087
<i>as a percentage of GDP</i>	17.8%	17.2%			17.4%
Net Core Crown debt	2,592	3,952	1,360	34.4	5,207
<i>as a percentage of GDP</i>	1.4%	2.2%			2.8%
Net Core Crown debt (incl. NZS Fund)	(10,207)	(10,139)	68	(0.7)	(10,430)
<i>as a percentage of GDP</i>	(5.7)%	(5.7)%			(5.7)%
Total Crown					
OBEGAL	891	424	467	110.1	(64)
Net gains/(losses) and other items	(1,648)	519	(2,167)		1,973
Operating Balance	(757)	943	(1,700)	(180.3)	1,909

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 30 June 2008 of \$179,048 million (Source: Statistics New Zealand).

3 Using forecast GDP for the year ended 30 June 2009 of \$184,390 million (Source: Treasury)

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 three months to 30 September 2008

Key Indicator	Variance	Key Drivers
Core Crown		
Core Crown revenue (excl. NZS Fund revenue)	\$0.4 billion (higher than forecast)	<ul style="list-style-type: none"> • Core Crown tax revenue was \$0.5 billion (3.5%) higher than forecast. This was comprised of: <ul style="list-style-type: none"> ○ Source deductions were \$0.2 billion (2.8%) higher than forecast. The forecast for source deduction revenue was understated and did not take proper account of the superannuation withholding tax impact of Police staff moving from the Government Superannuation Fund. These transfers increased the amount of Employer Superannuation Contribution tax revenue relative to forecast. ○ GST revenue was \$0.2 billion (5.2%) higher than forecast. This was largely due to the late reversal of a \$0.1 billion accrual relating to an earlier period. The reversal did not affect tax receipts. ○ Other individuals tax was \$0.1 billion (18.5%) higher than forecast. In the main this is likely to reflect income tax returns for the 2007/08 tax year, particularly from the agriculture sector. This sector experienced higher returns during the 2007/08 tax year, as a result of higher commodity prices. We will be in a better position to confirm this explanation once we receive more detailed data in the coming months. ○ Corporate tax revenue was on forecast, but there were two significant variances within that result: <ul style="list-style-type: none"> - The late reversal of a \$0.2 billion accrual relating to an earlier period. The reversal increased company tax revenue, but did not affect tax receipts; and - The impact of the accrual reversal was offset by lower-than-expected income tax assessments in the September quarter. Company income tax assessments were lower than expected in a period usually dominated by provisional tax payments from multi-national and finance sector companies. These companies are likely to be amongst those most affected by the current financial turmoil. • Other revenue was \$0.2 billion higher than forecast, primarily in relation to petrol royalties. The high price of oil last year has led to a number of operations moving to a higher royalty threshold earlier than expected. • The higher-than-forecast income above was partly offset by interest revenue and dividends which were \$0.3 billion lower than forecast, primarily due to lower than forecast interest rates and investment levels.

Key Indicator	Variance	Key Drivers
Core Crown expenses	\$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> • Core Crown expenses were \$0.3 billion lower than forecast. This was mainly due to: <ul style="list-style-type: none"> ○ Transport expenditure was \$0.2 billion lower than forecast due to an over-estimation of funding of state highways in the forecast. ○ Interest expenses were \$0.1 billion lower than forecast. This was mainly due to fluctuations in settlement cash balances and interest rates. ○ Other expenditure, across a number of departments, was \$0.2 billion lower than forecast. ○ The lower-than-forecast expenditure (above) was partly offset by an impairment of the investment in KiwiRail Holdings Limited of \$0.2 billion, which was not forecast.
NZS Fund operating balance	-\$1.1 billion (lower than forecast)	<ul style="list-style-type: none"> • The Fund's return for the month of September was -7.96%. This was the lowest return recorded by the Fund (for a single month) since its inception and reflects the weak performance of global equity markets. The Fund's annualised return since inception (September 2003) is 8.04%, compared to 6.92% for the risk-free of return (Treasury bills).
Core Crown residual cash deficit	\$1.1 billion (lower than forecast)	<ul style="list-style-type: none"> • The residual cash deficit was lower than forecast. This was primarily due to: <ul style="list-style-type: none"> ○ A delay in the transfer of \$0.7 billion funding for the NZ Fast Forward Fund pending the resolution of governance issues. ○ Petrol royalty receipts were higher than expected due to the cash impact of petrol royalty revenue (as noted above). • Core Crown tax receipts were on forecast.
GSID (excluding settlement cash)	-\$1.0 billion (higher than forecast)	<ul style="list-style-type: none"> • GSID (excluding settlement cash) was higher than forecast. This was largely due to valuation changes on financial instruments (particularly derivatives) and higher-than-expected issues of Government Stock.
Net core Crown debt	\$1.4 billion (lower than forecast)	<ul style="list-style-type: none"> • Net core Crown debt was lower than forecast. This was due mainly to: <ul style="list-style-type: none"> ○ A lower-than-forecast deficit in residual cash (as noted above). ○ Changes in the valuation of financial instruments.
Net core Crown debt (incl. NZSF)	\$0.1 billion (on target)	<ul style="list-style-type: none"> • On target.

Key Indicator	Variance	Key Drivers
Total Crown		
OBE GAL	\$0.5 billion (higher than forecast)	<ul style="list-style-type: none"> • Total Crown revenue was \$1.0 billion higher than forecast. The main components were: <ul style="list-style-type: none"> ○ Sales of goods and services by SOEs and Crown Entities were \$0.5 billion higher than forecast. The variance predominantly related to entities in the electricity sector and was caused by higher-than-expected spot electricity prices. The variance was partly offset by a corresponding variance in expenditure (as noted below). ○ Core Crown revenue was \$0.4 billion higher than forecast (as noted above). • The total Crown revenue result was partly offset by total Crown expenditure which was \$0.5 billion higher than forecast. The main components were: <ul style="list-style-type: none"> ○ \$0.3 billion higher-than-forecast expenditure by entities in the electricity sector (as noted above); and \$0.1 billion higher-than-forecast expenditure by DHBs, resulting from additional income devolved. ○ Kiwibank interest expense was \$0.1 billion higher than forecast. This was largely due to a classification issue in NZ Post's forecast as interest from Kiwibank was forecast on a net basis. This was offset by a corresponding variance in interest revenue. ○ These variances were partly offset by Core Crown expenses which were \$0.3 billion lower than forecast (as noted above).
Operating balance	-\$1.7 billion (lower than forecast)	<ul style="list-style-type: none"> • OBE GAL was \$0.5 billion higher than forecast (as noted above). • Net gains were \$2.2 billion lower than forecast. The main contributors were: <ul style="list-style-type: none"> ○ The NZS Fund, ACC and EQC all suffered losses on their financial instrument portfolios that were larger than expected. The amounts of the lower-than-forecast variances were \$1.5 billion, \$0.2 billion and \$0.1 billion respectively. The losses were the result of continuing turmoil in financial markets. ○ ACC also recorded a \$0.4 billion loss in the valuation of its outstanding claims liability. The loss arose from a decrease in the discount rate used to calculate the liability and was not included in the forecast (consistent with forecasting policy). • The lower-than-forecast gains above were partly offset by net gains by RBNZ and DMO, mainly due to changes in FX and interest rates, which are held constant for forecasting purposes.

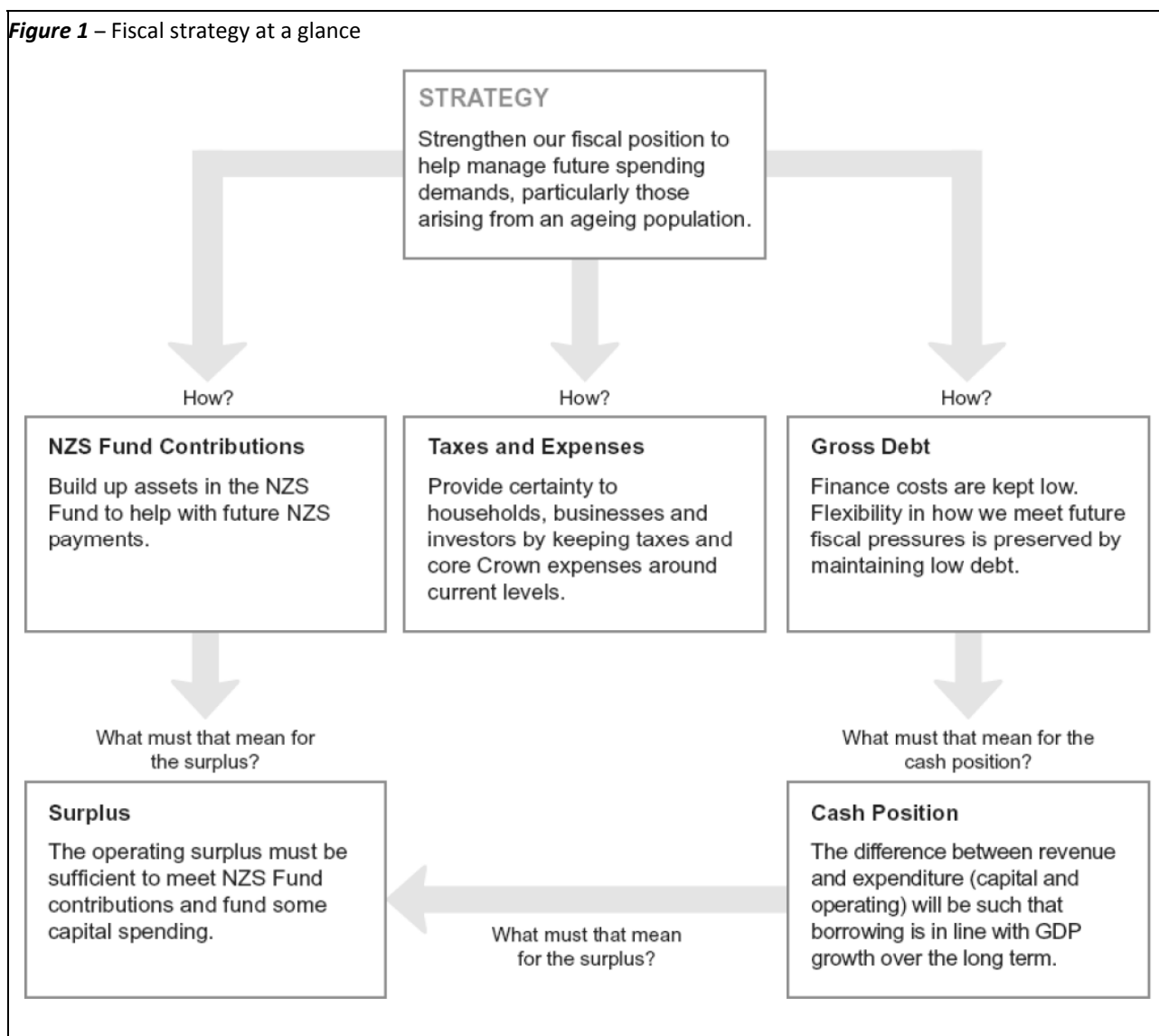
FISCAL STRATEGY PERSPECTIVE

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

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

The Financial Statements of the Government provide a record of the Government's financial performance over the 2008/09 financial year and its financial position as at 30 September 2008. They provide a comparison with the fiscal forecasts in the *2008 Pre-election Economic and Fiscal Update*. They also provide the public with a snapshot of the progress the Government has made in implementing its fiscal strategy as set out in its *Short Term Fiscal Intentions* and *Long Term Fiscal Objectives*.

Figure 1 – Fiscal strategy at a glance



Fiscal Strategy Perspective on the financial results to September

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

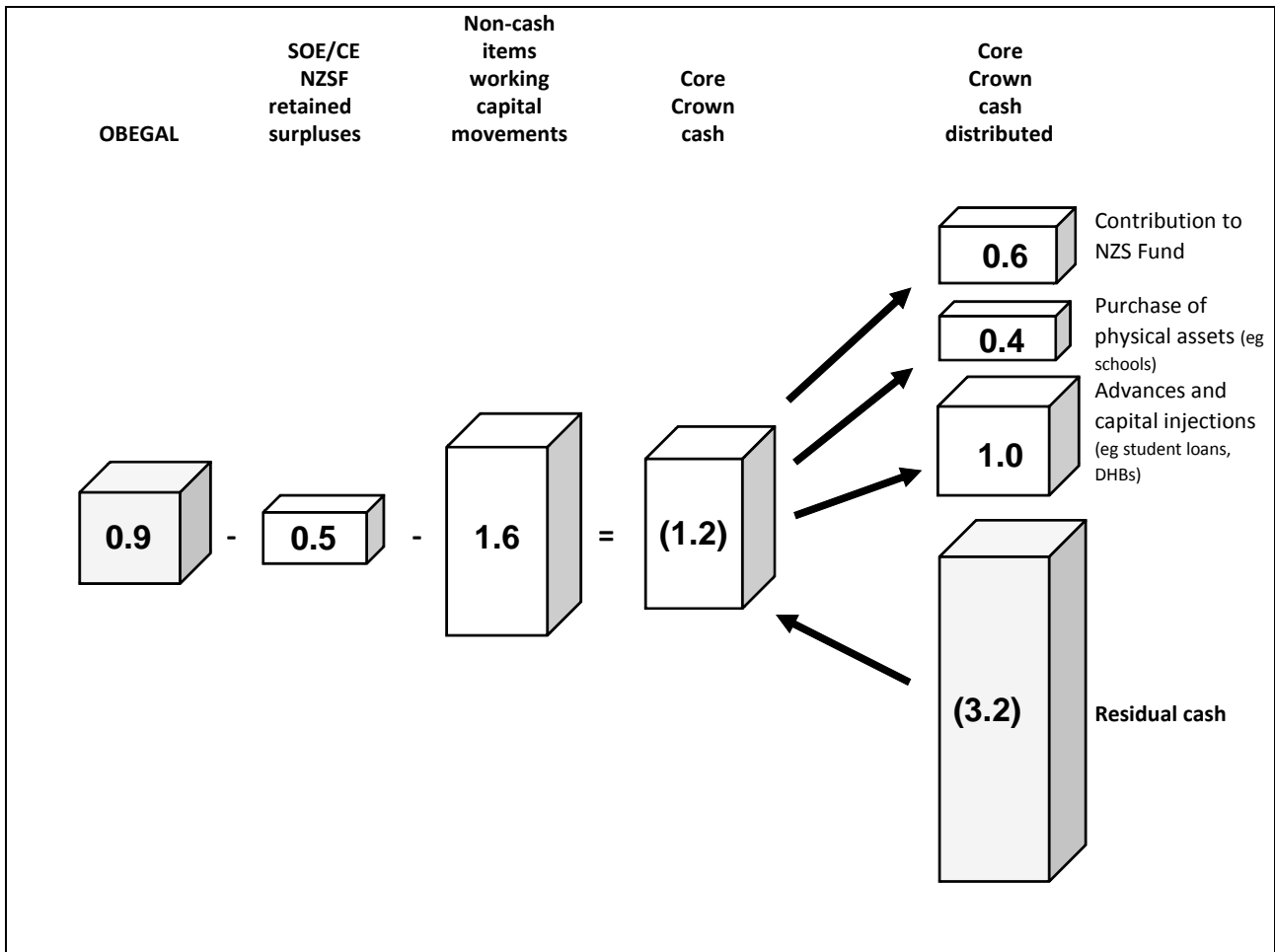
Table 3 – Fiscal strategy perspective

Amounts in \$ millions		Year to date				Full Year
		September	September	Variance	Variance	PREFU
Fiscal Strategy	Fiscal Indicators/Financial Statements	2008 Actual	2008 Forecast	\$m	%	June 2009 Forecast
	Taxation as a percentage of GDP ¹	31.6%	30.4%			30.1%
Taxes...	Taxation	14,131	13,602	529	3.9	55,538
... combined with other revenue ...	Core Crown other revenue, gains and losses	656	1,885	(1,229)	(65.2)	7,060
... fund core crown expenses ...	Core Crown expenses	(15,066)	(15,333)	267	(1.7)	(62,359)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(478)	789	(1,267)	(160.6)	1,670
... results in a net operating balance (surplus or deficit)...	Operating balance	(757)	943	(1,700)	(180.3)	1,909
...part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	1,648	(519)	2,167	(417.5)	(1,973)
... and so we have developed an operating indicator excluding these items.	OBEGAL	891	424	467	110.1	(64)
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. gains and losses)	(87)	23	(110)	(478.3)	33
" " " "	Net retained surpluses of SOEs and Crown entities	(398)	(679)	281	(41.4)	(1,088)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	(1,603)	(1,325)	(278)	21.0	1,905
The operating cash flow that results, needs to provide sufficient funds for	Core Crown Cash flow from Operations	(1,197)	(1,557)	360	(23.1)	786
- building up assets in NZ Superannuation	Contribution to NZS Fund	(604)	(604)	-	-	(2,242)
- meeting the capital expenditure budget, and	Purchase of physical assets	(361)	(387)	26	(6.7)	(1,700)
- making advances (e.g. to students and DHBs)	Advances and Capital injections	(1,052)	(1,761)	709	(40.3)	(2,753)
with a residual impact on debt that allows it to remain at prudent levels	Residual Cash	(3,214)	(4,309)	1,095	(25.4)	(5,909)
	... and as a percentage of GDP	-1.8%	-2.4%			-3.2%

¹ GDP for the three months ended 30 September (actual and forecast) is the actual data for the year ended 30 June 2008 (Source: Statistics New Zealand) extrapolated for three months.

Figure 2 – 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

	September 2008	September 2007	Change ¹	Change
	Actual \$m	Actual \$m	\$m	%
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	14,196	13,703	493	3.6
Other revenue	1,360	1,179	181	15.4
Total Core Crown Revenue	15,556	14,882	674	4.5
Core Crown expenses				
Social security and welfare	4,730	4,474	256	5.7
GSF pension expenses	164	157	7	4.5
Health	2,991	2,769	222	8.0
Education	2,626	2,427	199	8.2
Core government services	782	680	102	15.0
Law and order	744	699	45	6.4
Defence	425	348	77	22.1
Transport and communications	782	624	158	25.3
Economic and industrial services	784	614	170	27.7
Primary services	114	103	11	10.7
Heritage, culture and recreation	238	196	42	21.4
Housing and community development	83	75	8	10.7
Other	16	6	10	166.7
Finance costs	587	589	(2)	(0.3)
Total Core Crown Expenses	15,066	13,761	1,305	9.5
Net surplus of SOE/CE's	401	401	-	-
OBEGAL	891	1,522	(631)	(41.5)
Total gains/(losses)	(1,691)	614	(2,305)	(375.4)
Other operating items	43	7	36	-
Operating Balance	(757)	2,143	(2,900)	(135.3)
Core Crown residual cash	(3,214)	(347)	(2,867)	-
Debt indicators				
Gross sovereign-issued debt (excluding settlement cash)	31,931	31,288	643	2.1
Net Core Crown debt	2,592	4,186	(1,594)	(38.1)

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

Revenue and Expenses

Total taxation revenue for the three months ended 30 September 2008 has increased by \$0.5 billion (3.6%) on the same period last year. The increase was primarily in GST, PAYE and other individuals tax. The increase in GST revenue was primarily due to timing effects in the accrual of GST revenue in June/July 2007, which artificially lowered GST revenue in the September 2007 quarter, thereby increasing the growth rate for the September 2008 quarter. The increase in PAYE was driven by high wage growth and the increase in other individuals tax was driven by growth of unincorporated profits (particularly in the agriculture sector).

Partly offsetting this increase was a decline in corporate tax. The decline in corporate tax reflects the cut in the corporate tax rate from 33% to 30% and generally lower profits in the current tax year compared to last year.

Total **core Crown expenses** were \$1.3 billion (9.5%) higher than the comparable period from the previous financial 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	+ \$0.3 billion	<ul style="list-style-type: none"> • Indexation of welfare benefits
Health	+ \$0.2 billion	<ul style="list-style-type: none"> • Funding provided in the 2008 Budget to maintain and improve existing service levels
Education	+ \$0.2 billion	<ul style="list-style-type: none"> • Higher demand-driven expenses from roll growth • Funding provided in the 2008 Budget
Transport and communications	+ \$0.2 billion	<ul style="list-style-type: none"> • Impairment of the investment in KiwiRail Holdings Limited
Economic and industrial services	+ \$0.2 billion	<ul style="list-style-type: none"> • Primarily due to the introduction of the KiwiSaver initiative
Other	+ \$0.2 billion	<ul style="list-style-type: none"> • Mainly due to policy initiatives from the 2008 Budget
Total	+ \$1.3 billion	

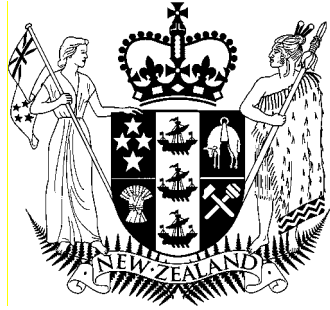
Total Gains and losses were in a net loss position of \$1.7 billion for the period ended 30 September 2008, compared to a net gain position of \$0.6 billion for the same period the previous year. The \$2.3 billion difference is due to:

- lower than expected investment returns experienced in the 2008/09 financial year primarily resulting from the current downturn in financial markets; and
- an increase in the ACC unfunded liability since September 2007 due to increases in expected claim costs driven by economic assumptions (e.g. discount and inflation rates).

The **Core Crown residual cash** deficit increased by \$2.9 billion compared to the same period last year. This is primarily due to:

- the purchase of KiwiRail Holdings Limited
- the increase in core Crown expenses (as noted above); and
- a decrease in tax receipts

Net Core Crown debt has reduced by \$1.6 billion as a result of an increase in financial assets, primarily due to the strong outturn reported as at 30 June 2008.



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 85 and 86 of the *Pre-election Economic and Fiscal Update 2008* released on 6 October 2008.

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/nzifrs/policies-guidance>

4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Pre-election Economic and Fiscal Update (PREFU)*, on 6 October 2008.

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/prefu2008>

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.

Percentage variances between the actual and prior year balances exceeding 500% are not shown where the dollar variance is immaterial.

STATEMENT OF FINANCIAL PERFORMANCE

for the three months ended 30 September 2008

Prior Year to 30 June 2008	3 Months to 30 Sep 2007		Note	Current Year Actual vs Forecast				Annual Forecast
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Revenue						
56,372	13,553	Taxation revenue	1	14,131	13,602	529	3.9	55,538
3,879	1,013	Other sovereign revenue	1	980	986	(6)	(0.6)	3,993
60,251	14,566	Total Revenue Levied through the Crown's Sovereign Power		15,111	14,588	523	3.6	59,531
15,399	3,369	Sales of goods and services		4,245	3,953	292	7.4	16,084
3,214	792	Interest revenue and dividends	2	891	986	(95)	(9.6)	3,828
2,615	587	Other revenue		886	644	242	37.6	2,247
21,228	4,748	Total revenue earned through the Crown's operations		6,022	5,583	439	7.9	22,159
81,479	19,314	Total revenue (excluding gains)		21,133	20,171	962	4.8	81,690
		Expenses						
18,374	4,549	Social assistance and official development assistance	3	4,992	4,912	(80)	(1.6)	20,151
16,478	3,950	Personnel expenses	4	4,306	4,271	(35)	(0.8)	17,800
3,670	874	Depreciation and amortisation	5	1,197	973	(224)	(23.0)	3,973
30,656	6,820	Other operating expenses	5	7,915	7,910	(5)	(0.1)	33,721
3,101	742	Interest expenses	6	1,010	906	(104)	(11.5)	3,311
3,563	857	Insurance expenses	7	822	775	(47)	(6.1)	4,076
-	-	Forecast new operating spending	5	-	-	-	-	172
-	-	Top-down expense adjustment	5	-	-	-	-	(1,450)
75,842	17,792	Total expenses (excluding losses)		20,242	19,747	(495)	(2.5)	81,754
5,637	1,522	Operating balance before gains/(losses)		891	424	467	110.1	(64)
(617)	604	Net gains/(losses) on financial instruments	8	(1,264)	392	(1,656)	(422.4)	1,462
(2,925)	10	Net gains/(losses) on non-financial instruments	9	(427)	52	(479)	-	178
(3,542)	614	Total gains/(losses)		(1,691)	444	(2,135)	(480.9)	1,640
334	7	Net surplus/(deficit) from associates and joint ventures	7	43	75	(32)	(42.7)	334
2,429	2,143	Operating balance from continuing activities		(757)	943	(1,700)	(180.3)	1,910
22	-	Gain/(loss) from discontinued operations		-	-	-	-	(1)
2,451	2,143	Operating balance (including minority interest)		(757)	943	(1,700)	(180.3)	1,909
(67)	-	Attributable to minority interest in Air NZ		-	-	-	-	-
2,384	2,143	Operating Balance	10	(757)	943	(1,700)	(180.3)	1,909

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

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the three months ended 30 September 2008

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Total Crown expenses					
21,509	5,513	Social security and welfare	5,569	5,447	(122)	(2.2)	23,382
690	157	GSF pension expenses	164	163	(1)	(0.6)	654
10,809	2,791	Health	2,899	2,918	19	0.7	11,884
10,397	2,607	Education	2,855	2,838	(17)	(0.6)	11,643
3,274	450	Core government services	780	923	143	15.5	3,576
3,082	761	Law and order	781	810	29	3.6	3,370
1,525	339	Defence	412	383	(29)	(7.6)	1,716
7,424	1,831	Transport and communications	2,179	2,078	(101)	(4.9)	9,487
9,038	1,541	Economic and industrial services	2,415	2,063	(352)	(17.1)	8,641
1,459	328	Primary services	337	348	11	3.2	1,450
2,337	495	Heritage, culture and recreation	568	589	21	3.6	2,808
938	231	Housing and community development	262	253	(9)	(3.6)	1,053
259	6	Other	11	28	17	60.7	57
3,101	742	Finance costs	1,010	906	(104)	(11.5)	3,311
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	-	-	-	(1,450)
75,842	17,792	Total Crown expenses excluding losses	20,242	19,747	(495)	(2.5)	81,754

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.

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Core Crown expenses					
17,877	4,474	Social security and welfare	4,730	4,636	(94)	(2.0)	19,156
690	157	GSF pension expenses	164	163	(1)	(0.6)	654
11,297	2,769	Health	2,991	3,093	102	3.3	12,377
9,551	2,427	Education	2,626	2,613	(13)	(0.5)	10,739
3,371	680	Core government services	782	942	160	17.0	3,649
2,894	699	Law and order	744	771	27	3.5	3,139
1,562	348	Defence	425	394	(31)	(7.9)	1,756
2,244	624	Transport and communications	782	745	(37)	(5.0)	3,566
2,889	614	Economic and industrial services	784	782	(2)	(0.3)	3,549
541	103	Primary services	114	111	(3)	(2.7)	545
1,107	196	Heritage, culture and recreation	238	254	16	6.3	1,446
260	75	Housing and community development	83	83	-	-	347
254	6	Other	16	21	5	23.8	57
2,460	589	Finance costs	587	725	138	19.0	2,657
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	-	-	-	(1,450)
56,997	13,761	Total core Crown expenses excluding losses	15,066	15,333	267	1.7	62,359

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

STATEMENT OF CASH FLOWS

for the three months ended 30 September 2008

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Cash Flows From Operations							
Cash was provided from							
55,168	12,787	Taxation receipts	12,653	12,512	141	1.1	54,159
3,460	1,061	Other sovereign receipts	1,016	1,071	(55)	(5.1)	3,737
14,635	3,191	Sales of goods and services	5,046	4,250	796	18.7	16,599
3,111	689	Interest and dividends	887	891	(4)	(0.4)	3,292
2,211	752	Other operating receipts	636	655	(19)	(2.9)	2,727
78,585	18,480	Total cash provided from operations	20,238	19,379	859	4.4	80,514
Cash was disbursed to							
18,026	4,146	Social assistance and official development assistance	5,308	5,254	(54)	(1.0)	19,675
45,972	11,474	Personnel and operating payments	14,287	13,291	(996)	(7.5)	54,076
2,820	734	Interest payments	829	504	(325)	(64.5)	2,970
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	-	-	-	(1,450)
66,818	16,354	Total cash disbursed to operations	20,424	19,049	(1,375)	(7.2)	75,443
11,767	2,126	Net cash flows from operations	(186)	330	(516)	(156.4)	5,071
Cash Flows From Investing Activities							
Cash was provided from/(disbursed to)							
(4,922)	(1,219)	Net purchase of physical assets	(918)	(1,677)	759	45.3	(6,909)
(6,080)	(1,699)	Net purchase of shares and other securities	2,839	3,734	(895)	(24.0)	499
(320)	(50)	Net purchase of intangible assets	(107)	(42)	(65)	(154.8)	(444)
(2,646)	478	Net issue/(repayment) of advances	603	(370)	973	263.0	359
(363)	(141)	Net acquisition of investments in associates	(7)	(26)	19	73.1	(1,024)
-	-	Capital contingency provision	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
(14,331)	(2,631)	Net cash flows from investing activities	2,410	1,619	791	48.9	(7,218)
(2,564)	(505)	Net cash flows from operating and investing activities	2,224	1,949	275	14.1	(2,147)
Cash Flows From Financing Activities							
Cash was provided from/(disbursed to)							
86	54	Issues of circulating currency	95	(33)	128	387.9	172
1,674	893	Net issue/(repayment) of Government stock ¹	(1,889)	(1,659)	(230)	(13.9)	1,748
1,099	312	Net issue/(repayment) of foreign currency borrowing	(1,364)	(251)	(1,113)	(443.4)	(336)
(697)	293	Net issue/(repayment) of other New Zealand dollar borrowing	2,525	266	2,259	-	637
2,162	1,552	Net cash flows from financing activities	(633)	(1,677)	1,044	62.3	2,221
(402)	1,047	Net movement in cash	1,591	272	1,319	484.9	74
4,162	4,208	Opening Cash Balance	3,804	3,804	-	-	3,804
44	78	Foreign-exchange gains/(losses) on opening cash	22	3	19	-	(10)
3,804	5,333	Closing Cash Balance	5,417	4,079	1,338	32.8	3,868

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 three months ended 30 September 2008

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 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	2,126	Net Cash Flows from Operations	(186)	330	(516)	(156.4)	5,071
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
(617)	604	Gains/(losses) on other financial instruments	(1,264)	392	(1,656)	(422.4)	1,462
(2,925)	10	Gains/(losses) on other non-financial instruments	(427)	52	(479)	-	178
(3,542)	614	Total gains/(losses)	(1,691)	444	(2,135)	(480.9)	1,640
Other Non-cash Items in Operating Balance							
(3,670)	(874)	Depreciation and amortisation	(1,197)	(973)	(224)	(23.0)	(3,973)
(559)	(117)	Write-down on initial recognition of loans	(123)	(134)	11	8.5	(611)
213	2	Impairment on financial assets (excl receivables)	1	-	1	-	3
2	22	Decrease/(increase) in defined benefit retirement plan liabilities	35	155	(120)	(77.4)	(75)
(1,358)	249	Decrease/(increase) in insurance liabilities	318	443	(125)	(28.2)	(1,498)
334	7	Other	43	75	(32)	(42.6)	334
(5,038)	(711)	Total other non-cash Items	(923)	(434)	(489)	(112.6)	(5,820)
Movements in Working Capital							
2,100	801	Increase/(decrease) in receivables	(310)	684	(994)	(145.4)	321
(179)	95	Increase/(decrease) in accrued interest	(177)	(306)	129	42.3	196
138	32	Increase/(decrease) in inventories	42	8	34	426.8	46
77	44	Increase/(decrease) in prepayments	(45)	92	(137)	(148.5)	9
(326)	12	Decrease/(increase) in deferred revenue	(43)	(284)	241	84.7	87
(2,613)	(870)	Decrease/(increase) in payables	2,575	409	2,166	-	359
(803)	114	Total movements in working capital	2,042	603	1,439	238.7	1,018
2,384	2,143	Operating Balance	(757)	943	(1,700)	(180.3)	1,909

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the three months ended 30 September 2008

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
6,214	(16)	Revaluation of physical assets	56	(12)	68	-	292
9	181	Effective portion of changes in value of cash flow hedges	330	(6)	336	-	19
22	15	Net change in fair value of cash flow hedges transferred to operating balance	(1)	-	(1)	-	-
(60)	(23)	Net change in fair value of cash flow hedges transferred to the hedged item	(2)	-	(2)	-	34
17	4	Foreign currency translation differences for foreign operations	19	-	19	-	(1)
11	4	Valuation gain/(losses) on investments available for sale taken to reserves	17	(1)	18	-	1
-	20	Other movements	-	-	-	-	1
6,213	185	Total income/(expense) recognised directly in Net Worth	419	(19)	438	-	346
2,451	2,143	Operating Balance (including minority interest)	(757)	943	(1,700)	(180.3)	1,909
8,664	2,328	Total recognised income and expense	(338)	924	(1,262)	(136.6)	2,255
		Attributable to:					
83	-	- minority interest in Air NZ	-	-	-	-	-
8,581	2,328	- the Crown	(338)	924	(1,262)	(136.6)	2,255
8,664	2,328	Total recognised income and expense	(338)	924	(1,262)	(136.6)	2,255

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

STATEMENT OF FINANCIAL POSITION

as at 30 September 2008

As at 30 June 2008 Actual \$m	As at 30 Sep 2007 Actual \$m		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
Assets								
3,804	5,333	Cash and cash equivalents	11	5,417	4,079	1,338	32.8	3,868
14,158	12,830	Receivables	11	13,848	14,843	(995)	(6.7)	14,479
41,189	34,633	Marketable securities, deposits and derivatives in gain	11	40,127	38,319	1,808	4.7	37,672
12,964	13,801	Share investments	11	12,583	13,645	(1,062)	(7.8)	14,293
12,948	12,320	Advances	11	13,656	13,133	523	4.0	17,134
964	855	Inventory		1,006	973	33	3.4	1,010
1,663	1,334	Other assets		1,396	1,560	(164)	(10.5)	1,441
103,329	95,871	Property, plant & equipment	12	104,057	104,469	(412)	(0.4)	107,895
8,065	6,920	Equity accounted investments ¹		8,069	8,140	(71)	(0.9)	8,820
1,751	1,628	Intangible assets and goodwill		1,792	2,107	(315)	(15.0)	2,308
-	-	Forecast for new capital spending		-	-	-	-	184
-	-	Top-down capital adjustment		-	-	-	-	(485)
200,835	185,525	Total assets		201,951	201,268	683	0.3	208,619
Liabilities								
3,530	3,497	Issued currency		3,625	3,500	(125)	(3.6)	3,702
10,895	8,769	Payables	14	9,391	11,371	1,980	17.4	11,936
1,292	966	Deferred revenue		1,335	1,576	241	15.3	1,205
46,110	44,453	Borrowings		48,881	45,817	(3,064)	(6.7)	48,618
20,484	17,170	Insurance liabilities	15	20,585	20,041	(544)	(2.7)	21,982
8,257	7,138	Retirement plan liabilities		8,222	8,102	(120)	(1.5)	8,332
4,753	4,498	Provisions	16	4,735	4,423	(312)	(7.1)	5,075
95,321	86,491	Total liabilities		96,774	94,830	(1,944)	(2.0)	100,850
105,514	99,034	Total assets less total liabilities		105,177	106,438	(1,261)	(1.2)	107,769
Net Worth								
46,700	46,333	Taxpayer funds	17	45,953	47,656	(1,703)	(3.6)	48,675
58,566	52,356	Revaluation reserve	17	58,615	58,542	73	0.1	58,793
(134)	49	Other reserves	17	227	(142)	369	259.9	(81)
105,132	98,738	Total net worth attributable to the Crown		104,795	106,056	(1,261)	(1.2)	107,387
382	296	Net worth attributable to minority interest in Air NZ		382	382	-	-	382
105,514	99,034	Total net worth		105,177	106,438	(1,261)	(1.2)	107,769

¹ Tertiary education institutions constitute most equity accounted investments.

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

STATEMENT OF BORROWINGS

as at 30 September 2008

As at 30 June 2008 Actual \$m	As at 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Borrowings							
18,516	16,730	Government stock ¹	16,687	16,213	(474)	(2.9)	19,244
1,484	2,244	Treasury bills	1,294	1,383	89	6.4	1,116
423	371	Government retail stock	490	422	(68)	(16.1)	416
7,750	8,146	Settlement deposits with Reserve Bank	9,515	7,465	(2,050)	(27.5)	7,750
1,591	1,191	Derivatives in loss ²	2,208	1,511	(697)	(46.1)	746
955	978	Finance lease liabilities	1,046	680	(366)	(53.8)	1,124
15,391	14,793	Other borrowings	17,641	18,143	502	2.8	18,222
46,110	44,453	Total borrowings³	48,881	45,817	(3,064)	(6.7)	48,618
33,192	33,277	Sovereign-guaranteed debt ⁴	34,623	32,696	(1,927)	(5.9)	33,378
12,918	11,176	Non sovereign-guaranteed debt	14,258	13,121	(1,137)	(8.7)	15,240
46,110	44,453	Total borrowings³	48,881	45,817	(3,064)	(6.7)	48,618
Gross and net debt analysis:							
37,336	37,606	Core Crown borrowings	40,160	36,210	(3,950)	(10.9)	37,793
409	667	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(75)	584	659	112.8	649
37,745	38,273	Gross sovereign-issued debt⁵	40,085	36,794	(3,291)	(8.9)	38,442
50,698	47,374	Less core Crown financial assets ⁶	50,292	46,933	3,359	7.2	48,872
(12,953)	(9,101)	Net core Crown debt (incl NZS Fund)⁷	(10,207)	(10,139)	68	0.7	(10,430)
12,934	13,287	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	12,799	14,091	(1,292)	(9.2)	15,637
(19)	4,186	Net core Crown debt (excl NZS Fund)⁸	2,592	3,952	1,360	34.4	5,207
Gross sovereign-issued debt excluding settlement cash:							
37,745	38,273	Gross sovereign-issued debt ⁵	40,085	36,794	(3,291)	(8.9)	38,442
(7,955)	(8,585)	Less Reserve Bank settlement cash (incl. Kiwibank)	(9,754)	(7,510)	2,244	29.9	(7,955)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁹	1,600	1,600	-	-	1,600
31,390	31,288	Gross sovereign-issued debt excluding settlement cash	31,931	30,884	(1,047)	(3.4)	32,087

Notes on Borrowings

- Government stock includes \$395 million of infrastructure bonds.
- Derivatives are included in either borrowings or marketable securities, deposits and equity investments depending on their balance date value. This treatment leads to fluctuations in individual items within the Statement of Borrowings, primarily due to exchange rate movements.
- Total Borrowings (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.
- Total Borrowings (Gross Debt) can be split into sovereign-guaranteed and non sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities is not explicitly guaranteed by the Crown. 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, 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.
- Core Crown financial assets exclude receivables.
- Net core Crown debt is the Government sovereign-issued debt 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 creditworthiness of a country. However, as some financial assets are not easily converted into cash, and some are restricted, it is important to view net debt alongside gross sovereign-issued debt.
- Adding back the NZ Superannuation Fund Assets provides the financial liabilities less financial assets of the Core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.
- The Reserve Bank has used \$1.6 billion 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 accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF COMMITMENTS

as at 30 September 2008

	As at 30 Sep 2008 \$m	As at 30 June 2008 \$m	As at 30 Sep 2007 \$m
Capital Commitments			
Specialist military equipment	672	873	576
Land and buildings	1,266	1,121	824
Other property, plant and equipment	4,420	4,303	2,693
Other capital commitments	265	304	242
Tertiary Education Institutions	209	209	90
Total capital commitments	6,832	6,810	4,425
Operating Commitments			
Non-cancellable accommodation leases	2,424	2,460	2,218
Other non-cancellable leases	2,335	2,390	2,263
Non-cancellable contracts for the supply of goods and services	2,196	2,157	1,598
Other operating commitments	8,138	7,995	7,215
Tertiary Education Institutions	315	315	303
Total operating commitments	15,408	15,317	13,597
Total commitments	22,240	22,127	18,022
Total Commitments by Segment			
Core Crown	17,467	19,627	15,597
Crown entities	15,752	15,830	9,415
State-owned Enterprises	4,787	4,724	3,615
Inter-segment eliminations	(15,766)	(18,054)	(10,605)
Total commitments	22,240	22,127	18,022

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 30 September 2008

	As at 30 Sep 2008 \$m	As at 30 June 2008 \$m	As at 30 Sep 2007 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	343	286	151
Uncalled capital	2,388	2,205	2,138
Legal proceedings and disputes	429	383	1,090
Other contingent liabilities	1,959	1,995	1,895
Total quantifiable contingent liabilities	5,119	4,869	5,274
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	5,017	4,685	5,151
Crown entities	35	86	11
State-owned Enterprises	67	98	112
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	5,119	4,869	5,274
Quantifiable Contingent Assets			
Core Crown	389	389	90
Crown entities	-	-	-
Total quantifiable contingent assets	389	389	90

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

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Taxation Revenue (accrual)							
Individuals							
23,345	5,621	PAYE	5,849	5,692	157	2.8	23,073
5,071	1,019	Other persons	1,270	1,093	177	16.2	4,972
(1,470)	(403)	Refunds	(481)	(441)	(40)	(9.1)	(1,494)
522	146	Fringe benefit tax	123	117	6	5.1	514
27,468	6,383	Total individuals	6,761	6,461	300	4.6	27,065
Corporate Tax							
8,787	2,173	Gross companies tax	1,893	1,836	57	3.1	7,651
(242)	71	Refunds	(56)	(47)	(9)	(19.1)	(310)
1,506	429	Non-resident withholding tax	522	502	20	4.0	1,549
71	31	Foreign-source dividend w/holding payments	(6)	10	(16)	(160.0)	42
10,122	2,704	Total corporate tax	2,353	2,301	52	2.3	8,932
Other Income Tax							
2,699	587	Resident w/holding tax on interest income	703	689	14	2.0	2,822
69	19	Resident w/holding tax on dividend income	(6)	(7)	1	14.3	60
3	-	Estate and gift duties	-	1	(1)	(100.0)	3
2,771	606	Total other income tax	697	683	14	2.0	2,885
40,361	9,693	Total income tax	9,811	9,445	366	3.9	38,882
Goods and Services Tax							
20,631	4,815	Gross goods and services tax	5,678	5,505	173	3.1	21,460
(9,516)	(2,087)	Refunds	(2,546)	(2,527)	(19)	(0.8)	(9,773)
11,115	2,728	Total goods and services tax	3,132	2,978	154	5.2	11,687
Other Taxation							
819	180	Petroleum fuels excise	208	208	-	-	880
159	54	Tobacco excise	41	41	-	-	151
1,857	427	Customs duty	435	427	8	1.9	1,889
851	200	Road user charges	217	217	-	-	877
573	132	Alcohol excise	149	149	-	-	602
260	58	Gaming duties	50	49	1	2.0	252
226	57	Motor vehicle fees	54	54	-	-	185
46	12	Energy resources levies	11	11	-	-	43
105	12	Approved issuer levy and cheque duty	23	23	-	-	90
4,896	1,132	Total other indirect taxation	1,188	1,179	9	0.8	4,969
16,011	3,860	Total indirect taxation	4,320	4,157	163	3.9	16,656
56,372	13,553	Total taxation revenue	14,131	13,602	529	3.9	55,538
Other Sovereign Revenue (accrual)							
2,718	719	ACC levies	658	684	(26)	(3.8)	2,742
279	88	Fire Service levies	88	95	(7)	(7.4)	303
86	22	EQC levies	22	22	-	-	87
796	184	Other miscellaneous items	212	185	27	14.6	861
3,879	1,013	Total other sovereign revenue	980	986	(6)	(0.6)	3,993
60,251	14,566	Total sovereign revenue	15,111	14,588	523	3.6	59,531

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
22,830	5,508	PAYE	6,038	5,988	50	0.8	23,041
5,469	1,285	Other persons	1,207	1,153	54	4.7	5,447
(2,171)	(730)	Refunds	(838)	(805)	(33)	(4.1)	(2,369)
489	119	Fringe benefit tax	119	125	(6)	(4.8)	507
26,617	6,182	Total individuals	6,526	6,461	65	1.0	26,626
Corporate Tax							
9,075	2,173	Gross companies tax	1,840	1,940	(100)	(5.2)	7,954
(1,026)	(227)	Refunds	(374)	(357)	(17)	(4.8)	(1,150)
1,638	446	Non-resident withholding tax	485	374	111	29.7	1,344
72	17	Foreign-source dividend w/holding payments	(7)	3	(10)	(333.3)	42
9,759	2,409	Total corporate tax	1,944	1,960	(16)	(0.8)	8,190
Other Income Tax							
2,616	587	Resident w/holding tax on interest income	665	673	(8)	(1.2)	2,823
40	16	Resident w/holding tax on dividend income	12	14	(2)	(14.3)	90
2	-	Estate and gift duties	-	1	(1)	(100.0)	3
2,658	603	Total other income tax	677	688	(11)	(1.6)	2,916
39,034	9,194	Total income tax	9,147	9,109	38	0.4	37,732
Goods and Services Tax							
20,085	4,471	Gross goods and services tax	4,872	4,696	176	3.7	20,727
(8,859)	(2,057)	Refunds	(2,492)	(2,447)	(45)	(1.8)	(9,260)
11,226	2,414	Total goods and services tax	2,380	2,249	131	5.8	11,467
Other Taxation							
809	191	Petroleum fuels excise	201	206	(5)	(2.4)	880
160	36	Tobacco excise	36	38	(2)	(5.3)	151
1,946	472	Customs duty	413	408	5	1.2	1,889
851	201	Road user charges	217	217	-	-	877
554	127	Alcohol excise	118	133	(15)	(11.3)	602
238	60	Gaming duties	61	60	1	1.7	248
223	67	Motor vehicle fees	52	52	-	-	185
42	13	Energy resources levies	8	11	(3)	(27.3)	48
85	12	Approved issuer levy and cheque duty	20	29	(9)	(31.0)	80
4,908	1,179	Total other indirect taxation	1,126	1,154	(28)	(2.4)	4,960
16,134	3,593	Total indirect taxation	3,506	3,403	103	3.0	16,427
55,168	12,787	Total tax receipts collected	12,653	12,512	141	1.1	54,159
Other Sovereign Receipts (cash)							
2,561	817	ACC levies	757	813	(56)	(6.9)	2,752
281	88	Fire Service levies	89	95	(6)	(6.3)	303
86	25	EQC levies	24	22	2	9.1	87
532	131	Other miscellaneous items	146	141	5	3.5	595
3,460	1,061	Total other sovereign receipts	1,016	1,071	(55)	(5.1)	3,737
58,628	13,848	Total sovereign receipts	13,669	13,583	86	0.6	57,896

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 2: Interest Revenue and Dividends							
<i>By type</i>							
2,803	703	Interest revenue	809	908	(99)	(10.9)	3,378
411	89	Dividends	82	78	4	5.1	450
3,214	792	Total interest revenue and dividends	891	986	(95)	(9.6)	3,828
<i>By source</i>							
2,344	629	Core Crown	531	792	(261)	(33.0)	2,647
1,233	306	Crown entities	349	271	78	28.8	1,162
704	174	State-owned Enterprises	325	173	152	87.9	673
(1,067)	(317)	Inter-segment eliminations	(314)	(250)	(64)	(25.6)	(654)
3,214	792	Total interest revenue and dividends	891	986	(95)	(9.6)	3,828
NOTE 3: Social Assistance and Official Development Assistance							
7,348	1,815	New Zealand superannuation	1,914	1,915	1	0.1	7,785
1,478	367	Domestic purposes benefit	384	378	(6)	(1.6)	1,501
458	120	Unemployment benefit	118	103	(15)	(14.6)	487
1,216	296	Invalids benefit	326	326	-	-	1,273
1,897	536	Family tax credit	518	514	(4)	(0.8)	2,153
891	221	Accommodation supplement	235	229	(6)	(2.6)	951
582	151	Sickness benefit	150	145	(5)	(3.4)	570
386	122	Student allowances	129	125	(4)	(3.2)	411
278	69	Disability allowances	96	96	-	-	389
1,102	-	KiwiSaver	393	386	(7)	(1.8)	1,440
2,376	756	Other social assistance benefits	602	583	(19)	(3.3)	2,707
18,012	4,453	Total social assistance	4,865	4,800	(65)	(1.4)	19,667
362	96	Official development assistance	127	112	(15)	(13.4)	484
18,374	4,549	Total social assistance and official development assistance	4,992	4,912	(80)	(1.6)	20,151
NOTE 4: Personnel Expenses							
5,584	1,363	Core Crown	1,449	1,429	(20)	(1.4)	5,865
8,741	2,046	Crown entities	2,260	2,248	(12)	(0.5)	9,505
2,164	542	State-owned Enterprises	599	596	(3)	(0.5)	2,438
(11)	(1)	Inter-segment eliminations	(2)	(2)	-	-	(8)
16,478	3,950	Total personnel expenses	4,306	4,271	(35)	(0.8)	17,800
NOTE 5: Operating Expenses							
<i>By type</i>							
3,670	874	Depreciation and amortisation ¹	1,197	973	(224)	(23.0)	3,973
30,656	6,820	Other operating expenses	7,915	7,910	(5)	(0.1)	33,721
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	-	-	-	(1,450)
34,326	7,694	Total operating expenses	9,112	8,883	(229)	(2.6)	36,416
<i>By source</i>							
30,432	7,233	Core Crown	7,994	8,222	228	2.8	33,518
15,754	3,526	Crown entities	4,021	4,015	(6)	(0.1)	16,028
10,945	2,412	State-owned Enterprises	3,017	2,808	(209)	(7.4)	11,426
(22,805)	(5,477)	Inter-segment eliminations	(5,920)	(6,162)	(242)	(3.9)	(24,556)
34,326	7,694	Total operating expenses	9,112	8,883	(229)	(2.6)	36,416

¹ Refer Note 19

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2008 Actual \$m	3 Months to 30 Sep 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 6: Interest Expenses							
<i>By type</i>							
3,015	736	Interest on financial liabilities	996	902	(94)	(10.4)	3,219
86	6	Interest unwind on provisions	14	4	(10)	(250.0)	92
3,101	742	Total interest expenses	1,010	906	(104)	(11.5)	3,311
<i>By source</i>							
2,460	589	Core Crown	586	726	140	19.3	2,650
248	73	Crown entities	62	64	2	3.1	254
870	207	State-owned Enterprises	416	253	(163)	(64.4)	1,022
(477)	(127)	Inter-segment eliminations	(54)	(137)	(83)	(60.6)	(615)
3,101	742	Total interest expenses	1,010	906	(104)	(11.5)	3,311
NOTE 7: Insurance Expenses							
<i>By entity</i>							
3,423	833	ACC	791	761	(30)	(3.9)	4,020
130	21	EQC	24	10	(14)	(140.0)	39
10	3	Other insurance expenses	7	4	(3)	(75.0)	17
3,563	857	Total insurance expenses	822	775	(47)	(6.1)	4,076
NOTE 8: Gains and Losses on Financial							
<i>By source</i>							
353	358	Core Crown	(714)	400	(1,114)	(278.5)	1,287
(743)	275	Crown entities	(268)	91	(359)	(394.5)	412
(37)	79	State-owned Enterprises	(201)	(34)	(167)	(491.2)	17
(190)	(108)	Inter-segment eliminations	(81)	(65)	(16)	(24.6)	(254)
(617)	604	Net gains/(losses) on financial instruments	(1,264)	392	(1,656)	(422.4)	1,462
NOTE 9: Gains and Losses on Non-Financial Instruments							
<i>By type</i>							
(1,098)	-	Actuarial gains/(losses) on GSF liability	-	-	-	-	-
(1,709)	-	Actuarial gains/(losses) on ACC outstanding claims	(419)	-	(419)	-	-
(118)	10	Other	(8)	52	(60)	(115.4)	178
(2,925)	10	Net gains/(losses) on non-financial instruments	(427)	52	(479)	-	178
<i>By source</i>							
(1,369)	(8)	Core Crown	(65)	1	(66)	-	33
(1,725)	5	Crown entities	(420)	2	(422)	-	(13)
170	13	State-owned Enterprises	58	49	9	18.4	158
(1)	-	Inter-segment eliminations	-	-	-	-	-
(2,925)	10	Net gains/(losses) on non-financial instruments	(427)	52	(479)	-	178
NOTE 10: Operating Balance							
<i>By source</i>							
3,891	1,471	Core Crown	(279)	154	(433)	(281.2)	239
(1,526)	787	Crown entities	(232)	647	(879)	(135.9)	970
723	248	State-owned Enterprises	118	235	(117)	(49.8)	938
(704)	(363)	Inter-segment eliminations	(364)	(93)	(271)	(291.4)	(238)
2,384	2,143	Total operating balance	(757)	943	(1,700)	(180.3)	1,909

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 30 Sep 2007 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 11: Financial Assets							
3,804	5,333	Cash and cash equivalents	5,417	4,079	1,338	32.8	3,868
7,398	7,301	Tax receivables	7,871	8,336	(465)	(5.6)	7,637
6,760	5,529	Trade and other receivables	5,977	6,507	(530)	(8.1)	6,842
6,741	6,098	Student loans	6,839	6,887	(48)	(0.7)	7,173
5,581	4,487	Kiwibank mortgages	6,060	5,329	731	13.7	8,500
2,787	1,492	Long-term deposits	2,435	2,848	(413)	(14.5)	1,670
188	188	Reserve position at the IMF	202	186	16	8.6	174
626	1,735	Other loans	757	917	(160)	(17.4)	1,461
12,964	13,801	Share investments	12,583	13,645	(1,062)	(7.8)	14,293
1,563	2,181	Derivatives in gain	1,693	1,597	96	6.0	858
36,651	30,772	Other marketable securities	35,797	33,688	2,109	6.3	34,970
85,063	78,917	Total financial assets	85,631	84,019	1,612	1.9	87,446
Financial assets by portfolio							
23,228	24,207	Reserve Bank and DMO managed funds	22,973	18,605	4,368	23.5	15,127
13,791	13,287	NZ Superannuation Fund	13,382	14,397	(1,015)	(7.1)	16,563
19,080	15,551	Other core Crown	19,576	20,534	(958)	(4.7)	23,194
(563)	(852)	Intra-segment eliminations	(261)	(310)	49	15.8	(660)
55,536	52,193	Total core Crown	55,670	53,226	2,444	4.6	54,224
11,977	11,096	ACC portfolio	11,173	11,540	(367)	(3.2)	12,599
1,872	2,015	EQC portfolio	1,793	1,917	(124)	(6.5)	2,019
4,304	4,300	Other Crown entities	4,432	5,427	(995)	(18.3)	4,645
18,153	17,411	Total Crown entities	17,398	18,884	(1,486)	(7.9)	19,263
11,374	9,313	Total State Owned Enterprises	12,563	11,909	654	5.5	13,959
85,063	78,917	Total financial assets by portfolio	85,631	84,019	1,612	1.9	87,446
NOTE 12: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
17,609	16,718	Land (valuation)	17,567	17,509	58	0.3	18,122
22,257	20,684	Buildings (valuation)	22,484	22,121	363	1.6	22,977
1,887	1,931	Electricity distribution network (cost)	1,870	2,025	(155)	(7.7)	2,255
11,202	10,463	Electricity generation assets (valuation)	11,300	11,366	(66)	(0.6)	11,890
2,071	2,511	Aircraft (exclng military) (valuation)	1,984	2,159	(175)	(8.1)	2,051
20,947	19,545	State highways (valuation)	21,038	21,160	(122)	(0.6)	21,628
11,621	10,568	Rail network (valuation)	12,135	12,131	4	-	11,979
3,345	3,080	Specialist military equipment (valuation)	3,338	3,387	(49)	(1.4)	3,421
4,412	3,246	Other plant and equipment (cost)	4,386	4,765	(379)	(8.0)	5,578
7,978	7,125	Specified cultural and heritage assets (valuation)	7,955	7,846	109	1.4	7,994
103,329	95,871	Total net carrying value	104,057	104,469	(412)	(0.4)	107,895

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 30 Sep 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
385	103	Revenue	106	86	20	23.3	431
237	109	Less current tax expense	(304)	74	378	-	326
34	(51)	Less other expenses ¹	28	40	12	30.0	156
(995)	41	Add gains/(losses)	(1,266)	259	(1,525)	-	1,037
(881)	86	Operating balance	(884)	231	(1,115)	(482.7)	986
12,973	12,973	Opening net worth	14,212	14,212	-	-	14,212
2,104	485	Gross contribution from the Crown	604	604	-	-	2,242
(881)	86	Operating balance	(884)	231	(1,115)	(482.7)	986
16	2	Other movements in reserves	22	-	22	-	-
14,212	13,546	Closing net worth	13,954	15,047	(1,093)	(7.3)	17,440
<i>comprising:</i>							
13,791	13,287	Financial assets	13,382	14,397	(1,015)	(7.1)	16,563
421	259	Net other assets	572	650	(78)	(12.0)	877
14,212	13,546	Closing net worth	13,954	15,047	(1,093)	(7.3)	17,440
Core Crown revenue (excl NZS Fund)							
61,819	14,882	Core Crown revenue	15,556	15,075	481	3.2	61,207
385	103	Less NZS Fund revenue	106	86	20	23.3	431
237	109	Add back NZS Fund intra-segment revenue	-	74	(74)	(100.0)	326
61,671	14,888	Core Crown revenue (excl NZS Fund)	15,450	15,063	387	2.6	61,102
OBEGAL excluding NZS Fund							
5,637	1,522	Total Crown OBEGAL	891	424	467	110.1	(64)
385	103	Less NZS Fund revenue	106	86	20	23.3	431
97	44	Less NZS Fund expenses	19	35	(16)	(45.7)	138
237	109	Add back NZS Fund tax	-	74	(74)	(100.0)	326
5,586	1,572	OBEGAL excluding NZS Fund	804	447	357	79.9	(31)

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 30 Sep 2007 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 14: Payables							
6,444	5,033	Accounts payable	5,909	6,920	1,011	14.6	7,485
4,451	3,736	Taxes repayable	3,482	4,451	969	21.8	4,451
10,895	8,769	Total payables	9,391	11,371	1,980	17.4	11,936
NOTE 15: Insurance liabilities							
20,374	17,099	ACC liability	20,472	19,948	(524)	(2.6)	21,876
97	65	EQC liability	101	79	(22)	(27.8)	97
13	6	Other insurance liabilities	12	14	2	14.3	9
20,484	17,170	Total insurance liabilities	20,585	20,041	(544)	(2.7)	21,982
NOTE 16: Provisions							
562	717	Provision for Kyoto	583	562	(21)	(3.7)	562
907	771	Provision for National Provident Fund guarantee	907	907	-	-	978
2,220	1,894	Provision for employee entitlements	2,262	2,194	(68)	(3.1)	2,206
1,064	1,116	Other provisions	983	760	(223)	(29.3)	1,329
4,753	4,498	Total provisions	4,735	4,423	(312)	(7.1)	5,075
NOTE 17: Changes in Net Worth							
44,222	44,169	Opening taxpayers funds	46,700	46,700	-	-	46,700
2,384	2,143	Operating balance excluding minority interest	(757)	943	(1,700)	(180.3)	1,909
94	21	Transfers from/(to) other reserves	10	13	(3)	(23.1)	66
46,700	46,333	Closing taxpayers funds	45,953	47,656	(1,703)	(3.6)	48,675
52,442	52,371	Opening revaluation reserve	58,566	58,566	-	-	58,566
6,214	(16)	Net Revaluations	56	(12)	68	-	292
(90)	1	Transfers from/(to) other reserves	(7)	(12)	5	41.7	(65)
58,566	52,356	Closing revaluation reserve	58,615	58,542	73	0.1	58,793
(133)	(132)	Opening other reserves	(134)	(134)	-	-	(134)
(1)	181	Net movements	361	(8)	369	-	53
(134)	49	Closing other reserves	227	(142)	369	259.9	(81)

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2008 \$m	3 Months to 30 Sep 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
55,975	12,899	Total tax receipts	12,623	12,564	59	0.5	54,851
486	124	Total other sovereign receipts	135	133	2	1.5	536
2,128	494	Interest, profits and dividends	507	665	(158)	(23.8)	2,009
1,411	433	Sale of goods & services and other receipts	577	380	197	51.8	1,641
(19,562)	(4,442)	Subsidies and transfer payments	(5,890)	(5,753)	(137)	(2.4)	(22,045)
(30,792)	(8,055)	Personnel and operating costs	(8,634)	(8,931)	297	3.3	(35,043)
(2,354)	(570)	Finance costs	(515)	(615)	100	16.3	(2,441)
-	-	Forecast for future new operating spending	-	-	-	-	(172)
-	-	Top-down expense adjustment	-	-	-	-	1,450
7,292	883	Net cash flows from core Crown operations	(1,197)	(1,557)	360	23.1	786
(1,433)	(293)	Net purchase of physical assets	(361)	(387)	26	6.7	(2,001)
(1,254)	(355)	Net increase in advances	(257)	(270)	13	4.8	(903)
(444)	(98)	Net purchase of investments	(795)	(1,491)	696	46.7	(1,850)
(2,104)	(484)	Contribution to NZ Superannuation Fund	(604)	(604)	-	-	(2,242)
-	-	Forecast for future new capital spending	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
2,057	(347)	Residual cash	(3,214)	(4,309)	1,095	25.4	(5,909)
Financed by:							
(3,595)	(1,255)	Other net sale/(purchase) of marketable securities and deposits	4,391	6,168	(1,777)	(28.8)	4,493
(1,538)	(1,602)	Total operating and investing activities	1,177	1,859	(682)	(36.7)	(1,416)
Used in:							
(1,585)	224	Net (repayment)/issue of other New Zealand dollar borrowing	2,518	329	2,189	-	440
901	311	Net (repayment)/issue of foreign currency borrowing	(1,368)	(365)	(1,003)	(274.8)	(602)
86	54	Issues of circulating currency	95	(33)	128	387.9	172
249	308	Increase/(decrease) in cash	(963)	(4)	(959)	-	(29)
(349)	897		282	(73)	355	486.3	(19)
(1,887)	(705)	Net cash inflow/(outflow) to be offset by domestic bonds	1,459	1,786	(327)	(18.3)	(1,435)
Gross Cash Proceeds from Domestic Bonds							
1,757	673	Domestic bonds (market)	1,202	963	239	24.8	4,048
130	32	Domestic bonds (non-market)	490	502	(12)	(2.4)	738
1,887	705	Total gross cash proceeds from domestic bonds	1,692	1,465	227	15.5	4,786
-	-	Repayment of domestic bonds (market)	(2,700)	(2,800)	100	3.6	(2,900)
-	-	Repayment of domestic bonds (non-market)	(451)	(451)	-	-	(451)
-	-		(3,151)	(3,251)	100	3.1	(3,351)
1,887	705	Net (repayments of)/cash proceeds from domestic bonds	(1,459)	(1,786)	327	18.3	1,435

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. A provisional assessment as at 30 September 2008 of the fair value of the assets acquired and liabilities assumed through this purchase was \$448 million. No goodwill has been recognised and the difference between the provisional 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.

The fair value of the assets acquired and liabilities assumed may be adjusted in future reporting periods to reflect final valuations. Final valuations must be completed within one year of the purchase date.

In the three month period to 30 September 2008, revenue earned by KiwiRail Holdings Limited of \$158 million and an operating deficit of \$4 million has been included in the financial statements of the Government.

Note 20: Subsequent Events

Deposit Guarantee 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 scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. Current retail deposits over which the scheme could provide coverage amount to approximately \$166 billion. Processing of applications from deposit takers has begun and 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.