

Financial Statements of the Government of New Zealand

For the Five Months Ended
30 November 2010



Prepared by The Treasury
27 January 2011

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

New Zealand Government

978-0-478-35009-8 (Print)
978-0-478-35015-9 (Online)



This report is printed on paper that is manufactured from 100% recycled post consumer waste in a Process Chlorine Free (PCF) process independently certified by the Forest Stewardship Council (FSC). The mill operates under the ISO14001 environmental management system.

CONTENTS

Commentary

Summary	2
Analysis	4
Remainder of the 2010/11 Fiscal year	8
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 Comprehensive Income	15
<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 Cash Flows	17
<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 Changes in Net Worth	19
<i>The statement provides a reconciliation of opening and closing net worth for the period.</i>	
Statement of Financial Position	20
<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	21
<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	22
<i>The statement outlines the commitments of the total Government by type and segment.</i>	
Statement of Contingent Liabilities and Assets	22
<i>The statement outlines the contingent liabilities and assets of the total Government by type and segment.</i>	
Notes to the Financial Statements	23
<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

Nicola Haslam (phone 64-4-917-6943) (E-mail: nicola.haslam@treasury.govt.nz)
Macroeconomic and Fiscal Environment Portfolio
The Treasury (1 The Terrace), PO Box 3724, Wellington
NEW ZEALAND
Facsimile: 64-4-473-1151



COMMENTARY

S U M M A R Y

The Financial Statements of the Government provide a record of the Government's financial performance over the five months ended 30 November 2010 and its financial position as at that date.

The November results are reported against forecasts based on the *2010 Half Year Economic and Fiscal Update (HYEFU)*, published on 14 December 2010.

At a Glance

Table 1 – Key indicators for the five months ended 30 November 2010 compared to HYEFU

\$ million	Year to date				Full Year
	November	November	Variance to HYEFU	Variance to HYEFU	June
	2010	2010			2011
	Actual ¹	Forecast ¹	\$m	%	Forecast ²
Core Crown					
Core Crown tax revenue	20,498	20,471	27	0.1	52,527
Core Crown revenue	22,396	22,674	(278)	(1.2)	58,446
Core Crown expenses	27,507	27,779	272	1.0	70,560
Core Crown residual cash	(9,139)	(9,320)	181	1.9	(15,602)
Gross debt ³	60,818	59,352	(1,467)	(2.5)	67,400
<i>as a percentage of GDP</i>	31.9%	31.1%			33.1%
Net debt ⁴	35,927	36,057	130	0.4	42,078
<i>as a percentage of GDP</i>	18.8%	18.9%			20.6%
Total Crown					
Operating balance before gains and losses	(5,773)	(5,879)	106	1.8	(11,098)
Operating balance	(2,491)	(4,782)	2,291	47.9	(9,116)
Net worth	92,396	90,129	2,267	2.5	85,809

1 Using GDP for the year ended 30 September 2010 of \$190,740 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2011 of \$203,876 million (Source: Treasury)

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

4 Net core Crown debt excluding 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.

Results for the five months ended 30 November 2010:

- **Core Crown tax revenue** was \$27 million (0.1%) higher than forecast. Within that, source deductions revenue was higher than forecast and corporate tax revenue was lower than forecast:
 - Source deductions revenue was \$185 million (2.1%) higher than forecast. November was the first month that IRD received PAYE assessments in respect of the October 2010 personal tax cuts. The forecast assumed that source deductions would decline in line with tax cuts however they fell less than anticipated. At this stage it is too early to predict whether the PAYE variance will persist.
 - This higher revenue was offset by corporate tax being \$179 million (7.2%) lower than forecast. This is primarily the result of provisional tax assessments being lower than expected and is likely to be timing in nature.
- **Core Crown expenses** were \$272 million lower than forecast due to individually small variances across a number of departments.
- The **operating balance before gains and losses deficit** was largely in line with forecast. Within this, both insurance expenses and other revenue in relation to reinsurance were \$1 billion higher than forecast as the estimated costs of the Canterbury earthquake have risen to \$3 billion.

- Including the impact of both gains made on investment portfolios and actuarial gains, the **operating balance deficit** was \$2,291 million less than forecast at \$2,491 million. Based on solid performances in global equity markets, the NZS Fund recorded gains that were \$1,016 million higher than forecast. In addition, ACC recorded an actuarial gain on its outstanding claims liability of \$487 million which was \$1,331 million above the forecast actuarial loss of \$844 million. The actuarial gain arose from an increase in the discount rates used to calculate the present value of expected payments on this liability.
- As a result of the operating result, **net worth** was \$2,267 million higher than expected.
- The **residual cash deficit** at \$9,139 million was \$181 million less than forecast. The main contributor being GST receipts which were \$168 million (3.5%) higher than forecast. Given that third quarter private consumption was more subdued than expected in the *HYEFU*, the variance is more likely to relate to forecasting assumptions regarding the October GST rate rise.
- The variance in the residual cash deficit has flowed through to **net debt**, which was \$130 million lower than forecast.
- **Gross debt** was \$1,467 million higher than forecast. There were a number of items making up this variance:
 - The Reserve Bank and NZDMO had unsettled trades at 30 November of \$560 million. These are short-term positions that are not forecast.
 - Treasury bill issuances were \$462 million higher than forecast mainly due to an additional bill tender in November than was forecast.
 - Other financial liabilities were \$383 million higher than forecast with actual collateral deposits exceeding the forecast amount.

This variance in gross debt did not result in a corresponding increase in net debt as there were similar increases in financial assets.

Further analysis of the November results follows.

ANALYSIS

Table 2 – Key indicator variances for the five months ended 30 November 2010 compared to *HYEFU*

Item/indicator	Variance ¹	Key drivers
Core Crown		
Core Crown revenue	-\$278 million (lower than forecast)	<p>Core Crown tax revenue was \$27m (0.1%) higher than forecast. The main components were:</p> <ul style="list-style-type: none"> • Source deductions revenue was \$185m (2.1%) higher than forecast. November was the first month that IRD received PAYE assessments in respect of the October 2010 personal tax cuts. The forecast assumed that source deductions would decline in November in line with the tax cuts however they fell less than anticipated. <p>This higher revenue was offset by:</p> <ul style="list-style-type: none"> • Corporate tax revenue which was \$179m (7.2%) lower than forecast. This variance was due to provisional tax assessments being lower than expected. The shortfall is likely to be timing in nature. <p>Revenue from other tax types was in line with forecast.</p> <p>The remainder of the variance related to interest and dividend revenue which was \$244m lower than forecast.</p>
Core Crown expenses	\$272 million (lower than forecast)	<p>Core Crown expenses were lower than forecast due to individually small variances across a number of Departments. Of these the largest related to the Ministry for the Environment which issued \$40m fewer NZ units under the Emissions Trading Scheme than forecast. This is expected to be a timing issue with no impact on the final year end result.</p>

¹ Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.

Item/indicator	Variance ¹	Key drivers
Core Crown residual cash deficit	\$181 million (lower than forecast)	<p>The core Crown residual cash deficit was \$9,139m, \$181m lower than forecast.</p> <p>The main contributor was core Crown tax receipts (excluding the NZS Fund), which were \$272m (1.4%) higher than forecast. This variance mainly arose from receipts of GST being \$168m higher than forecast. Given that the third quarter private consumption statistics, released in December as part of GDP, were more subdued than expected in the HYEQU, the variance is more likely to relate to forecasting assumptions in relation to the October GST rate rise.</p> <p>Further recent indicators of spending activity, such as electronic card transactions, suggest that spending remained soft in the final quarter of 2010.</p>
Gross debt	-\$1,467 million (higher than forecast)	<p>Gross debt was \$1,467m higher than forecast at \$60,818m. The main contributors were:</p> <ul style="list-style-type: none"> • The Reserve Bank and NZDMO had unsettled trades at 30 November of \$560m. These are short-term positions that are not forecast. • Treasury bill issuances were \$462m higher than forecast. This was mainly due to the forecast assuming four bill tenders within November, but an additional tender occurred on the last day of the month. In addition, demand for Treasury bills was slightly higher than forecast. • Other financial liabilities were \$383m higher than forecast due to collateral deposits being held constant in the forecast with the actual deposits received in November being higher than expected.
Net debt	\$130 million (lower than forecast)	<p>Net debt was \$130m lower than forecast at \$35,927m. This largely reflected the lower-than-expected residual cash deficit result noted above.</p>

Item/indicator	Variance	Key drivers
Total Crown		
Operating balance before gains and losses deficit	\$106 million (lower than forecast)	<p>The OBEGAL deficit was largely in line with forecast. Included within this were several offsetting variances:</p> <ul style="list-style-type: none"> • Lower than forecast core Crown expenses (see above) • Energy companies' operating expenditure was \$285m lower than expected. However, this was mostly offset by the associated sales of services being \$220m lower than expected. • EQC's insurance expense, was \$986m higher than forecast. However, offsetting this higher expense was higher than forecast revenue in relation to reinsurance. The estimated cost of the Canterbury earthquake has now risen to \$3b.
Operating balance deficit	\$2,291 million (lower than forecast)	<p>The operating deficit was \$2,291m lower than expected at \$2,491m due to:</p> <ul style="list-style-type: none"> • The NZS Fund recorded gains above forecast of \$1,016m arising from gains on investments and other derivatives due to strong global equity markets. • ACC recorded an actuarial gain on its outstanding claims liability of \$487m, \$1,331m above the forecast actuarial loss of \$844m. The gain was largely generated by an increase in the discount rate used to calculate the present value of expected payments.
Net worth	\$2,267 million (higher than forecast)	Net worth was higher than expected, due mainly to the lower than forecast operating balance deficit noted above.

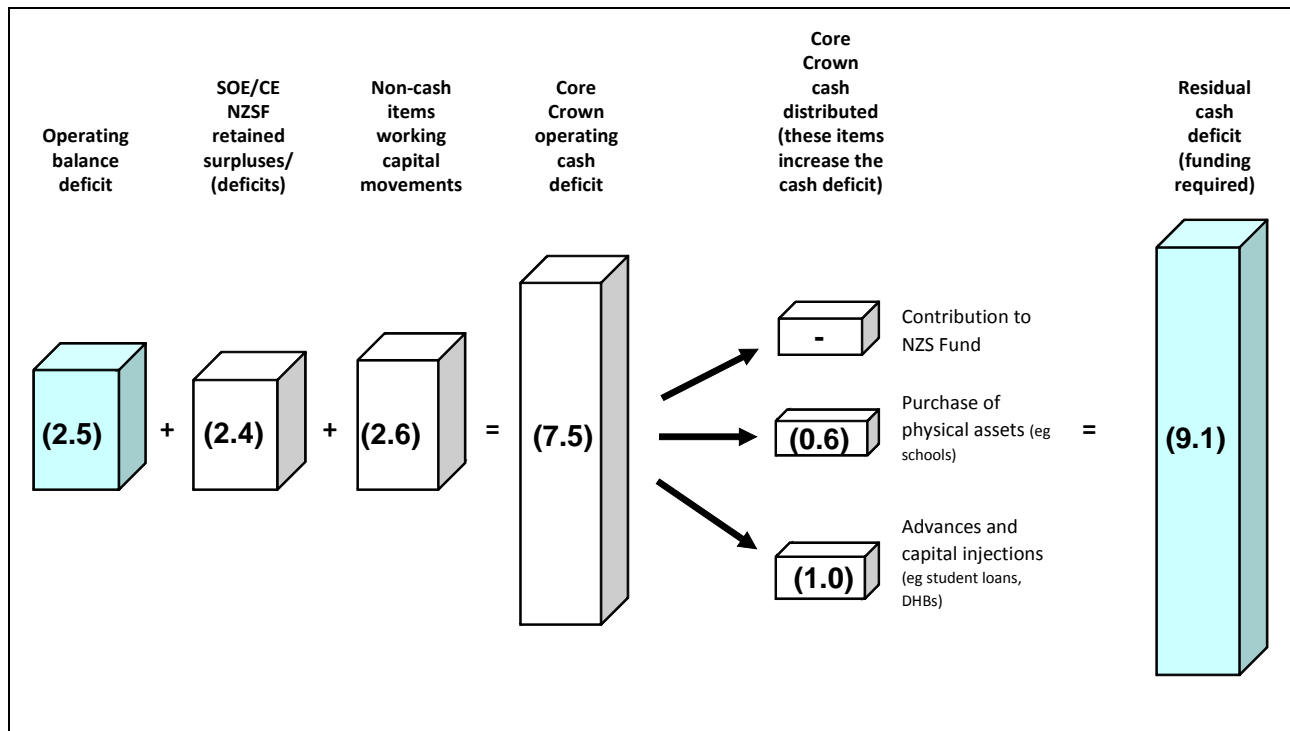
Table 3 – Fiscal Strategy and financial results

Fiscal Strategy		Financial Results		Ref	30 Nov 2010 Actual \$m	30 Nov 2010 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
Operating revenue Ensure sufficient revenue to meet the operating balance objective	Taxation as a % of GDP	1	25.8%	25.8%					25.8%
	Core Crown taxation revenue ...		20,498	20,471	27	0.1		52,527	
Operating expenses Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective	... combined with other core Crown revenue ...		1,898	2,203	(305)	(13.8)		5,919	
	... fund core Crown expenses...		(27,507)	(27,779)	272	1.0		(70,560)	
Operating balance Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective	... and with SOE and Crown entity results and core Crown gains and losses...		2,620	323	2,297	-		2,998	
	... result in an operating surplus or deficit...		(2,491)	(4,782)	2,291	47.9		(9,116)	
	...with income in SOEs, CEs and the NZS Fund retained...		(2,401)	(280)	(2,121)	-		(2,984)	
	... and some items do not impact cash ...		(2,667)	(2,610)	(57)	(2.2)		2,203	
	... leaving operating cash flows to ...		(7,559)	(7,672)	113	1.5		(9,897)	
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP	... build up assets in the NZS Fund ...		-	-	-	-		-	
	... meet the capital expenditure budget ...		(603)	(677)	74	10.9		(2,264)	
	... and make advances (e.g. to students and DHBs)		(977)	(971)	(6)	(0.6)		(3,441)	
	With the residual cash ...		(9,139)	(9,320)	181	1.9		(15,602)	
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP	... when combined with opening net debt ...		26,738	26,738	-	-		26,738	
	... and other fair value movements in financial assets and financial liabilities ...		50	(1)	(51)	-		(262)	
	... results in a closing net debt ...		35,927	36,057	130	0.4		42,078	
	... and as a % of GDP		18.8%	18.9%				20.6%	

¹ GDP for the five months ended 30 November 2010 (actual and forecast) is the actual data for the year ended 30 September 2010 (Source: Statistics New Zealand) pro-rated for five months.

Figure 1 – Application of core Crown cash flows (\$billions)

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



REMAINDER OF THE 2010/11 FISCAL YEAR

The following table details the month-by-month profile of the Government's key fiscal indicator forecasts for the remainder of the 2010/11 year. These monthly forecast tracks are based on the full-year forecasts released in the *2010 Half Year Economic and Fiscal Update* on 14 December 2010.

Table 4 – Key fiscal indicators

	November 2010 HYEFU Forecast \$m	December 2010 HYEFU Forecast \$m	January 2010 HYEFU Forecast \$m	February 2010 HYEFU Forecast \$m	March 2010 HYEFU Forecast \$m	April 2010 HYEFU Forecast \$m	May 2010 HYEFU Forecast \$m
\$ million							
Core Crown							
Core Crown revenue	22,674	27,411	33,149	37,198	41,979	47,515	53,282
Core Crown expenses	27,779	33,094	38,830	44,548	50,773	56,657	62,303
Core Crown residual cash	(9,320)	(12,629)	(10,065)	(10,950)	(12,309)	(14,847)	(12,680)
Gross debt ¹	59,352	60,290	61,585	62,730	64,166	65,177	66,020
Net debt ²	36,057	39,396	37,176	38,080	39,578	41,974	39,522
Total Crown							
OBEGAL	(5,879)	(6,137)	(6,090)	(7,494)	(8,859)	(9,209)	(8,813)
Operating Balance	(4,782)	(4,907)	(4,752)	(5,973)	(7,178)	(7,464)	(6,898)
Net worth	90,129	90,006	90,156	88,942	87,739	87,456	88,023

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

2 Net core Crown debt excluding student loans and other advances

YEAR - ON - YEAR PERSPECTIVE

Table 5 – Comparison with previous year

	November 2010 Actual \$m	November 2009 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	20,498	19,491	1,007	5.2
Other revenue	1,898	2,523	(625)	(24.8)
Total Core Crown Revenue	22,396	22,014	382	1.7
Core Crown expenses				
Social security and welfare	8,928	8,622	306	3.5
GSF pension expenses	126	136	(10)	(7.4)
Health	5,689	5,420	269	5.0
Education	4,961	4,794	167	3.5
Core government services	1,336	1,355	(19)	(1.4)
Law and order	1,415	1,310	105	8.0
Defence	742	736	6	0.8
Transport and communications	898	798	100	12.5
Economic and industrial services	1,046	1,155	(109)	(9.4)
Primary services	276	189	87	46.0
Heritage, culture and recreation	488	363	125	34.4
Housing and community development	177	157	20	12.7
Other	255	55	200	363.6
Finance costs	1,170	912	258	28.3
Total Core Crown Expenses	27,507	26,002	1,505	5.8
Net surplus of SOE/CE's (and inter-segment eliminations)	(662)	282	(944)	(334.8)
OBEHAL	(5,773)	(3,706)	(2,067)	(55.8)
Total gains/(losses)	3,179	2,345	834	35.6
Other operating items	103	(44)	147	334.1
Operating Balance	(2,491)	(1,405)	(1,086)	(77.3)
Core Crown residual cash	(9,139)	(5,275)	(3,864)	(73.3)
Debt indicators				
Gross debt²	60,818	48,076	12,742	26.5
Net debt³	35,927	22,732	13,195	58.0

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 five months ended 30 November 2010 has increased by \$1.0 billion (5.2%) on the same period last year. Corporate tax and GST were the largest contributors to the rise in tax revenue as business profitability and consumer spending have recovered following the recession of 2008/09 and the October 2010 GST rate rise flows into the tax result.

Other core Crown revenue has decreased \$0.6 billion (24.8%) from the same period last year due to dividends returned by energy companies in the early months of the 2010 financial year that were not repeated in the current financial year.

Total **core Crown expenses** have increased by \$1.5 billion (5.8%) on the same period last year. The significant movements in 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 and higher beneficiary recipient numbers
Health	+ \$0.3 billion	<ul style="list-style-type: none">• Funding provided in the 2010 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 and from funding provided in the 2010 Budget
Finance Costs	+ \$0.3 billion	<ul style="list-style-type: none">• A result of increased debt levels
Other	+ \$0.4 billion	
Total	+ \$1.5 billion	

Debt

Both **net** and **gross debt** have increased as a result of the issuance of debt (primarily Government Stock) and the running-down of financial assets to meet cash deficits.



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 83 and 84 of the *2010 Half Year Economic and Fiscal Update* released on 14 December 2010.

With the exception of the 30 June 2010 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/reporting/accounting>

4 Forecasts

The forecasts in these financial statements have been derived from the forecasts released in the *2010 Half Year Economic and Fiscal Update (HYEFU)*, on 14 December 2010.

The accounting policies underlying the preparation of forecasts are set out in the Statement of Accounting Policies reproduced in full on the Treasury's internet site:

<http://www.treasury.govt.nz/budget/forecasts/hyefu2010>

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 comparative balances exceeding 500% are not shown.

STATEMENT OF FINANCIAL PERFORMANCE

for the five months ended 30 November 2010

Year to 30 Jun 2010	5 Months to 30 Nov 2009		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Revenue						
50,347	19,302	Taxation revenue	1	20,257	20,232	25	0.1	52,072
4,682	1,931	Other sovereign revenue	1	2,124	2,157	(33)	(1.5)	5,700
55,029	21,233	Total Revenue Levied through the Crown's Sovereign Power		22,381	22,389	(8)	-	57,772
14,331	5,787	Sales of goods and services		6,249	6,374	(125)	(2.0)	15,591
2,315	1,138	Interest revenue and dividends	2	994	1,101	(107)	(9.7)	2,888
3,050	1,152	Other revenue		2,734	1,795	939	52.3	3,608
19,696	8,077	Total revenue earned through the Crown's operations		9,977	9,270	707	7.6	22,087
74,725	29,310	Total revenue (excluding gains)		32,358	31,659	699	2.2	79,859
		Expenses						
21,213	8,798	Social assistance and official development assistance	3	9,173	9,200	27	0.3	22,411
18,477	7,414	Personnel expenses	4	7,820	7,796	(24)	(0.3)	18,939
4,229	1,679	Depreciation and amortisation	5	1,757	1,761	4	0.2	4,344
31,338	12,701	Other operating expenses	5	13,542	13,994	452	3.2	37,133
2,777	1,216	Interest expenses	6	1,571	1,495	(76)	(5.1)	3,388
3,006	1,208	Insurance expenses	7	4,268	3,335	(933)	(28.0)	5,362
-	-	Forecast new operating spending	5	-	-	-	-	230
-	-	Top-down expense adjustment	5	-	(43)	(43)	(100.0)	(850)
81,040	33,016	Total expenses (excluding losses)		38,131	37,538	(593)	(1.6)	90,957
(6,315)	(3,706)	Operating balance before gains/(losses)		(5,773)	(5,879)	106	1.8	(11,098)
2,522	2,732	Net gains/(losses) on financial instruments	8	2,519	1,650	869	52.7	2,227
(960)	(387)	Net gains/(losses) on non-financial instruments	9	660	(656)	1,316	200.6	(557)
1,562	2,345	Total gains/(losses)		3,179	994	2,185	219.8	1,670
227	(44)	Net surplus/(deficit) from associates and joint ventures		104	103	1	1.0	317
(4,526)	(1,405)	Operating balance from continuing activities		(2,490)	(4,782)	2,292	47.9	(9,111)
-	-	Gain/(loss) from discontinued operations		(1)	-	(1)	-	(5)
(4,526)	(1,405)	Operating balance (including minority interest)		(2,491)	(4,782)	2,291	47.9	(9,116)
17	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
(4,509)	(1,405)	Operating balance	10	(2,491)	(4,782)	2,291	47.9	(9,116)

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

STATEMENT OF COMPREHENSIVE INCOME

for the five months ended 30 November 2010

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
(4,526)	(1,405)	Operating Balance (including minority interest)	(2,491)	(4,782)	2,291	47.9	(9,116)
		Other comprehensive income					
196	12	Revaluation of physical assets	(44)	(36)	(8)	(22.2)	(41)
(112)	(271)	Effective portion of changes in value of cash flow hedges	(61)	(38)	(23)	(60.5)	5
(62)	-	Net change in fair value of cash flow hedges transferred to operating balance	(16)	(16)	-	-	-
(3)	8	Net change in fair value of cash flow hedges transferred to the hedged item	8	(3)	11	366.7	(14)
(11)	(12)	Foreign currency translation differences for foreign operations	(2)	(6)	4	66.7	(25)
3	(3)	Valuation gains/(losses) on investments available for sale taken to reserves	(3)	3	(6)	(200.0)	9
(1)	-	Other movements	17	19	(2)	(10.5)	3
10	(266)	Total other comprehensive income	(101)	(77)	(24)	(31.2)	(63)
(4,516)	(1,671)	Total comprehensive income	(2,592)	(4,859)	2,267	46.7	(9,179)
		Attributable to:					
(34)	-	- minority interest in Air New Zealand	-	-	-	-	-
(4,482)	(1,671)	- the Crown	(2,592)	(4,859)	2,267	46.7	(9,179)
(4,516)	(1,671)	Total comprehensive income	(2,592)	(4,859)	2,267	46.7	(9,179)

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

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the five months ended 30 November 2010

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Total Crown expenses							
24,206	9,837	Social security and welfare	10,282	10,326	44	0.4	25,708
333	139	GSF pension expenses	129	130	1	0.8	312
12,673	5,219	Health	5,415	5,421	6	0.1	13,308
12,440	5,168	Education	5,425	5,466	41	0.8	12,793
2,830	1,311	Core government services	1,313	1,322	9	0.7	3,919
3,354	1,370	Law and order	1,483	1,476	(7)	(0.5)	3,689
1,771	718	Defence	730	767	37	4.8	1,922
7,991	3,171	Transport and communications	3,354	3,338	(16)	(0.5)	8,464
7,541	2,900	Economic and industrial services	6,004	5,333	(671)	(12.6)	10,424
1,373	606	Primary services	647	667	20	3.0	1,690
2,584	855	Heritage, culture and recreation	1,062	1,109	47	4.2	3,525
1,087	451	Housing and community development	461	478	17	3.6	1,823
80	55	Other	255	253	(2)	(0.8)	612
2,777	1,216	Finance costs	1,571	1,495	(76)	(5.1)	3,388
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(43)	(43)	(100.0)	(850)
81,040	33,016	Total Crown expenses excluding losses	38,131	37,538	(593)	(1.6)	90,957

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 2010 Actual \$m	5 Months to 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Core Crown expenses							
21,185	8,622	Social security and welfare	8,928	8,903	(25)	(0.3)	22,052
328	136	GSF pension expenses	126	126	-	-	304
13,128	5,420	Health	5,689	5,708	19	0.3	13,956
11,724	4,794	Education	4,961	4,994	33	0.7	12,048
2,974	1,355	Core government services	1,336	1,364	28	2.1	4,069
3,191	1,310	Law and order	1,415	1,418	3	0.2	3,481
1,814	736	Defence	742	788	46	5.8	1,972
2,345	798	Transport and communications	898	923	25	2.7	2,563
2,839	1,155	Economic and industrial services	1,046	1,117	71	6.4	2,989
507	189	Primary services	276	294	18	6.1	792
1,281	363	Heritage, culture and recreation	488	550	62	11.3	2,187
306	157	Housing and community development	177	191	14	7.3	1,073
80	55	Other	255	253	(2)	(0.8)	612
2,311	912	Finance costs	1,170	1,193	23	1.9	3,082
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(43)	(43)	(100.0)	(850)
64,013	26,002	Core Crown expenses excluding losses	27,507	27,779	272	1.0	70,560

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

STATEMENT OF CASH FLOWS

for the five months ended 30 November 2010

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Cash Flows From Operations					
		Cash was provided from					
50,104	19,204	Taxation receipts	19,733	19,567	166	0.8	51,665
4,268	1,954	Other sovereign receipts	2,280	2,316	(36)	(1.6)	4,797
14,411	6,172	Sales of goods and services	6,315	6,738	(423)	(6.3)	15,232
2,378	1,168	Interest and dividends	1,218	1,215	3	0.2	2,650
2,974	1,048	Other operating receipts	1,227	1,302	(75)	(5.8)	3,452
74,135	29,546	Total cash provided from operations	30,773	31,138	(365)	(1.2)	77,796
		Cash was disbursed to					
		Social assistance and official development assistance	9,782	9,751	(31)	(0.3)	22,436
21,335	9,269	Personnel and operating payments	24,643	25,122	479	1.9	57,679
50,767	21,919	Interest payments	1,332	1,393	61	4.4	3,190
2,420	1,158	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(43)	(43)	(100.0)	(850)
-	-						
74,522	32,346	Total cash disbursed to operations	35,757	36,223	466	1.3	82,685
(387)	(2,800)	Net cash flows from operations	(4,984)	(5,085)	101	2.0	(4,889)
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(5,865)	(2,198)	Net purchase of physical assets	(2,382)	(2,763)	381	13.8	(7,718)
2,092	1,572	Net purchase of shares and other securities	1,109	2,870	(1,761)	(61.4)	281
(377)	(149)	Net purchase of intangible assets	(128)	(160)	32	20.0	(537)
(310)	764	Net (issue)/repayment of advances	(71)	(308)	237	76.9	(1,503)
(198)	20	Net acquisition of investments in associates	37	31	6	19.4	(122)
-	-	Capital contingency provision	-	-	-	-	(292)
-	-	Top-down capital adjustment	-	-	-	-	350
(4,658)	9	Net cash flows from investing activities	(1,435)	(330)	(1,105)	(334.8)	(9,541)
(5,045)	(2,791)	Net cash flows from operating and investing activities	(6,419)	(5,415)	(1,004)	(18.5)	(14,430)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
15	57	Issues of circulating currency	150	57	93	163.2	117
7,157	1,835	Net issue/(repayment) of Government stock ¹	6,858	7,061	(203)	(2.9)	13,753
		Net issue/(repayment) of foreign currency borrowing	1,880	(86)	1,966	-	(4,789)
3,296	1,482	Net issue/(repayment) of other New Zealand dollar borrowing	(671)	1,014	(1,685)	(166.2)	7,384
(3,764)	(65)						
6,704	3,309	Net cash flows from financing activities	8,217	8,046	171	2.1	16,465
1,659	518	Net movement in cash	1,798	2,631	(833)	(31.7)	2,035
6,268	6,268	Opening Cash Balance	7,774	7,774	-	-	7,774
		Foreign-exchange gains/(losses) on opening cash	(211)	(121)	(90)	(74.4)	(122)
(153)	(275)						
7,774	6,511	Closing Cash Balance	9,361	10,284	(923)	(9.0)	9,687

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 five months ended 30 November 2010

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
(387)	(2,800)	Net Cash Flows from Operations	(4,984)	(5,085)	101	2.0	(4,889)
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
2,522	2,732	Gains/(losses) on other financial instruments	2,519	1,650	869	52.7	2,227
(960)	(387)	Gains/(losses) on other non-financial instruments	660	(656)	1,316	200.6	(557)
1,562	2,345	Total gains/(losses)	3,179	994	2,185	219.8	1,670
Other Non-cash Items in Operating Balance							
(4,229)	(1,679)	Depreciation and amortisation	(1,757)	(1,761)	4	0.2	(4,344)
(855)	(232)	Write-down on initial recognition of loans Impairment on financial assets (excluding receivables)	(254)	(256)	2	0.8	(809)
33	(1)	Decrease/(increase) in defined benefit retirement plan liabilities	22	15	7	46.7	16
284	133	Decrease/(increase) in insurance liabilities	151	151	-	-	356
(974)	826	Other	(1,893)	(730)	(1,163)	(159.3)	(1,642)
244	(41)		105	102	3	2.9	317
(5,497)	(994)	Total other non-cash Items	(3,626)	(2,479)	(1,147)	(46.3)	(6,106)
Movements in Working Capital							
(338)	(1,854)	Increase/(decrease) in receivables	1,414	630	784	124.4	1,086
(420)	(88)	Increase/(decrease) in accrued interest	(463)	(216)	(247)	(114.4)	41
78	29	Increase/(decrease) in inventories	66	41	25	61.0	86
18	188	Increase/(decrease) in prepayments	358	281	77	27.4	(12)
(202)	(336)	Decrease/(increase) in deferred revenue	(170)	(121)	(49)	(40.5)	192
677	2,105	Decrease/(increase) in payables	1,735	1,173	562	47.9	(1,184)
(187)	44	Total movements in working capital	2,940	1,788	1,152	64.4	209
(4,509)	(1,405)	Operating Balance	(2,491)	(4,782)	2,291	47.9	(9,116)

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

STATEMENT OF CHANGES IN NET WORTH

for the five months ended 30 November 2010

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
99,515	99,515	Opening net worth	94,988	94,988	-	-	94,988
(4,526)	(1,405)	Operating balance (including minority interest)	(2,491)	(4,782)	2,291	47.9	(9,116)
196	12	Net revaluations	(44)	(36)	(8)	(22.2)	(41)
(96)	(274)	Transfers to/(from) reserves	(64)	(35)	(29)	(82.9)	8
(60)	-	(Gains)/losses transferred to the statement of financial performance	(16)	(16)	-	-	-
(30)	(4)	Other movements	23	10	13	130.0	(30)
(4,516)	(1,671)	Total comprehensive income	(2,592)	(4,859)	2,267	46.7	(9,179)
(11)	-	Transactions with minority interest in Air New Zealand	-	-	-	-	-
94,988	97,844	Closing net worth	92,396	90,129	2,267	2.5	85,809

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

STATEMENT OF FINANCIAL POSITION

as at 30 November 2010

As at 30 Jun 2010 Actual \$m	As at 30 Nov 2009 Actual \$m		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
Assets								
7,774	6,511	Cash and cash equivalents	11	9,361	10,284	(923)	(9.0)	9,687
13,884	12,526	Receivables	11	16,566	14,226	2,340	16.4	14,970
43,687	44,913	Marketable securities, deposits and derivatives in gain	11	41,088	39,627	1,461	3.7	42,375
12,179	13,337	Share investments	11	13,065	12,551	514	4.1	13,704
18,447	16,684	Advances	11	19,176	19,228	(52)	(0.3)	19,642
1,160	1,111	Inventory		1,225	1,201	24	2.0	1,245
1,661	1,436	Other assets		1,958	1,898	60	3.2	1,705
113,330	110,667	Property, plant & equipment	12	114,137	114,533	(396)	(0.3)	117,328
9,049	8,773	Equity accounted investments ¹		9,126	9,200	(74)	(0.8)	9,345
2,184	2,145	Intangible assets and goodwill ²		2,171	2,176	(5)	(0.2)	2,369
-	-	Forecast for new capital spending		-	-	-	-	292
-	-	Top-down capital adjustment		-	-	-	-	(350)
223,355	218,103	Total assets		227,873	224,924	2,949	1.3	232,312
Liabilities								
4,020	4,062	Issued currency		4,171	4,078	(93)	(2.3)	4,137
9,931	7,413	Payables	14	8,110	8,165	55	0.7	9,562
1,628	1,762	Deferred revenue		1,798	1,749	(49)	(2.8)	1,436
69,733	66,654	Borrowings		77,893	77,112	(781)	(1.0)	85,876
27,131	25,982	Insurance liabilities	15	28,537	28,705	168	0.6	29,604
9,940	9,054	Retirement plan liabilities		9,645	9,645	-	-	9,436
5,984	5,332	Provisions	16	5,323	5,341	18	0.3	6,452
128,367	120,259	Total liabilities		135,477	134,795	(682)	(0.5)	146,503
94,988	97,844	Total assets less total liabilities		92,396	90,129	2,267	2.5	85,809
Net Worth								
31,087	35,080	Taxpayer funds	17	28,661	26,365	2,296	8.7	22,010
63,593	62,519	Revaluation reserve	17	63,500	63,516	(16)	-	63,516
(94)	(202)	Other reserves	17	(167)	(154)	(13)	(8.4)	(119)
94,586	97,397	Total net worth attributable to the Crown		91,994	89,727	2,267	2.5	85,407
402	447	Net worth attributable to minority interest in Air New Zealand		402	402	-	-	402
94,988	97,844	Total net worth		92,396	90,129	2,267	2.5	85,809

¹ Tertiary education institutions constitute most equity accounted investments.

² Intangible assets include the Kyoto net asset of \$212 million.

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

STATEMENT OF BORROWINGS

as at 30 November 2010

As at 30 Jun 2010 Actual \$m	As at 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
27,926	23,087	Government stock ¹	34,540	33,998	(542)	(1.6)	40,153
7,625	8,403	Treasury bills	8,150	7,574	(576)	(7.6)	7,428
309	371	Government retail stock	284	296	12	4.1	295
6,679	7,383	Settlement deposits with Reserve Bank	7,110	7,108	(2)	-	7,108
2,376	2,315	Derivatives in loss	2,086	1,860	(226)	(12.2)	1,555
920	927	Finance lease liabilities	816	828	12	1.4	1,052
23,898	24,168	Other borrowings	24,907	25,448	541	2.1	28,285
69,733	66,654	Total borrowings	77,893	77,112	(781)	(1.0)	85,876
50,017	47,333	Sovereign-guaranteed debt	57,762	56,107	(1,655)	(2.9)	64,188
19,716	19,321	Non sovereign-guaranteed debt	20,131	21,005	874	4.2	21,688
69,733	66,654	Total borrowings	77,893	77,112	(781)	(1.0)	85,876
		Net Debt:					
58,583	54,157	Core Crown borrowings ²	66,496	64,707	(1,789)	(2.8)	73,001
308	726	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	81	304	223	73.4	58
58,891	54,883	Gross sovereign-issued debt³	66,577	65,011	(1,566)	(2.4)	73,059
57,209	56,645	Less core Crown financial assets ⁴	56,823	55,115	1,708	3.1	58,816
1,682	(1,762)	Net core Crown debt (incl NZS Fund)⁵	9,754	9,896	142	1.4	14,243
14,189	13,859	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets ⁶	14,901	14,851	50	0.3	15,785
15,871	12,097	Net core Crown debt (excl NZS Fund)⁵	24,655	24,747	92	0.4	30,028
10,867	10,635	Core crown advances	11,272	11,310	38	0.3	12,050
26,738	22,732	Net core Crown debt (excl NZS Fund and advances)⁷	35,927	36,057	130	0.4	42,078
		Gross Debt:					
58,891	54,883	Gross sovereign-issued debt ³	66,577	65,011	(1,566)	(2.4)	73,059
(6,900)	(8,407)	Less Reserve Bank settlement cash and Reserve Bank bills	(7,359)	(7,259)	99	1.4	(7,259)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁸	1,600	1,600	-	-	1,600
53,591	48,076	Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills	60,818	59,352	(1,467)	(2.5)	67,400

Notes on gross and net debt:

- Government stock includes \$395 million of infrastructure bonds.
- Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts of financial position).
- Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.
- Core Crown financial assets exclude receivables.
- 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.
- Adding back the NZS 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.
- Net Core Crown Debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZ Debt Management Office 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 November 2010

	As at 30 Nov 2010 \$m	As at 30 Jun 2010 \$m	As at 30 Nov 2009 \$m
Capital Commitments			
Specialist military equipment	396	422	599
Land and buildings	801	849	787
Other property, plant and equipment	6,470	6,370	4,696
Other capital commitments	191	224	429
Tertiary Education Institutions	302	302	245
Total capital commitments	8,160	8,167	6,756
Operating Commitments			
Non-cancellable accommodation leases	2,941	2,862	2,806
Other non-cancellable leases	3,555	3,230	2,127
Non-cancellable contracts for the supply of goods and services	2,361	2,258	2,265
Other operating commitments	9,125	9,376	10,213
Tertiary Education Institutions	304	304	335
Total operating commitments	18,286	18,030	17,746
Total commitments	26,446	26,197	24,502
Total Commitments by Segment			
Core Crown	15,345	20,983	15,837
Crown entities	13,122	13,811	17,291
State-owned Enterprises	7,774	7,242	5,506
Inter-segment eliminations	(9,795)	(15,839)	(14,132)
Total commitments	26,446	26,197	24,502

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 30 November 2010

	As at 30 Nov 2010 \$m	As at 30 Jun 2010 \$m	As at 30 Nov 2009 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	102	106	91
Uncalled capital	2,206	2,310	2,276
Legal proceedings and disputes	394	414	1,786
Other contingent liabilities	3,465	3,535	3,905
Total quantifiable contingent liabilities	6,167	6,365	8,058
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	5,840	6,050	7,857
Crown entities	258	171	90
State-owned Enterprises	69	144	111
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	6,167	6,365	8,058
Quantifiable Contingent Assets			
Core Crown	634	570	1,560
Crown entities	3	2	3
Total quantifiable contingent assets	637	572	1,563

The above table does not include:

- i) the guarantee schemes in relation to financial institution deposits. Refer note 19 for information.
- ii) unquantified costs relating to Canterbury's Earthquake. Refer note 20 for more information.

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

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 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							
21,774	8,986	PAYE	8,988	8,803	185	2.1	20,376
3,987	1,635	Other persons	1,415	1,424	(9)	(0.6)	3,883
(1,831)	(819)	Refunds	(760)	(756)	(4)	(0.5)	(1,629)
461	205	Fringe benefit tax	206	199	7	3.5	441
24,391	10,007	Total individuals	9,849	9,670	179	1.9	23,071
Corporate Tax							
6,698	1,540	Gross companies tax	1,908	2,114	(206)	(9.7)	7,897
(379)	(140)	Refunds	(70)	(76)	6	7.9	(371)
884	416	Non-resident withholding tax	244	222	22	9.9	495
(3)	(5)	Foreign-source dividend w/holding payments	(1)	(1)	-	-	2
7,200	1,811	Total corporate tax	2,081	2,259	(178)	(7.9)	8,023
Other Income Tax							
1,804	727	Resident w/holding tax on interest income	677	685	(8)	(1.2)	1,589
130	55	Resident w/holding tax on dividend income	82	82	-	-	221
2	1	Estate and gift duties	1	1	-	-	1
1,936	783	Total other income tax	760	768	(8)	(1.0)	1,811
33,527	12,601	Total income tax	12,690	12,697	(7)	(0.1)	32,905
Goods and Services Tax							
19,797	8,091	Gross goods and services tax	8,879	9,164	(285)	(3.1)	23,726
(7,880)	(3,368)	Refunds	(3,381)	(3,698)	317	8.6	(9,703)
11,917	4,723	Total goods and services tax	5,498	5,466	32	0.6	14,023
Other Taxation							
910	367	Road user charges	411	401	10	2.5	963
805	338	Petroleum fuels excise - domestic production	348	369	(21)	(5.7)	895
600	258	Alcohol excise - domestic production	285	286	(1)	(0.3)	625
217	73	Tobacco excise - domestic production	57	59	(2)	(3.4)	194
622	194	Petroleum fuels excise - imports ¹	201	199	2	1.0	597
225	103	Alcohol excise - imports ¹	110	113	(3)	(2.7)	234
851	354	Tobacco excise - imports ¹	374	346	28	8.1	908
175	79	Other customs duty	81	89	(8)	(9.0)	220
219	96	Gaming duties	88	92	(4)	(4.3)	218
171	71	Motor vehicle fees	72	73	(1)	(1.4)	176
39	16	Energy resources levies	16	16	-	-	38
69	29	Approved issuer levy and cheque duty	26	26	-	-	76
4,903	1,978	Total other indirect taxation	2,069	2,069	-	-	5,144
16,820	6,701	Total indirect taxation	7,567	7,535	32	0.4	19,167
50,347	19,302	Total taxation revenue	20,257	20,232	25	0.1	52,072
Other Sovereign Revenue (accrual)							
3,261	1,318	ACC levies	1,510	1,530	(20)	(1.3)	3,855
301	136	Fire Service levies	141	141	-	-	306
86	36	EQC levies	36	36	-	-	87
1,034	441	Other miscellaneous items	437	450	(13)	(2.9)	1,452
4,682	1,931	Total other sovereign revenue	2,124	2,157	(33)	(1.5)	5,700
55,029	21,233	Total sovereign revenue	22,381	22,389	(8)	-	57,772

1. Customs excise-equivalent duty

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 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							
21,744	9,000	PAYE	8,985	8,955	30	0.3	20,483
4,630	1,487	Other persons	1,446	1,417	29	2.0	4,319
(2,793)	(1,487)	Refunds	(1,364)	(1,349)	(15)	(1.1)	(2,298)
469	228	Fringe benefit tax	229	226	3	1.3	440
24,050	9,228	Total individuals	9,296	9,249	47	0.5	22,944
Corporate Tax							
8,650	3,114	Gross companies tax	2,872	2,882	(10)	(0.3)	8,908
(1,644)	(679)	Refunds	(354)	(366)	12	3.3	(1,141)
889	406	Non-resident withholding tax	238	222	16	7.2	494
6	4	Foreign-source dividend w/holding payments	(2)	(2)	-	-	2
7,901	2,845	Total corporate tax	2,754	2,736	18	0.7	8,263
Other Income Tax							
1,833	728	Resident w/holding tax on interest income	692	661	31	4.7	1,588
114	39	Resident w/holding tax on dividend income	71	85	(14)	(16.5)	221
2	1	Estate and gift duties	1	-	1	-	1
1,949	768	Total other income tax	764	746	18	2.4	1,810
33,900	12,841	Total income tax	12,814	12,731	83	0.7	33,017
Goods and Services Tax							
18,797	7,603	Gross goods and services tax	8,159	8,083	76	0.9	22,562
(7,456)	(3,135)	Refunds	(3,179)	(3,186)	7	0.2	(9,059)
11,341	4,468	Total goods and services tax	4,980	4,897	83	1.7	13,503
Other Taxation							
805	324	Petroleum fuels excise	355	367	(12)	(3.3)	895
214	73	Tobacco excise	53	50	3	6.0	194
1,805	672	Other customs duty	712	701	11	1.6	1,959
908	370	Road user charges	411	381	30	7.9	963
622	251	Alcohol excise	240	231	9	3.9	625
218	96	Gaming duties	90	94	(4)	(4.3)	219
195	64	Motor vehicle fees	37	73	(36)	(49.3)	176
37	16	Energy resources levies	16	16	-	-	38
59	29	Approved issuer levy and cheque duty	25	26	(1)	(3.8)	76
4,863	1,895	Total other indirect taxation	1,939	1,939	-	-	5,145
16,204	6,363	Total indirect taxation	6,919	6,836	83	1.2	18,648
50,104	19,204	Total tax receipts collected	19,733	19,567	166	0.8	51,665
Other Sovereign Receipts (cash)							
3,291	1,540	ACC levies	1,801	1,840	(39)	(2.1)	3,760
301	136	Fire Service levies	141	141	-	-	306
86	38	EQC levies	41	36	5	13.9	87
590	240	Other miscellaneous items	297	299	(2)	(0.7)	644
4,268	1,954	Total other sovereign receipts	2,280	2,316	(36)	(1.6)	4,797
54,372	21,158	Total sovereign receipts	22,013	21,883	130	0.6	56,462

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 2: Interest Revenue and Dividends							
By type							
1,926	1,010	Interest revenue	843	917	(74)	(8.1)	2,432
389	128	Dividends	151	184	(33)	(17.9)	456
2,315	1,138	Total interest revenue and dividends	994	1,101	(107)	(9.7)	2,888
By source							
2,135	1,085	Core Crown	624	868	(244)	(28.1)	2,128
1,146	442	Crown entities	301	486	(185)	(38.1)	1,075
626	415	State-owned Enterprises	292	244	48	19.7	859
(1,592)	(804)	Inter-segment eliminations	(223)	(497)	274	55.1	(1,174)
2,315	1,138	Total interest revenue and dividends	994	1,101	(107)	(9.7)	2,888
NOTE 3: Social Assistance and Official Development Assistance							
8,290	3,419	New Zealand superannuation	3,624	3,624	-	-	8,817
1,693	693	Domestic purposes benefit	733	735	2	0.3	1,771
930	372	Unemployment benefit	389	390	1	0.3	980
1,303	538	Invalids benefit	548	548	-	-	1,314
2,168	950	Family tax credit	932	930	(2)	(0.2)	2,219
1,154	471	Accommodation supplement	499	500	1	0.2	1,214
710	290	Sickness benefit	307	306	(1)	(0.3)	726
570	272	Student allowances	311	312	1	0.3	624
411	170	Disability allowances	173	173	-	-	413
1,024	394	KiwiSaver	393	393	-	-	1,066
2,525	1,061	Other social assistance benefits	1,109	1,122	13	1.2	2,774
20,778	8,630	Total social assistance	9,018	9,033	15	0.2	21,918
435	168	Official development assistance	155	167	12	7.2	493
21,213	8,798	Total social assistance and official development assistance	9,173	9,200	27	0.3	22,411
NOTE 4: Personnel Expenses							
5,991	2,327	Core Crown	2,458	2,469	11	0.4	5,979
10,043	4,091	Crown entities	4,272	4,270	(2)	-	10,318
2,455	1,000	State-owned Enterprises	1,094	1,061	(33)	(3.1)	2,651
(12)	(4)	Inter-segment eliminations	(4)	(4)	-	-	(9)
18,477	7,414	Total personnel expenses	7,820	7,796	(24)	(0.3)	18,939
NOTE 5: Operating Expenses							
By type							
4,229	1,679	Depreciation and amortisation	1,757	1,761	4	0.2	4,344
31,338	12,701	Other operating expenses	13,542	13,994	452	3.2	37,133
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(43)	(43)	(100.0)	(850)
35,567	14,380	Total operating expenses	15,299	15,712	413	2.6	40,857
By source							
34,226	13,853	Core Crown	14,683	14,893	210	1.4	39,031
18,392	7,376	Crown entities	7,668	7,688	20	0.3	17,991
9,494	3,772	State-owned Enterprises	3,957	4,233	276	6.5	10,356
(26,545)	(10,621)	Inter-segment eliminations	(11,009)	(11,102)	(93)	(0.8)	(26,521)
35,567	14,380	Total operating expenses	15,299	15,712	413	2.6	40,857

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	5 Months to 30 Nov 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 6: Interest Expenses					
		<i>By type</i>					
2,724	1,186	Interest on financial liabilities	1,543	1,465	(78)	(5.3)	3,303
53	30	Interest unwind on provisions	28	30	2	6.7	85
2,777	1,216	Total interest expenses	1,571	1,495	(76)	(5.1)	3,388
		<i>By source</i>					
2,311	912	Core Crown	1,170	1,193	23	1.9	3,082
245	70	Crown entities	101	102	1	1.0	263
845	489	State-owned Enterprises	571	584	13	2.2	1,074
(624)	(255)	Inter-segment eliminations	(271)	(384)	(113)	(29.4)	(1,031)
2,777	1,216	Total interest expenses	1,571	1,495	(76)	(5.1)	3,388
		NOTE 7: Insurance Expenses					
		<i>By entity</i>					
2,922	1,170	ACC	1,247	1,300	53	4.1	3,298
64	29	EQC	3,003	2,017	(986)	(48.9)	2,046
20	9	Other insurance expenses	18	18	-	-	18
3,006	1,208	Total insurance expenses	4,268	3,335	(933)	(28.0)	5,362
		NOTE 8: Gains and Losses on Financial Instruments					
		<i>By source</i>					
2,094	1,893	Core Crown	1,898	954	944	99.0	1,902
787	906	Crown entities	669	646	23	3.6	615
(105)	2	State-owned Enterprises	32	169	(137)	(81.1)	(65)
(254)	(69)	Inter-segment eliminations	(80)	(119)	39	32.8	(225)
2,522	2,732	Net gains/(losses) on financial instruments	2,519	1,650	869	52.7	2,227
		NOTE 9: Gains and Losses on Non-Financial Instruments					
		<i>By type</i>					
(1,231)	(194)	Actuarial gains/(losses) on GSF liability	144	144	-	-	144
410	(242)	Actuarial gains/(losses) on ACC liability	487	(844)	1,331	157.7	(831)
(139)	49	Other	29	44	(15)	(34.1)	130
(960)	(387)	Net gains/(losses) on non-financial instruments	660	(656)	1,316	200.6	(557)
		<i>By source</i>					
(1,351)	(209)	Core Crown	125	127	(2)	(1.6)	122
398	(248)	Crown entities	478	(848)	1,326	156.4	(846)
(7)	70	State-owned Enterprises	57	66	(9)	(13.6)	168
-	-	Inter-segment eliminations	-	(1)	1	100.0	(1)
(960)	(387)	Net gains/(losses) on non-financial instruments	660	(656)	1,316	200.6	(557)
		NOTE 10: Operating Balance					
		<i>By source</i>					
(7,000)	(2,379)	Core Crown	(3,066)	(4,003)	937	23.4	(10,022)
2,373	1,352	Crown entities	424	(786)	1,210	153.9	234
635	408	State-owned Enterprises	366	410	(44)	(10.7)	1,059
(517)	(786)	Inter-segment eliminations	(215)	(403)	188	46.7	(387)
(4,509)	(1,405)	Total operating balance	(2,491)	(4,782)	2,291	47.9	(9,116)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 30 Nov 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
7,774	6,511	Cash and cash equivalents	9,361	10,284	(923)	(9.0)	9,687
6,864	6,959	Tax receivables	6,998	7,677	(679)	(8.8)	6,214
7,020	5,567	Trade and other receivables	9,568	6,549	3,019	46.1	8,756
6,790	6,656	Student loans	6,871	6,864	7	0.1	7,239
10,419	9,492	Kiwibank mortgages	10,865	11,040	(175)	(1.6)	11,106
2,784	2,297	Long-term deposits	2,836	2,996	(160)	(5.3)	2,712
2,199	2,021	IMF financial assets	2,122	2,262	(140)	(6.2)	2,430
1,238	536	Other advances	1,440	1,324	116	8.8	1,297
12,179	13,337	Share investments	13,065	12,551	514	4.1	13,704
2,972	3,492	Derivatives in gain	3,526	3,337	189	5.7	2,839
35,732	37,103	Other marketable securities	32,604	31,032	1,572	5.1	34,394
95,971	93,971	Total financial assets	99,256	95,916	3,340	3.5	100,378
Financial assets by entity							
23,097	21,961	NZDMO	22,066	21,483	583	2.7	24,216
19,125	20,088	Reserve Bank of New Zealand	18,668	17,831	837	4.7	17,965
15,552	14,961	NZ Superannuation Fund	17,173	15,865	1,308	8.2	16,610
16,643	18,132	Other core Crown	19,486	19,849	(363)	(1.8)	17,027
(8,437)	(9,622)	Intra-segment eliminations	(9,380)	(9,495)	115	1.2	(8,190)
65,980	65,520	Total core Crown segment	68,013	65,533	2,480	3.8	67,628
16,985	14,434	ACC portfolio	17,476	17,839	(363)	(2.0)	20,513
6,003	5,893	EQC portfolio	7,284	6,149	1,135	18.5	5,299
6,631	6,552	Other Crown entities	6,722	6,603	119	2	6,406
(1,483)	(1,457)	Intra-segment eliminations	(1,589)	(1,587)	(2)	(0.1)	(1,200)
28,136	25,422	Total Crown entities segment	29,893	29,004	889	3.1	31,018
16,064	15,828	Total State-owned enterprises segment	16,307	17,305	(998)	(5.8)	17,721
(14,209)	(12,799)	Inter-segment eliminations	(14,957)	(15,926)	969	6.1	(15,989)
95,971	93,971	Total financial assets	99,256	95,916	3,340	3.5	100,378

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 30 Nov 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 12: Property, Plant and Equipment					
		Net Carrying Value					
		<i>By class of asset:</i>					
16,688	16,387	Land (valuation)	16,615	16,633	(18)	(0.1)	16,895
24,019	23,628	Buildings (valuation)	24,285	24,327	(42)	(0.2)	24,921
2,251	2,170	Electricity distribution network (cost)	2,338	2,413	(75)	(3.1)	2,722
13,642	11,709	Electricity generation assets (valuation)	13,786	13,803	(17)	(0.1)	13,830
1,731	1,983	Aircraft (excl military) (valuation)	1,693	1,926	(233)	(12.1)	1,842
24,838	24,327	State highways (valuation)	25,157	25,201	(44)	(0.2)	26,033
12,437	12,616	Rail network (valuation)	12,553	12,523	30	0.2	13,076
3,413	3,853	Specialist military equipment (valuation)	3,358	3,368	(10)	(0.3)	3,494
8,505	8,585	Specified cultural and heritage assets (valuation)	8,465	8,464	1	-	8,480
5,806	5,409	Other plant and equipment (cost)	5,887	5,875	12	0.2	6,035
113,330	110,667	Total net carrying value	114,137	114,533	(396)	(0.3)	117,328
		<i>By source:</i>					
29,986		Core Crown	30,007	30,060	(53)	(0.2)	30,691
48,109		Crown entities	48,500	48,567	(67)	(0.1)	49,908
35,235		State-owned enterprises	35,630	35,906	(276)	(0.8)	36,729
-		Inter-segment eliminations	-	-	-	-	-
113,330		Total net carrying value	114,137	114,533	(396)	(0.3)	117,328
		Movement note					
		Cost or valuation					
119,547		Opening balance	123,941	123,941	-	-	123,941
6,555		Additions (refer below)	2,645	3,021	(376)	(12.4)	8,162
(977)		Disposals	(236)	(115)	(121)	(105.2)	(292)
(1,143)		Net revaluations	-	-	-	-	(41)
(41)		Other	70	60	10	16.7	232
123,941		Total cost or valuation	126,420	126,907	(487)	(0.4)	132,002
		Accumulated depreciation and impairment					
9,412		Opening balance	10,611	10,611	-	-	10,611
(587)		Eliminated on disposal	(88)	(48)	(40)	(83.3)	(75)
(1,349)		Eliminated on revaluation	-	-	-	-	-
3,582		Depreciation expense	1,507	1,522	(15)	(1.0)	3,756
(447)		Other	253	289	(36)	(12.5)	382
10,611		Total accumulated depreciation and impairment	12,283	12,374	(91)	(0.7)	14,674
113,330		Total property, plant and equipment	114,137	114,533	(396)	(0.3)	117,328
		Additions - by functional classification					
2,383		Transport and communications	951	1,191	(240)	(20.2)	2,764
1,425		Economic and industrial services	510	592	(82)	(13.9)	1,466
725		Education	353	352	1	0.3	983
430		Health	218	232	(14)	(5.9)	804
526		Defence	225	286	(61)	(21.2)	775
1,066		Other	387	368	19	5.2	1,370
6,555		Total additions	2,645	3,021	(376)	(12.5)	8,162

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	5 Months to 30 Nov 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
433	145	Revenue	177	176	1	0.6	462
(27)	-	Less current tax expense	362	179	(183)	(102.2)	373
502	373	Less other expenses ¹	105	54	(51)	(94.4)	145
1,750	1,900	Add gains/(losses)	1,765	749	1,016	135.6	1,452
1,708	1,672	Operating balance	1,475	692	783	113.2	1,396
13,688	13,688	Opening net worth	15,656	15,656	-	-	15,656
250	250	Gross contribution from the Crown	-	-	-	-	-
1,708	1,672	Operating balance	1,475	692	783	113.2	1,396
10	(3)	Other movements in reserves	2	3	(1)	(33.3)	7
15,656	15,607	Closing net worth	17,133	16,351	782	4.8	17,059
<i>comprising:</i>							
15,552	14,961	Financial assets	17,173	15,865	1,308	8.2	16,610
(945)	(286)	Financial liabilities	(1,077)	(634)	(443)	(69.9)	(616)
1,049	932	Net other assets	1,037	1,120	(83)	(7.4)	1,065
15,656	15,607	Closing net worth	17,133	16,351	782	4.8	17,059
Core Crown revenue (excl NZS Fund)							
56,216	22,014	Core Crown revenue	22,396	22,674	(278)	(1.2)	58,446
433	145	Less NZS Fund revenue	177	176	1	0.6	462
(27)	-	Add back NZS Fund intra-segment revenue	362	179	183	102.2	373
55,756	21,869	Core Crown revenue (excl NZS Fund)	22,581	22,677	(96)	(0.4)	58,357
OBEGAL excluding NZS Fund							
(6,315)	(3,706)	Total Crown OBEGAL	(5,773)	(5,879)	106	1.8	(11,098)
433	145	Less NZS Fund revenue	177	176	1	0.6	462
81	37	Less NZS Fund external expenses	34	40	(6)	(15.0)	103
(27)	-	Add back NZS Fund tax	362	179	183	102.2	373
(6,694)	(3,814)	OBEGAL excluding NZS Fund	(5,554)	(5,836)	282	4.8	(11,084)

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 30 Nov 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 14: Payables							
6,703	4,633	Accounts payable	5,494	4,980	(514)	(10.3)	6,334
3,228	2,780	Taxes repayable	2,616	3,185	569	17.9	3,228
9,931	7,413	Total payables	8,110	8,165	55	0.7	9,562
NOTE 15: Insurance liabilities							
26,997	25,860	ACC liability	25,734	27,067	1,333	4.9	28,956
88	84	EQC liability	2,766	1,603	(1,163)	(72.6)	597
46	38	Other insurance liabilities	37	35	(2)	(5.7)	51
27,131	25,982	Total insurance liabilities	28,537	28,705	168	0.6	29,604
NOTE 16: Provisions							
74	-	Provision for ETS Credits	166	212	46	21.6	720
748	899	Provision for the net cost of defaults under the deposit guarantee scheme (refer note 19)	-	-	-	-	-
1,007	947	Provision for National Provident Fund guarantee	1,002	1,001	(1)	(0.1)	965
2,836	2,526	Provision for employee entitlements	2,950	2,926	(24)	(0.8)	2,790
1,319	960	Other provisions	1,205	1,202	(3)	(0.2)	1,977
5,984	5,332	Total provisions	5,323	5,341	18	0.3	6,452
NOTE 17: Changes in Net Worth							
36,382	36,382	Opening taxpayers funds	31,087	31,087	-	-	31,087
(4,509)	(1,405)	Operating balance excluding minority interest	(2,491)	(4,782)	2,291	47.9	(9,116)
(786)	103	Transfers from/(to) other reserves	65	60	5	8.3	39
31,087	35,080	Closing taxpayers funds	28,661	26,365	2,296	8.7	22,010
62,612	62,612	Opening revaluation reserve	63,593	63,593	-	-	63,593
196	12	Net revaluations	(44)	(36)	(8)	(22.2)	(41)
785	(105)	Transfers from/(to) other reserves	(49)	(41)	(8)	(19.5)	(36)
63,593	62,519	Closing revaluation reserve	63,500	63,516	(16)	-	63,516
74	74	Opening other reserves	(94)	(94)	-	-	(94)
(168)	(276)	Net movements	(73)	(60)	(13)	(21.7)	(25)
(94)	(202)	Closing other reserves	(167)	(154)	(13)	(8.4)	(119)

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	5 Months to 30 Nov 2009 \$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							
50,631	19,488	Total tax receipts	20,145	19,873	272	1.4	52,231
566	223	Total other sovereign receipts	290	291	(1)	(0.3)	607
1,897	961	Interest, profits and dividends	488	627	(139)	(22.2)	1,449
2,658	1,457	Sale of goods & services and other receipts	787	943	(156)	(16.5)	2,561
(21,605)	(9,382)	Subsidies and transfer payments	(9,805)	(9,774)	(31)	(0.3)	(22,491)
(37,157)	(15,700)	Personnel and operating costs	(18,462)	(18,640)	178	1.0	(42,127)
(1,981)	(771)	Finance costs	(1,002)	(1,035)	33	3.2	(2,747)
-	-	Forecast for future new operating spending	-	43	(43)	(100.0)	(230)
-	-	Top-down expense adjustment	-	-	-	-	850
(4,991)	(3,724)	Net cash flows from core Crown operations	(7,559)	(7,672)	113	1.5	(9,897)
(1,778)	(649)	Net purchase of physical assets	(603)	(677)	74	10.9	(2,322)
(926)	(190)	Net increase in advances	(419)	(422)	3	0.7	(1,718)
(1,055)	(462)	Net purchase of investments	(558)	(549)	(9)	(1.6)	(1,723)
(250)	(250)	Contribution to NZ Superannuation Fund	-	-	-	-	-
-	-	Forecast for future new capital spending	-	-	-	-	(292)
-	-	Top-down capital adjustment	-	-	-	-	350
(9,000)	(5,275)	Residual cash	(9,139)	(9,320)	181	1.9	(15,602)
Financed by:							
2,002	2,090	Other net sale/(purchase) of marketable securities and deposits	2,035	2,606	(571)	(21.9)	860
(6,998)	(3,185)	Total operating and investing activities	(7,104)	(6,714)	(390)	(5.8)	(14,742)
Used in:							
(3,938)	(337)	Net (repayment)/issue of other New Zealand dollar borrowing	(832)	468	(1,300)	(277.8)	6,678
3,368	1,454	Net (repayment)/issue of foreign currency borrowing	2,001	(32)	2,033	-	(4,759)
15	57	Issues of circulating currency	150	57	93	163.2	117
(817)	(315)	Decrease/(increase) in cash	(1,380)	(990)	(390)	(39.4)	(1,311)
(1,372)	859		(61)	(497)	436	87.7	725
(8,370)	(2,326)	Net cash inflow/(outflow) to be offset by domestic bonds	(7,165)	(7,211)	46	0.6	(14,017)
Gross Cash Proceeds from Domestic Bonds							
12,424	6,500	Domestic bonds (market)	7,156	7,206	(50)	(0.7)	14,011
799	679	Domestic bonds (non-market)	219	5	214	-	6
13,223	7,179	Total gross cash proceeds from domestic bonds	7,375	7,211	164	2.3	14,017
(4,197)	(4,197)	Repayment of domestic bonds (market)	-	-	-	-	-
(656)	(656)	Repayment of domestic bonds (non-market)	(210)	-	(210)	-	-
(4,853)	(4,853)	Total repayment of domestic bonds	(210)	-	(210)	-	-
8,370	2,326	Net (repayments of)/cash proceeds from domestic bonds	7,165	7,211	(46)	(0.6)	14,017

NOTE 19: Deposit Guarantee Schemes

The Government provides two guarantee schemes in relation to financial institution deposits: the Retail Deposit Guarantee Scheme and the Wholesale Funding Guarantee Facility. Information on the Government's exposure as a result of these schemes, the management of these exposures and the impact of these schemes is detailed below.

Retail Deposit Guarantee Scheme

Scheme Description

On 12 October 2008 the Minister of Finance initiated an opt-in Retail Deposit Guarantee Scheme. The objective of this scheme was to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence.

On 12 October 2010 the original retail deposit guarantee scheme expired. The Extended Retail Deposit Guarantee Scheme started on 12 October 2010, immediately upon expiry of the previous scheme and will remain in place until 31 December 2011. The extended scheme has tightened eligibility criteria and additional limitations on coverage of the scheme. The changes to the scheme include restricting entry to the scheme to institutions with a credit rating of BB or higher, reducing the guaranteed amount of individual eligible deposits and changing the fee structure to include all deposits. The Crown guarantee is limited to those entities participating in the extended scheme, furthermore, the Crown guarantee excludes products issued by participating entities explicitly without the benefit of the guarantee.

Scheme Management

The Government is managing its exposure to this risk through requiring 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 arm's-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.

In addition, the Crown has a monitoring regime to continually assess the risk associated with the scheme.

Amounts Guaranteed and Provision for Loss

The Extended Guarantee Scheme

A total of seven financial institutions have been approved under the extended scheme. Following Equitable Mortgages Ltd being placed into receivership on 29 November 2010, six financial institutions remained guaranteed under the extended scheme as at 30 November 2010. These entities, which had deposits totalling \$1.8 billion under the guarantee, are listed on the Treasury website. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of financial institutions in the event the guarantee is called upon. The Crown continually updates the likelihood of further default actions triggering the guarantee and assesses the expected loss given default. The Crown assesses the risk of default by the remaining six entities participating in the extended scheme to be unlikely and therefore as at 30 November 2010 no provision is considered necessary in relation to the amount guaranteed by the Crown under the extended guarantee. While the provision represents a best estimate of the likely loss, a range of outcomes is possible under the scheme in terms of which entities may

NOTES TO THE FINANCIAL STATEMENTS

default and the eventual loss to the Crown following an event of default. This reflects the significant uncertainty as to the value that can be realised from an entity's assets following an event of default.

Entities guaranteed under the scheme now in receivership

As at 30 November, nine entities guaranteed under the original retail deposit guarantee Scheme had been placed into receivership. Eight of these entities were guaranteed under the original deposit guarantee scheme and one under the extended guarantee scheme. The Crown recognises its obligations under the scheme as liabilities and its rights of recovery from the receivers as assets. While the reported assets represent a best estimate of likely recoveries from the receiverships the eventual loss to the Crown is dependent upon the value that can be realised from these entities' assets. The Crown has completed payments to investors in the eight entities under the original retail deposit guarantee scheme, but has included liabilities of \$178 million being the gross cost of payments yet to be made to investors in Equitable Mortgages Ltd. Except as provided on the Treasury website, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

Subsequent Events

On 5 January 2011, the Crown approved Combined Building Society for participation in the Extended Retail Deposit Guarantee Scheme. Combined Building Society is the successor to the Crown guaranteed obligations of Canterbury Building Society, Southern Cross Building Society and MARAC Finance Limited and the existing guarantees for these entities have subsequently been withdrawn. The merger of these three guaranteed entities reduces the number of entities participating in the extended scheme from six to four.

Wholesale Funding Guarantee Facility

On 1 November 2008 the Minister of Finance initiated an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government received 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 utilising the wholesale funding guarantee facility 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 managed its risk exposure by:

- limiting the availability of the facility 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% 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 30 November 2010, the value of wholesale securities guaranteed was \$9.8 billion. No provision is made in these financial statements for losses under this scheme as these are considered remote.

On 10 March 2010 the Minister of Finance announced the closure of the Wholesale funding guarantee facility effective from 31 May 2010. At the time of closing the scheme, the Crown had issued 25 guarantee certificates; the benefit of those guarantees will remain in place for the underlying securities until the scheduled maturity of those securities. The terms of these securities range from 2 to 5 years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20: Canterbury Earthquake

On 4 September 2010 the Canterbury region experienced a magnitude 7.1 earthquake. These financial statements include an initial net provision of \$1.5 billion for the likely costs to be incurred by the Earthquake Commission (EQC) in settling claims for damage to residential property from the earthquake. The total current estimate of damage covered by EQC and administration costs is likely to exceed this, but EQC has reinsurance cover for costs above \$1.5 billion. As most of these payments should occur within a year, no discount has been made for the time value of these payments.

In addition to the costs outlined above, the Government is committed to reimburse a proportion of eligible restoration costs relating to essential local government infrastructure. These include water, stormwater and sewerage facilities and river management systems where there is major community disruption or continuing risk to life. It is also likely to make a contribution towards the repair of local roads via the National Land Transport Fund's emergency repairs allocation. Work is ongoing to establish a reliable estimate of these costs.

The Government has also announced or incurred other expenses in relation to such items as land remediation, wage subsidies, restoration of heritage buildings, community and trauma support, and other support assistance.

There has also been some damage to central government assets such as hospitals, schools, state housing and state highways. These costs are largely covered by insurance.

The above costs do not include the impact on tax or other revenues as a result of the earthquake, nor do they include costs that the Government has not yet committed to, whether or not they are under active consideration, but which may yet arise in association with the earthquake.