

Financial Statements of the Government of New Zealand

For the Seven Months Ended
31 January 2008
(Revised)



Prepared by The Treasury
18 March 2008

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New Zealand Government

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All forecasts and comparatives, including the comparatives for June 2006/07, have been produced under NZ IFRS. The June 2006/07 comparatives are provisional and have not yet been subject to audit. The results are compared against forecast tracks based on the 2007/08 annual forecast released in the *2007 Half Year Economic and Fiscal Update*.

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COMMENTARY

REVISED FINANCIAL STATEMENTS

These Financial Statements of the Government of New Zealand for the seven months ended 31 January 2008 replace those released and dated 6 March 2008.

These revised statements correct a \$0.6 billion error in tax revenue, resulting in an increase of \$0.3 billion in 'Other persons tax' revenue and \$0.3 billion increase in 'Corporate tax' revenue.

The effect of this correction on key fiscal indicators is:

	Year to date		<i>Effect of Change \$m</i>
	January 2008 Actual Revised	January 2008 Actual Original	
\$ million			
Core Crown			
Core Crown revenue (excl. NZS Fund)	34,637	34,045	592
Core Crown expenses	32,126	32,126	-
NZS Fund operating balance	(911)	(911)	-
Core Crown residual cash	478	478	-
GSID (excl. settlement cash)	31,605	31,605	-
Net Core Crown debt	2,647	2,647	-
Net Core Crown debt (incl. NZS Fund)	(9,257)	(9,257)	-
Total Crown			
OBEGAL	3,649	3,057	592
Net gains / (losses)	(3,536)	(3,536)	-
Operating Balance	198	(394)	592

SUMMARY

January results

- The operating balance was in surplus by \$0.2 billion, or \$3.6 billion lower than forecast. The two main contributors to this lower than expected result were:
 - \$2.5 billion lower than forecast returns on the financial asset portfolios of the NZS Fund (\$1.5 billion lower than forecast), ACC (\$0.7 billion lower than forecast) and EQC (\$0.3 billion lower than forecast), and
 - \$1.0 billion more than forecast loss on the revaluation of the ACC claims liability.
- Adjusting for the non-cash valuation changes, the OBEGAL was in line with forecast at a surplus of \$3.6 billion.
- Core Crown tax revenue variances were in other persons tax (\$0.1 billion lower than forecast), corporate tax (\$0.1 billion higher than forecast), GST (\$0.2 billion lower than forecast) and source deductions including deductions from salary and wages (\$0.1 billion higher than forecast).

Residual cash and consequently the debt indicators were largely on target.

Table 1 – Key indicators for the seven months to 31 January 2008

	Year to date				Full Year
	January 2008 Actual	January 2008 Forecast	Variance \$m	Variance %	HYEFU June 2008 Forecast
\$ million					
Core Crown					
Core Crown revenue (excl. NZS Fund) ¹	34,637	35,143	(506)	(1.4)	62,130
Core Crown expenses	32,126	32,525	399	1.2	57,137
NZS Fund operating balance	(911)	539	(1,450)	(269.0)	917
Core Crown residual cash	478	588	(110)	(18.7)	759
GSID (excl. settlement cash)	31,605	31,595	(10)	(0.0)	33,303
<i>as a percentage of GDP²</i>	18.5%	18.5%			18.7%
Net Core Crown debt	2,647	2,634	(13)	(0.5)	1,983
<i>as a percentage of GDP²</i>	1.5%	1.5%			1.1%
Net Core Crown debt (incl. NZS Fund)	(9,257)	(10,708)	(1,451)	13.6	(13,102)
<i>as a percentage of GDP²</i>	(5.4)%	(6.3)%			(7.4)%
Total Crown					
OBEGAL	3,649	3,690	(41)	(1.1)	6,574
Net gains / (losses)	(3,536)	15	(3,551)		636
Operating Balance	198	3,793	(3,595)	(94.8)	7,388

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 GDP for the year ended 30 September 2007 (Source: Statistics New Zealand).

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 seven months to 31 January 2008

Item/indicator	Variance	Key drivers
Core Crown		
Core Crown revenue (excl. NZS Fund revenue)	-\$0.5 billion (lower than forecast)	<ul style="list-style-type: none"> • Core Crown tax revenue (excluding the NZS Fund) was \$0.1 billion (0.5%) lower than forecast. The largest variances were in: <ul style="list-style-type: none"> ○ other persons tax (\$0.1 billion lower than forecast) and corporate tax (\$0.1 billion higher than forecast) from: <ul style="list-style-type: none"> ▪ -\$0.4 billion from timing effects associated with tax pooling and the PIE regime. This is now expected to be recognised later in the fiscal year ▪ -\$0.2 billion from terminal tax assessments for the 2007 tax year ▪ +\$0.5 billion from earlier than expected recognition of tax revenue (a timing effect) ▪ +\$0.1 billion in other provisional tax areas ○ GST (\$0.2 billion lower than forecast reflecting weakening domestic demand), and ○ source deductions (\$0.1 billion higher than forecast reflecting continued strength in the labour market). • Other core Crown revenue was \$0.4 billion lower than forecast. Interest revenue was lower than forecast by \$0.3 billion primarily due to timing issues with the phasing of interest earned on the Crown settlement account. The impact was partially offset by a related variance in interest expense.
Core Crown expenses	+\$0.4 billion (lower than forecast)	<ul style="list-style-type: none"> • Interest expense was \$0.2 billion lower than forecast which was related to the lower than expected level of settlement cash. • Core Crown operating expenses were \$0.2 billion lower than forecast. This was mainly due to timing delays across a number of appropriations and departments.
NZS Fund operating balance	-\$1.5 billion (lower than forecast)	<ul style="list-style-type: none"> • The NZS Fund's operating balance was a deficit of \$0.9 billion compared to a forecast surplus of \$0.6 billion. The decline in investment returns continues to be driven by the recent slowing in the United States' economic activity, and future growth uncertainty generated by the recent fall out in the sub-prime lending market. While the NZS Fund is reporting a deficit in the current financial year its annualised return since inception (September 2003) is 11.03%, compared to 6.63% for the risk-free rate of return (Treasury bills).

Item/indicator	Variance	Key drivers
Core Crown		
Core Crown residual cash	- \$0.1 billion (lower than forecast)	<ul style="list-style-type: none"> • Core Crown tax receipts were \$0.2 billion lower than forecast. This was made up of a number of small variances across a number of tax types. The largest of these variances was in other individuals tax, which was \$0.1 billion (4.4%) below forecast, where, although well up on last year, tax payments from the agricultural sector were below forecast. • Core Crown operating payments (excluding finance costs) were \$0.1 billion higher than forecast due to differences in the phasing of cash payments. • Core Crown capital expenditure was \$0.2 billion lower than forecast. This was due mainly to delays in acquisition projects and forecast phasing issues. At this stage it is too early to determine the impact of these capital delays on the year end outturn.
GSID (excluding settlement cash)	On forecast	<ul style="list-style-type: none"> • GSID (excluding settlement cash) is in line with forecast.
Net core Crown debt	On forecast	<ul style="list-style-type: none"> • Net core Crown debt is in line with forecast.
Net core Crown debt (incl. NZSF)	- \$1.5 billion (lower than forecast)	<ul style="list-style-type: none"> • NZS Fund financial assets were lower than forecast due to declines in investment returns.
Total Crown		
OBEGAL	On forecast	<ul style="list-style-type: none"> • OBEGAL is in line with forecast
Operating balance	- \$3.6 billion (lower than forecast)	<ul style="list-style-type: none"> • Gains and losses were \$3.6 billion lower than forecast. The main contributors to this lower than expected result were: <ul style="list-style-type: none"> ◦ \$2.5 billion lower than forecast returns on the financial asset portfolios of the NZS Fund (\$1.5 billion lower than forecast), ACC (\$0.7 billion lower than forecast) and EQC (\$0.3 billion lower than forecast) due to the recent market downturn resulting from the US economic slowdown ◦ \$1.0 billion more than forecast loss on the revaluation of the ACC claims liability primarily driven by changes to economic assumptions used in the valuation of the liability. For example, the discount rate has decreased from 6.10% as at 30 September to 5.86% as at 31 January and the long-term inflation rate has increased from 2.58% to 2.70%, and ◦ \$0.1 billion lower than forecast other gains and losses.

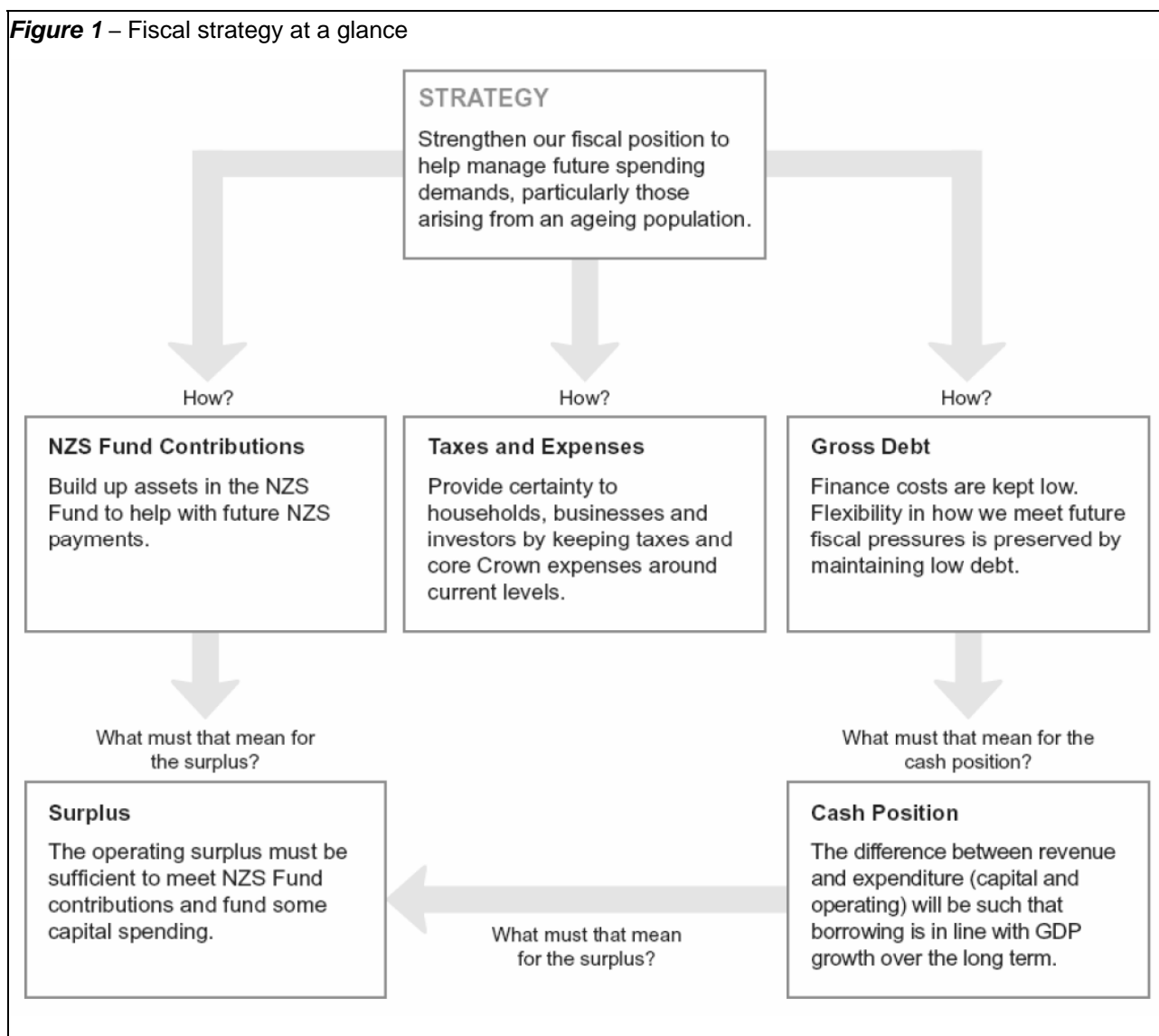
FISCAL STRATEGY PERSPECTIVE

The Government's fiscal strategy (outlined in more detail in the *2007 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 2007/08 financial year and its financial position as at 31 January 2008. They provide a comparison with the fiscal forecasts in the *2007 Half Year 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 January

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

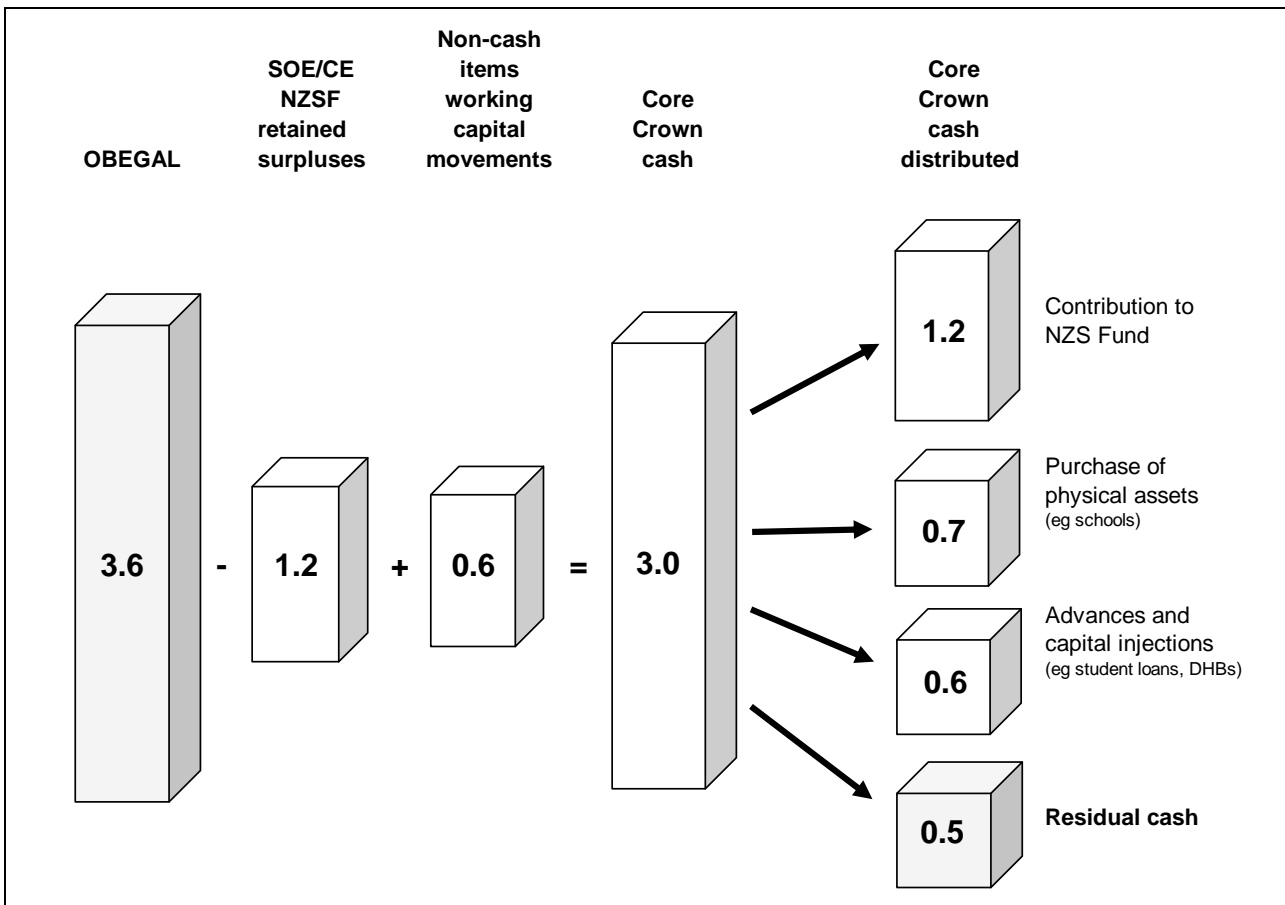
Table 3 – Reconciliation of residual cash

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date		Full Year		
		January	January			Full Year
		2008	2008	Variance	Variance	HYEFU
Fiscal Strategy		Actual	Forecast	\$m	%	June 2008 Forecast
	Taxation as a percentage of GDP ¹	32.4%	32.5%			31.8%
Taxes, kept stable and maintained at current levels ...	Taxation	31,851	31,911	(60)	(0.2)	56,639
... combined with other revenue ...	Core Crown other revenue, gains and losses	1,760	3,752	(1,992)	(53.1)	6,704
... fund core crown expenses ...	Core Crown expenses	(32,126)	(32,525)	399	(1.2)	(57,137)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(1,287)	655	(1,942)	(296.5)	1,182
... results in a net operating balance (surplus or deficit)...	Operating balance	198	3,793	(3,595)	(94.8)	7,388
... part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	3,451	(103)	3,554	(3,450.5)	(814)
... and so we have developed an operating indicator excluding these items.	OBEGAL	3,649	3,690	(41)	(1.1)	6,574
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. gains and losses)	(46)	(27)	(19)	70.4	(169)
" " " " " "	Net retained surpluses of SOEs and Crown entities	(1,082)	(1,043)	(39)	3.7	(1,305)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	490	706	(216)	(30.6)	1,396
The operating cash flow that results, needs to provide sufficient funds for	Core Crown Cash flow from Operations	3,011	3,326	(315)	(9.5)	6,496
- building up assets in NZ Superannuation	Contribution to NZS Fund	(1,211)	(1,211)	-	-	(2,103)
- meeting the capital expenditure budget, and	Purchase of physical assets	(725)	(896)	171	(19.1)	(1,773)
- making advances (e.g. to students and DHBs)	Advances and Capital injections	(597)	(631)	34	(5.4)	(1,861)
with a residual impact on debt that allows it to remain at prudent levels	Residual Cash	478	588	(110)	(18.7)	759
	... and as a percentage of GDP	0.3%	0.3%			0.4%

¹ GDP for the seven months ended 31 January (actual and forecast) is the actual data for the quarter ended 30 September 2007 (Source: Statistics New Zealand) extrapolated to seven months. GDP for the 2008 full year forecast has been extracted from the 2007 Half Year Economic and Fiscal Update.

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

	January 2008 Actual \$m	January 2007 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	32,077	29,990	2,087	7.0
Other revenue	2,606	2,644	(38)	(1.4)
Total Core Crown Revenue	34,683	32,634	2,049	6.3
Core Crown expenses				
Social security and welfare	10,318	9,816	502	5.1
GSF pension expenses	394	394	-	-
Health	6,464	5,889	575	9.8
Education	5,450	5,364	86	1.6
Core government services	1,719	1,285	434	33.8
Law and order	1,653	1,472	181	12.3
Defence	846	823	23	2.8
Transport and communications	1,441	1,134	307	27.1
Economic and industrial services	1,490	849	641	75.5
Primary services	248	252	(4)	(1.6)
Heritage, culture and recreation	509	436	73	16.7
Housing and community development	156	145	11	7.6
Other	42	56	(14)	(25.0)
Finance costs	1,396	1,363	33	2.4
Total Core Crown Expenses	32,126	29,278	2,848	9.7
Net surplus of SOE/CE's	1,092	728	364	50.0
OBE GAL	3,649	4,084	(435)	(10.7)
Total gains/(losses)	(3,536)	1,221	(4,757)	(389.6)
Other operating items	85	65	20	30.8
Operating Balance	198	5,370	(5,172)	(96.3)
Core Crown residual cash	478	323	155	48.0
Debt indicators				
Gross sovereign-issued debt (excluding settlement cash)	31,605	30,153	1,452	4.8
Net Core Crown debt	2,647	7,413	(4,766)	(64.3)

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

Revenue and Expenses

Total **tax revenue** for the seven months ending 31 January 2008 has increased by 7.0% on the same period last year. The increase was primarily in PAYE, GST and RWT. Driving this increase is recent high wage and employment growth and increases in consumption volumes and prices of goods and services.

Total **core Crown expenses** were \$2.8 billion higher than the comparable period from the previous financial year (growth of 9.7%). The significant movements within core Crown functional expenses were as follows:

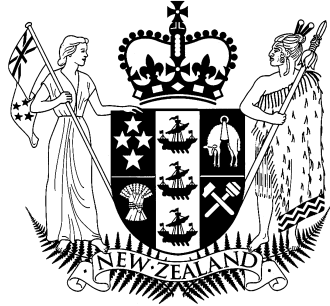
Functional expense	Movement from Previous year	Main drivers of the change
Social security and welfare	+ \$0.5 billion	<ul style="list-style-type: none"> • Indexation of welfare benefits • Funding provided in the 2007 Budget primarily as an initiative to guarantee NZ Superannuation at 66% of the average wage • Offset by lower unemployment benefits due to an improvement in labour market conditions
Health	+ \$0.6 billion	<ul style="list-style-type: none"> • Funding provided in the 2007 Budget to maintain and improve existing service levels
Core Government Services	+ \$0.4 billion	<ul style="list-style-type: none"> • Primarily due to tax write-offs which are now shown as an expense (netted against revenue in the previous year).
Transport and communications	+ \$0.3 billion	<ul style="list-style-type: none"> • Funding provided in the 2007 Budget • Timing of funding payments earlier than last year
Economic and industrial services	+ \$0.6 billion	<ul style="list-style-type: none"> • Primarily due to introduction of the KiwiSaver Kick Start initiative
Other	+ \$0.4 billion	<ul style="list-style-type: none"> • Mainly due to policy initiatives from the 2007 Budget
Total	+ \$2.8 billion	

Other gains and losses were in a net loss position of \$3.5 billion for the period ended 31 January 2008, compared to a net gain position of \$1.2 billion for the same period the previous year. The \$4.8 billion difference is due to:

- lower than expected investment returns experienced so far in the 2007/08 financial year primarily resulting from the recent market downturn; and
- an increase in the ACC unfunded liability since January 2007 due to increases in claim costs driven by economic assumptions (e.g. discount and inflation rates).

Gross sovereign-issued debt (excluding settlement cash) is \$1.5 billion higher than the same period last year primarily due to debt being issued but no government stock maturities since January 2007.

Net Core Crown debt has reduced by \$4.8 billion as a result of an increase in financial assets, reflecting the residual cash built up since January 2007 and the valuation movements in financial instruments.



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 entities included in the Government reporting entity was set out on pages 113 and 114 of the *2007 Half Year Economic and Fiscal Update* released on 18 December 2007.

Since that date there have been no changes.

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 at Treasury's website:

www.treasury.govt.nz/publications/guidance/instructions/2007 (section 3.5).

4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Half Year Economic and Fiscal Update* (HYEFU), on 18 December 2007.

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

www.treasury.govt.nz/budget/2007/forecasts/hyefu2007.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

5 Comparative Figures

Comparative figures for the previous financial year to 30 June 2007 and comparative year-to-date period are presented in these Financial Statements. NZ IFRS has been applied in the compilation of these comparative figures. The 30 June 2007 comparatives are provisional and have not yet been subject to audit. 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 seven months ended 31 January 2008

Prior Year to 30 June 2007	7 Months to 31 Jan 2007		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Revenue						
53,023	29,632	Taxation revenue	1	31,851	31,911	(60)	(0.2)	56,639
3,701	2,082	Other sovereign revenue	1	2,294	2,124	170	8.0	3,774
56,724	31,714	Total Revenue Levied through the Crown's Sovereign Power		34,145	34,035	110	0.3	60,413
12,357	7,150	Sales of goods and services		7,635	7,637	(2)	-	13,004
2,984	1,589	Interest revenue and dividends	2	1,892	2,064	(172)	(8.3)	3,716
2,362	1,430	Other revenue		1,348	1,393	(45)	(3.2)	2,475
17,703	10,169	Total revenue earned through the Crown's operations		10,875	11,094	(219)	(2.0)	19,195
74,427	41,883	Total revenue (excluding gains)		45,020	45,129	(109)	(0.2)	79,608
		Expenses						
16,346	9,560	Social assistance and official development assistance	3	10,623	10,689	66	0.6	18,352
15,281	8,821	Personnel expenses	4	9,571	9,616	45	0.5	16,271
3,338	1,848	Depreciation and amortisation	5	2,069	2,102	33	1.6	3,459
27,517	14,247	Other operating expenses	5	15,556	15,294	(262)	(1.7)	28,665
2,893	1,670	Interest expenses	6	1,743	1,890	147	7.8	3,255
3,713	1,653	Insurance expenses	7	1,809	2,021	212	10.5	3,581
-	-	Forecast new operating spending	5	-	-	-	-	201
-	-	Top-down expense adjustment	5	-	(173)	(173)	(100.0)	(750)
69,088	37,799	Total expenses (excluding losses)		41,371	41,439	68	0.2	73,034
5,339	4,084	Operating balance before gains/(losses)		3,649	3,690	(41)	(1.1)	6,574
1,569	1,329	Net gains/(losses) on financial instruments	8	(1,175)	1,324	(2,499)	(188.7)	1,873
985	(108)	Net gains/(losses) on non-financial instruments	9	(2,361)	(1,309)	(1,052)	(80.4)	(1,237)
2,554	1,221	Total gains/(losses)		(3,536)	15	(3,551)	-	636
186	65	Net surplus/(deficit) from associates and joint ventures		85	88	(3)	(3.4)	178
8,079	5,370	Operating balance from continuing activities		198	3,793	(3,595)	(94.8)	7,388
(92)	-	Gain/(loss) from discontinued operations		-	-	-	-	-
7,987	5,370	Operating balance (including minority interest)		198	3,793	(3,595)	(94.8)	7,388
12	-	Attributable to minority interest in Air NZ		-	-	-	-	-
7,999	5,370	Operating Balance	10	198	3,793	(3,595)	(94.8)	7,388

STATEMENT OF FINANCIAL PERFORMANCE (CONTINUED) – FUNCTIONAL EXPENSE ANALYSIS

for the seven months ended 31 January 2008

Prior Year to 30 June 2007 Actual \$m	7 Months to 31 Jan 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
Total Crown							
Total Crown expenses							
By functional classification							
20,947	11,605	Social security and welfare	12,177	12,273	96	0.8	21,568
648	394	GSF pension expenses	394	394	-	-	629
10,511	5,598	Health	6,086	6,209	123	2.0	11,589
9,887	5,715	Education	5,987	5,831	(156)	(2.7)	10,550
4,330	1,259	Core government services	1,709	1,682	(27)	(1.6)	2,680
2,840	1,582	Law and order	1,778	1,802	24	1.3	3,126
1,449	801	Defence	825	847	22	2.6	1,598
6,872	3,770	Transport and communications	4,245	4,096	(149)	(3.6)	7,632
4,601	2,986	Economic and industrial services	3,889	3,995	106	2.7	6,277
1,247	738	Primary services	762	803	41	5.1	1,363
1,941	1,117	Heritage, culture and recreation	1,165	1,195	30	2.5	2,266
902	509	Housing and community development	571	580	9	1.6	968
20	55	Other	40	15	(25)	(166.7)	82
2,893	1,670	Finance costs	1,743	1,890	147	7.8	3,255
-	-	Forecast new operating spending	-	-	-	-	201
-	-	Top-down expense adjustment	-	(173)	(173)	(100.0)	(750)
69,088	37,799	Total Crown expenses excluding losses	41,371	41,439	68	0.2	73,034

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 2007 Actual \$m	7 Months to 31 Jan 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
Core Crown							
Core Crown expenses							
By functional classification							
17,214	9,816	Social security and welfare	10,318	10,355	37	0.4	17,914
648	394	GSF pension expenses	394	394	-	-	629
10,357	5,889	Health	6,464	6,511	47	0.7	11,480
9,261	5,364	Education	5,450	5,458	8	0.1	9,863
4,553	1,285	Core government services	1,719	1,738	19	1.1	2,957
2,707	1,472	Law and order	1,653	1,666	13	0.8	2,910
1,487	823	Defence	846	872	26	3.0	1,641
2,275	1,134	Transport and communications	1,441	1,486	45	3.0	2,784
1,548	849	Economic and industrial services	1,490	1,580	90	5.7	2,710
457	252	Primary services	248	277	29	10.5	527
798	436	Heritage, culture and recreation	509	527	18	3.4	1,072
275	145	Housing and community development	156	177	21	11.9	313
68	56	Other	42	15	(27)	(180.0)	82
2,330	1,363	Finance costs	1,396	1,642	246	15.0	2,804
-	-	Forecast new operating spending	-	-	-	-	201
-	-	Top-down expense adjustment	-	(173)	(173)	(100.0)	(750)
53,978	29,278	Total core Crown expenses excluding losses	32,126	32,525	399	1.2	57,137

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

STATEMENT OF CASH FLOWS

for the seven months ended 31 January 2008

Prior Year to 30 June 2007 Actual \$m	7 Months to 31 Jan 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							
52,150	29,179	Taxation receipts	31,377	31,605	(228)	(0.7)	55,316
3,418	2,263	Other sovereign receipts	2,259	2,153	106	4.9	3,571
12,777	7,386	Sales of goods and services	7,806	7,938	(132)	(1.7)	13,127
2,533	1,321	Interest and dividends	1,764	1,864	(100)	(5.4)	3,467
2,294	1,418	Other operating receipts	1,464	1,399	65	4.6	2,420
73,172	41,567	Total cash provided from operations	44,670	44,959	(289)	(0.6)	77,901
Cash was disbursed to							
18,436	9,519	Social assistance and official development assistance	10,113	10,077	(36)	(0.4)	17,294
39,838	25,012	Personnel and operating payments	27,162	27,186	24	0.1	47,316
2,442	1,502	Interest payments	1,752	1,828	76	4.2	3,052
-	-	Forecast new operating spending	-	-	-	-	201
-	-	Top-down expense adjustment	-	(173)	(173)	(100.0)	(750)
60,716	36,033	Total cash disbursed to operations	39,027	38,918	(109)	(0.3)	67,113
12,456	5,534	Net cash flows from operations	5,643	6,041	(398)	(6.6)	10,788
Cash Flows From Investing Activities							
Cash was provided from/(disbursed to)							
(5,213)	(3,100)	Net purchase of physical assets	(2,970)	(3,225)	255	7.9	(6,799)
(8,157)	(5,231)	Net purchase of shares and other securities	(4,470)	(4,991)	521	10.4	(6,535)
(206)	(77)	Net purchase of intangible assets	(132)	(160)	28	17.5	(258)
(1,014)	(915)	Net issue/(repayment) of advances	336	(134)	470	350.7	(458)
(288)	(285)	Net acquisition of investments in associates	(271)	(135)	(136)	(100.7)	(335)
-	-	Capital contingency provision	-	-	-	-	-
-	-	Top-down capital adjustment	-	69	(69)	(100.0)	250
(14,878)	(9,608)	Net cash flows from investing activities	(7,507)	(8,576)	1,069	12.5	(14,135)
(2,422)	(4,074)	Net cash flows from operating and investing activities	(1,864)	(2,535)	671	26.5	(3,347)
Cash Flows From Financing Activities							
Cash was provided from/(disbursed to)							
81	248	Issues of circulating currency	303	182	121	66.5	182
(3,758)	(1,553)	Net issue/(repayment) of Government stock ¹	1,754	1,700	54	3.2	2,875
1,780	(917)	Net issue/(repayment) of foreign currency borrowing	1,192	(909)	2,101	231.1	(1,624)
4,893	5,811	Net issue/(repayment) of other New Zealand dollar borrowing	(1,422)	1,580	(3,002)	(190.0)	1,896
2,996	3,589	Net cash flows from financing activities	1,827	2,553	(726)	(28.4)	3,329
574	(485)	Net movement in cash	(37)	18	(55)	(305.6)	(18)
3,676	3,676	Opening Cash Balance	4,208	4,208	-	-	4,208
(42)	(45)	Foreign-exchange gains/(losses) on opening cash	(15)	54	(69)	(127.8)	42
4,208	3,146	Closing Cash Balance	4,156	4,280	(124)	(2.9)	4,232

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 seven months ended 31 January 2008

Prior Year to 30 June 2007 Actual \$m	7 Months to 31 Jan 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							
12,456	5,534	Net Cash Flows from Operations	5,643	6,041	(398)	(6.6)	10,788
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
1,569	1,329	Gains/(losses) on other financial instruments	(1,175)	1,324	(2,499)	(188.7)	1,873
985	(108)	Gains/(losses) on other non-financial instruments	(2,361)	(1,309)	(1,052)	(80.4)	(1,237)
2,554	1,221	Total gains/(losses)	(3,536)	15	(3,551)	-	636
Movements in Working Capital							
(1,621)	(871)	Increase/(decrease) in receivables	(539)	(410)	(129)	(31.5)	1,322
79	60	Increase/(decrease) in inventories	58	25	33	132.0	91
(77)	196	Increase/(decrease) in prepayments	136	238	(102)	(42.9)	(80)
(85)	(25)	Decrease/(increase) in deferred revenue	56	(14)	70	-	110
(91)	450	Decrease/(increase) in payables	(99)	(536)	437	81.5	(151)
(1,795)	(190)	Total movements in working capital	(388)	(697)	309	44.3	1,292
Other Non-cash Items in Operating Balance							
(3,338)	(1,848)	Depreciation and amortisation	(2,069)	(2,102)	33	1.6	(3,459)
(536)	(38)	Write-down on initial recognition of loans	(251)	(208)	(43)	(20.7)	(616)
37	(8)	Impairment on financial assets (excl receivables)	(2)	1	(3)	(300.0)	3
1	99	Net interest revenue	136	138	(2)	(1.4)	47
14	(14)	Decrease/(increase) in defined benefit retirement plan liabilities	(15)	(21)	6	28.6	(55)
(1,580)	549	Decrease/(increase) in insurance liabilities	595	538	57	10.6	(1,426)
186	65	Other	85	88	(3)	(3.4)	178
(5,216)	(1,195)	Total other non-cash Items	(1,521)	(1,566)	45	2.9	(5,328)
7,999	5,370	Operating Balance	198	3,793	(3,595)	(94.8)	7,388

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the seven months ended 31 January 2008

Prior Year to 30 June 2007 Actual \$m	7 Months to 31 Jan 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
5,163	(7)	Revaluation of physical assets	(1)	37	(38)	(102.7)	58
(384)	(2)	Effective portion of changes in value of fair-value hedges	76	121	(45)	(37.2)	173
(18)	2	Net change in fair value of cash flow hedges transferred to operating profit	(4)	17	(21)	(123.5)	5
(4)	5	Net change in fair value of cash flow hedges transferred to the hedged item	(37)	(29)	(8)	(27.6)	(23)
(62)	(28)	Foreign currency translation differences for foreign operations	-	9	(9)	(100.0)	3
10	(1)	Valuation gain/(losses) on investments available for sale taken to reserves	8	7	1	14.3	8
11	-	Other movements	-	-	-	-	(1)
4,716	(31)	Total income/(expense) recognised directly in Net Worth	42	162	(120)	(74.1)	223
7,987	5,370	Operating Balance (including minority interest)	198	3,793	(3,595)	(94.8)	7,388
12,703	5,339	Total recognised income and expense	240	3,955	(3,715)	(93.9)	7,611
		Attributable to:					
(12)	-	- minority interest in Air NZ	-	-	-	-	-
12,715	5,339	- the Crown	240	3,955	(3,715)	(93.9)	7,611
12,703	5,339	Total recognised income and expense	240	3,955	(3,715)	(93.9)	7,611

This statement reports changes in net worth due to the operating balance, items of income or expense that are recognised directly in net worth and the effect of certain accounting changes.

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

STATEMENT OF FINANCIAL POSITION

as at 31 January 2008

As at 30 June 2007 \$m	As at 31 Jan 2007 \$m		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
Assets								
4,208	3,146	Cash and cash equivalents	11	4,156	4,280	(124)	(2.9)	4,232
12,029	12,780	Receivables	11	11,191	10,646	545	5.1	13,352
29,831	28,455	Marketable securities and derivatives in gain	11	35,052	34,523	529	1.5	35,601
13,827	13,216	Share investments	11	12,337	14,752	(2,415)	(16.4)	15,601
14,031	13,024	Advances	11	14,715	15,465	(750)	(4.8)	16,424
823	803	Inventory		884	847	37	4.4	914
1,309	1,528	Prepayments and other assets		1,387	1,526	(139)	(9.1)	1,338
95,613	90,424	Property, plant & equipment	12	96,307	97,067	(760)	(0.8)	98,662
6,921	6,346	Equity accounted investments ¹		7,251	7,336	(85)	(1.2)	7,518
1,653	1,546	Intangible assets and goodwill		1,663	1,670	(7)	(0.4)	1,794
-	-	Forecast for new capital spending		-	-	-	-	-
-	-	Top-down capital adjustment		-	(69)	69	100.0	(250)
180,245	171,268	Total assets		184,943	188,043	(3,100)	(1.6)	195,186
Liabilities								
3,444	3,610	Issued currency		3,747	3,625	(122)	(3.4)	3,625
8,103	8,333	Payables	14	8,139	8,562	423	4.9	8,334
978	918	Deferred revenue		910	992	82	8.3	868
41,914	41,460	Borrowings		44,530	44,551	21	-	46,363
17,419	15,291	Insurance liabilities	15	18,698	17,736	(962)	(5.4)	19,677
7,160	8,438	Retirement plan liabilities		7,469	7,474	5	0.1	7,479
4,523	3,907	Provisions	16	4,507	4,442	(65)	(1.5)	4,525
83,541	81,957	Total liabilities		88,000	87,382	(618)	(0.7)	90,871
96,704	89,311	Total assets less total liabilities		96,943	100,661	(3,718)	(3.7)	104,315
Net Worth								
44,169	41,507	Taxpayer funds	17	44,354	47,964	(3,610)	(7.5)	51,555
52,371	47,225	Revaluation reserve	17	52,383	52,408	(25)	-	52,429
(132)	301	Other reserves	17	(90)	(7)	(83)	-	35
96,408	89,033	Total net worth attributable to the Crown		96,647	100,365	(3,718)	(3.7)	104,019
296	278	Net worth attributable to minority interest in Air NZ		296	296	-	-	296
96,704	89,311	Total net worth		96,943	100,661	(3,718)	(3.7)	104,315

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 31 January 2008

As at 30 June 2007 \$m	As at 31 Jan 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Borrowings							
15,778	14,838	Government stock ¹	17,467	16,815	(652)	(3.9)	18,240
2,098	2,356	Treasury bills	2,310	2,772	462	16.7	2,776
364	377	Government retail stock	375	373	(2)	(0.5)	379
7,507	8,271	Settlement deposits with Reserve Bank	7,132	7,894	762	9.7	7,894
1,126	808	Derivatives in loss ²	1,161	757	(404)	(53.4)	422
954	946	Finance lease liabilities	968	966	(2)	(0.2)	959
14,087	13,864	Other borrowings	15,117	14,974	(143)	(1.0)	15,693
41,914	41,460	Total borrowings³	44,530	44,551	21	-	46,363
31,174	30,756	Sovereign-guaranteed debt ⁴	32,316	32,899	583	1.8	33,682
10,740	10,704	Non sovereign-guaranteed debt	12,214	11,652	(562)	(4.8)	12,681
41,914	41,460	Total borrowings³	44,530	44,551	21	-	46,363
Gross and net debt analysis:							
35,893	36,126	Core Crown borrowings	36,708	37,678	970	2.6	38,845
975	843	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	530	650	120	18.5	752
36,868	36,969	Gross sovereign-issued debt⁵	37,238	38,328	1,090	2.8	39,597
44,248	40,304	Less core Crown financial assets ⁶	46,495	49,036	(2,541)	(5.2)	52,699
(7,380)	(3,335)	Net core Crown debt (incl NZS Fund)⁷	(9,257)	(10,708)	(1,451)	(13.6)	(13,102)
11,480	10,748	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	11,904	13,342	(1,438)	(10.8)	15,085
4,100	7,413	Net core Crown debt (excl NZS Fund)⁸	2,647	2,634	(13)	(0.5)	1,983
Gross sovereign-issued debt excluding settlement cash:							
36,868	36,969	Gross sovereign-issued debt ⁵	37,238	38,328	1,090	2.8	39,597
(7,758)	(8,416)	Less Reserve Bank settlement cash (incl. Kiwibank)	(7,233)	(8,333)	(1,100)	(13.2)	(7,894)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁹	1,600	1,600	-	-	1,600
30,710	30,153	Gross sovereign-issued debt excluding settlement cash	31,605	31,595	(10)	-	33,303

Notes on Borrowings

- Government stock includes \$150 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 31 January 2008

	As at 31 Jan 2008 \$m	As at 30 June 2007 \$m	As at 31 Jan 2007 \$m
Capital Commitments			
Specialist military equipment	859	823	1,154
Land and buildings	712	605	804
Other property, plant and equipment	2,574	2,617	2,551
Other capital commitments	161	184	828
Tertiary Education Institutions	90	90	124
Total capital commitments	4,396	4,319	5,461
Operating Commitments			
Non-cancellable accommodation leases	2,278	2,296	1,942
Other non-cancellable leases	2,346	2,355	2,499
Non-cancellable contracts for the supply of goods and services	1,632	1,626	1,786
Other operating commitments	7,469	7,278	7,127
Tertiary Education Institutions	303	303	303
Total operating commitments	14,028	13,858	13,657
Total commitments	18,424	18,177	19,118
Total Commitments by Segment			
Core Crown	14,345	19,944	15,486
Crown entities	9,978	9,835	9,560
State-owned Enterprises	3,471	3,508	3,585
Inter-segment eliminations	(9,370)	(15,110)	(9,513)
Total commitments	18,424	18,177	19,118

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

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 January 2008

	As at 31 Jan 2008 \$m	As at 30 June 2007 \$m	As at 31 Jan 2007 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	170	171	423
Uncalled capital	2,084	2,076	2,365
Legal proceedings and disputes	409	1,170	1,012
Other contingent liabilities	2,204	1,829	2,111
Total quantifiable contingent liabilities	4,867	5,246	5,911
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	4,724	5,071	5,755
Crown entities	52	45	38
State-owned Enterprises	91	150	118
Inter-segment eliminations	-	(20)	-
Total quantifiable contingent liabilities	4,867	5,246	5,911
Quantifiable Contingent Assets			
Core Crown	86	86	106
Crown entities	5	-	-
Total quantifiable contingent assets	91	86	106

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

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	7 Months to 31 Jan 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							
20,987	12,034	PAYE	13,304	13,228	76	0.6	22,578
4,440	2,644	Other persons	2,890	2,956	(66)	(2.2)	5,120
(1,080)	(654)	Refunds	(747)	(702)	(45)	(6.4)	(1,175)
468	265	Fringe benefit tax	299	312	(13)	(4.2)	519
24,815	14,289	Total individuals	15,746	15,794	(48)	(0.3)	27,042
Corporate Tax							
8,808	4,413	Gross companies tax	4,560	4,360	200	4.6	9,174
(296)	(93)	Refunds	(34)	(5)	(29)	-	(310)
1,189	786	Non-resident withholding tax	863	861	2	0.2	1,268
149	109	Foreign-source dividend w/holding payments	69	59	10	16.9	93
9,850	5,215	Total corporate tax	5,458	5,275	183	3.5	10,225
Other Income Tax							
2,227	1,251	Resident w/holding tax on interest income	1,460	1,452	8	0.6	2,554
89	53	Resident w/holding tax on dividend income	36	62	(26)	(41.9)	87
2	1	Estate and gift duties	2	1	1	100.0	3
2,318	1,305	Total other income tax	1,498	1,515	(17)	(1.1)	2,644
36,983	20,809	Total income tax	22,702	22,584	118	0.5	39,911
Goods and Services Tax							
19,533	10,854	Gross goods and services tax	11,520	11,258	262	2.3	20,174
(8,325)	(4,890)	Refunds	(5,256)	(4,842)	(414)	(8.6)	(8,390)
11,208	5,964	Total goods and services tax	6,264	6,416	(152)	(2.4)	11,784
Other Taxation							
819	505	Petroleum fuels excise	454	481	(27)	(5.6)	885
238	205	Tobacco excise	114	112	2	1.8	138
1,836	1,030	Customs duty	1,151	1,117	34	3.0	1,870
786	440	Road user charges	491	501	(10)	(2.0)	875
553	333	Alcohol excise	338	348	(10)	(2.9)	579
230	130	Gaming duties	127	141	(14)	(9.9)	238
222	130	Motor vehicle fees	133	130	3	2.3	219
54	32	Energy resources levies	26	28	(2)	(7.1)	48
94	54	Approved issuer levy and cheque duty	51	53	(2)	(3.8)	92
4,832	2,859	Total other indirect taxation	2,885	2,911	(26)	(0.9)	4,944
16,040	8,823	Total indirect taxation	9,149	9,327	(178)	(1.9)	16,728
53,023	29,632	Total taxation revenue	31,851	31,911	(60)	(0.2)	56,639
Other Sovereign Revenue (accrual)							
2,667	1,448	ACC levies	1,646	1,470	176	12.0	2,712
265	161	Fire Service levies	173	173	-	-	283
84	49	EQC levies	50	50	-	-	85
685	424	Other miscellaneous items	425	431	(6)	(1.4)	694
3,701	2,082	Total other sovereign revenue	2,294	2,124	170	8.0	3,774
56,724	31,714	Total sovereign revenue	34,145	34,035	110	0.3	60,413

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	7 Months to 31 Jan 2007 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							
21,012	12,073	PAYE	13,079	13,088	(9)	(0.1)	22,527
5,121	2,565	Other persons	2,840	2,931	(91)	(3.1)	5,905
(1,850)	(1,112)	Refunds	(1,290)	(1,296)	6	0.5	(2,217)
482	349	Fringe benefit tax	350	353	(3)	(0.8)	490
24,765	13,875	Total individuals	14,979	15,076	(97)	(0.6)	26,705
Corporate Tax							
9,120	4,990	Gross companies tax	5,129	5,298	(169)	(3.2)	9,619
(1,153)	(683)	Refunds	(481)	(558)	77	13.8	(1,211)
1,135	741	Non-resident withholding tax	993	966	27	2.8	1,229
141	94	Foreign-source dividend w/holding payments	72	73	(1)	(1.4)	93
9,243	5,142	Total corporate tax	5,713	5,779	(66)	(1.1)	9,730
Other Income Tax							
2,192	1,249	Resident w/holding tax on interest income	1,462	1,459	3	0.2	2,558
90	71	Resident w/holding tax on dividend income	37	64	(27)	(42.2)	84
3	2	Estate and gift duties	1	1	-	-	3
2,285	1,322	Total other income tax	1,500	1,524	(24)	(1.6)	2,645
36,293	20,339	Total income tax	22,192	22,379	(187)	(0.8)	39,080
Goods and Services Tax							
18,691	10,393	Gross goods and services tax	11,300	10,991	309	2.8	19,443
(7,625)	(4,432)	Refunds	(5,089)	(4,775)	(314)	(6.6)	(8,156)
11,066	5,961	Total goods and services tax	6,211	6,216	(5)	(0.1)	11,287
Other Taxation							
835	496	Petroleum fuels excise	452	491	(39)	(7.9)	885
265	241	Tobacco excise	117	114	3	2.6	138
1,778	1,015	Customs duty	1,216	1,197	19	1.6	1,870
791	445	Road user charges	491	501	(10)	(2.0)	875
549	339	Alcohol excise	334	354	(20)	(5.6)	579
236	133	Gaming duties	143	141	2	1.4	238
208	114	Motor vehicle fees	145	130	15	11.5	219
55	36	Energy resources levies	23	30	(7)	(23.3)	53
74	60	Approved issuer levy and cheque duty	53	52	1	1.9	92
4,791	2,879	Total other indirect taxation	2,974	3,010	(36)	(1.2)	4,949
15,857	8,840	Total indirect taxation	9,185	9,226	(41)	(0.4)	16,236
52,150	29,179	Total tax receipts collected	31,377	31,605	(228)	(0.7)	55,316
Other Sovereign Receipts (cash)							
2,607	1,733	ACC levies	1,705	1,593	112	7.0	2,610
268	165	Fire Service levies	175	173	2	1.2	271
84	51	EQC levies	52	54	(2)	(3.7)	86
459	314	Other miscellaneous items	327	333	(6)	(1.8)	604
3,418	2,263	Total other sovereign receipts	2,259	2,153	106	4.9	3,571
55,568	31,442	Total sovereign receipts	33,636	33,758	(122)	(0.4)	58,887

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	7 Months to 31 Jan 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 2: Interest Revenue and Dividends							
<i>By type</i>							
2,540	1,386	Interest revenue	1,725	1,816	(91)	(5.0)	3,201
444	203	Dividends	167	248	(81)	(32.7)	515
2,984	1,589	Total interest revenue and dividends	1,892	2,064	172	8.3	3,716
<i>By source</i>							
2,580	1,443	Core Crown	1,335	1,628	(293)	(18.0)	2,990
746	462	Crown entities	665	583	82	14.1	920
484	266	State-owned Enterprises	419	292	127	43.5	493
(826)	(582)	Inter-segment eliminations	(527)	(439)	(88)	(20.0)	(687)
2,984	1,589	Total interest revenue and dividends	1,892	2,064	172	8.3	3,716
NOTE 3: Social Assistance and Official Development Assistance							
6,810	3,932	New Zealand superannuation	4,261	4,258	(3)	(0.1)	7,343
1,468	868	Domestic purposes benefit	864	861	(3)	(0.3)	1,466
613	394	Unemployment benefit	283	285	2	0.7	458
1,132	661	Invalids benefit	697	693	(4)	(0.6)	1,195
1,699	1,033	Family support	1,180	1,167	(13)	(1.1)	2,023
877	519	Accommodation supplement	521	521	-	-	885
573	335	Sickness benefit	349	353	4	1.1	600
382	208	Student allowances	210	214	4	1.9	397
270	159	Disability allowances	163	163	-	-	279
-	-	KiwiSaver	525	535	10	1.9	834
2,192	1,238	Other social assistance benefits	1,336	1,365	29	2.1	2,459
16,016	9,347	Total social assistance	10,389	10,415	26	0.2	17,939
330	213	Official development assistance	234	274	40	14.6	413
16,346	9,560	Total social assistance and official development assistance	10,623	10,689	66	0.6	18,352
NOTE 4: Personnel Expenses							
5,113	3,104	Core Crown	3,316	3,349	33	1.0	5,579
8,160	4,584	Crown entities	4,997	4,999	2	-	8,579
2,012	1,133	State-owned Enterprises	1,263	1,270	7	0.6	2,117
(4)	-	Inter-segment eliminations	(5)	(2)	3	150.0	(4)
15,281	8,821	Total personnel expenses	9,571	9,616	45	0.5	16,271
NOTE 5: Operating Expenses							
<i>By type</i>							
3,338	1,848	Depreciation and amortisation	2,069	2,102	33	1.6	3,459
27,517	14,247	Other operating expenses	15,556	15,294	(262)	(1.7)	28,665
-	-	Forecast new operating spending	-	-	-	-	201
-	-	Top-down expense adjustment	-	(173)	(173)	(100.0)	(750)
30,855	16,095	Total operating expenses	17,625	17,223	(402)	(2.3)	31,575
<i>By source</i>							
30,079	15,191	Core Crown	16,725	16,781	56	0.3	30,298
13,480	7,819	Crown entities	8,259	7,957	(302)	(3.8)	14,396
8,283	4,824	State-owned Enterprises	5,310	5,262	(48)	(0.9)	9,012
(20,987)	(11,739)	Inter-segment eliminations	(12,669)	(12,777)	(108)	(0.8)	(22,131)
30,855	16,095	Total operating expenses	17,625	17,223	(402)	(2.3)	31,575

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	7 Months to 31 Jan 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>							
2,876	1,611	Interest on financial liabilities	1,725	1,880	155	8.2	3,125
17	59	Interest unwind on provisions	18	10	(8)	(80.0)	130
2,893	1,670	Total interest expenses	1,743	1,890	147	7.8	3,255
<i>By source</i>							
2,330	1,362	Core Crown	1,396	1,642	246	15.0	2,804
274	154	Crown entities	122	130	8	6.2	296
685	400	State-owned Enterprises	502	418	(84)	(20.1)	724
(396)	(246)	Inter-segment eliminations	(277)	(300)	(23)	(7.7)	(569)
2,893	1,670	Total interest expenses	1,743	1,890	147	7.8	3,255
NOTE 7: Insurance Expenses							
<i>By type</i>							
1,967	1,141	ACC payments	1,272	1,095	(177)	(16.2)	2,216
1,746	512	Other insurance expenses	537	926	389	42.0	1,365
3,713	1,653	Total insurance expenses	1,809	2,021	212	10.5	3,581
NOTE 8: Gains and Losses on Financial Instruments							
<i>By source</i>							
1,180	897	Core Crown	(519)	1,045	(1,564)	(149.7)	1,424
369	395	Crown entities	(523)	489	(1,012)	(207.0)	633
62	70	State-owned Enterprises	(83)	(57)	(26)	(45.6)	75
(42)	(33)	Inter-segment eliminations	(50)	(153)	103	67.3	(259)
1,569	1,329	Net gains/(losses) on financial instruments	(1,175)	1,324	(2,499)	(188.7)	1,873
NOTE 9: Gains and Losses on Non-Financial Instruments							
<i>By type</i>							
1,133	(117)	Actuarial gains/(losses) on GSF liability	(293)	(293)	-	-	(263)
-	-	Actuarial gains/(losses) on ACC outstanding claims	(1,876)	(855)	(1,021)	(119.4)	(832)
(148)	9	Other	(192)	(161)	(31)	(19.3)	(142)
985	(108)		(2,361)	(1,309)	(1,052)	(80.4)	(1,237)
<i>By source</i>							
1,164	(116)	Core Crown	(563)	(554)	(9)	(1.6)	(517)
(5)	(1)	Crown entities	(1,877)	(855)	(1,022)	(119.5)	(857)
(173)	9	State-owned Enterprises	79	99	(20)	(20.2)	137
(1)	-	Inter-segment eliminations	-	1	(1)	(100.0)	-
985	(108)	Net gains/(losses) on non-financial instruments	(2,361)	(1,309)	(1,052)	(80.4)	(1,237)
NOTE 10: Operating Balance							
<i>By source</i>							
6,498	4,145	Core Crown	1,485	3,138	(1,653)	(52.7)	6,206
1,006	953	Crown entities	(1,353)	498	(1,851)	(371.7)	580
821	583	State-owned Enterprises	419	463	(44)	(9.5)	986
(326)	(311)	Inter-segment eliminations	(353)	(306)	(47)	(15.4)	(384)
7,999	5,370	Total operating balance	198	3,793	(3,595)	(94.8)	7,388

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 31 Jan 2007 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 11: Financial Assets							
4,208	3,146	Cash and cash equivalents	4,156	4,280	(124)	(2.9)	4,232
6,371	9,092	Tax receivables	6,432	6,629	(197)	(3.0)	7,226
5,658	3,688	Trade and other receivables	4,759	4,017	742	18.5	6,126
6,011	5,474	Student loans	6,142	6,171	(29)	(0.5)	6,478
3,637	3,211	Kiwibank mortgages	4,922	5,096	(174)	(3.4)	5,751
2,052	2,124	Long-term deposits	1,904	2,281	(377)	(16.5)	2,260
183	306	Reserve position at the IMF	185	171	14	8.2	166
2,148	1,909	Other loans	1,562	1,746	(184)	(10.5)	1,769
13,827	13,216	Share investments	12,337	14,752	(2,415)	(16.4)	15,601
2,349	1,350	Derivatives in gain	1,992	1,374	618	45.0	785
27,482	27,105	Other marketable securities	33,060	33,149	(89)	(0.3)	34,816
73,926	70,621	Total financial assets	77,451	79,666	(2,215)	(2.8)	85,210
Financial assets by portfolio							
22,577	18,020	Reserve Bank and DMO managed funds	21,578	23,219	(1,641)	(7.1)	27,488
12,576	11,707	NZ Superannuation Fund	12,839	14,116	(1,277)	(9.0)	15,169
14,622	18,886	Other core Crown	17,304	17,115	189	1.1	14,928
(952)	(796)	Intra-segment eliminations	(666)	(977)	311	31.8	(781)
48,823	47,817	Total core Crown	51,055	53,473	(2,418)	(4.5)	56,804
10,588	9,386	ACC portfolio	10,363	10,369	(6)	(0.1)	12,071
1,920	1,980	EQC portfolio	1,804	2,084	(280)	(13.4)	2,075
4,064	3,520	Other Crown entities	4,211	4,303	(92)	(2.1)	4,145
16,572	14,886	Total Crown entities	16,378	16,756	(378)	(2.3)	18,291
8,531	7,918	Total State-owned Enterprises	10,018	9,437	581	6.2	10,115
73,926	70,621	Total financial assets by portfolio	77,451	79,666	(2,215)	(2.8)	85,210
NOTE 12: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
21,138	18,648	Land (valuation)	21,313	21,203	110	0.5	20,793
20,824	20,431	Buildings (valuation)	21,008	21,195	(187)	(0.9)	21,841
1,972	2,004	Electricity distribution network (cost)	2,064	2,069	(5)	(0.2)	2,085
10,401	8,690	Electricity generation assets (valuation)	10,596	10,848	(252)	(2.3)	11,177
2,092	2,349	Aircraft (excl military) (valuation)	2,053	2,124	(71)	(3.3)	1,890
19,417	18,300	State highways (valuation)	19,749	19,720	29	0.1	20,137
10,570	10,548	Rail network (valuation)	10,571	10,599	(28)	(0.3)	10,783
3,116	3,292	Specialist military equipment (valuation)	2,983	3,215	(232)	(7.2)	3,197
3,218	3,346	Other plant and equipment (cost)	3,270	3,241	29	0.9	3,578
2,392	1,510	Specified cultural and heritage assets (valuation)	2,398	2,390	8	0.3	2,334
473	1,306	Other assets (valuation)	302	463	(161)	(34.8)	847
95,613	90,424	Total net carrying value	96,307	97,067	(760)	(0.8)	98,662

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 31 Jan 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
436	218	Revenue	195	253	(58)	(22.9)	555
733	377	Less current tax expense	149	226	77	34.1	276
(78)	17	Less other expenses ¹	(41)	(9)	32	355.6	123
1,313	893	Add gains/(losses)	(998)	503	(1,501)	(298.4)	761
1,094	717	Operating balance	(911)	539	(1,450)	(269.0)	917
9,855	9,855	Opening net worth	12,973	12,973	-	-	12,973
2,049	1,182	Gross contribution from the Crown	1,213	1,213	-	-	2,103
1,094	717	Operating balance	(911)	539	(1,450)	(269.0)	917
(25)	(21)	Other movements in reserves	1	2	(1)	(50.0)	-
12,973	11,733	Closing net worth	13,276	14,727	(1,451)	(9.9)	15,993
<i>comprising:</i>							
12,576	11,707	Financial assets	12,839	14,116	(1,277)	(9.0)	15,169
397	26	Net other assets	437	611	(174)	(28.5)	824
12,973	11,733	Closing net worth	13,276	14,727	(1,451)	(9.9)	15,993
Core Crown OBEGAL (excl NZS Fund):							
58,175	32,634	Core Crown revenue	34,683	35,170	(487)	(1.4)	62,409
436	218	NZS Fund revenue	195	253	(58)	(22.9)	555
733	377	Add back NZS Fund intra-segment revenue	149	226	(77)	(34.1)	276
58,472	32,793	Core Crown revenue (excl NZS Fund)	34,637	35,143	(506)	(1.4)	62,130
53,978	29,278	Core Crown expenses	32,126	32,525	(399)	(1.2)	57,137
(78)	17	NZS Fund expenses	(41)	(9)	(32)	(355.6)	110
(208)	(41)	Add back NZS Fund intra-segment expenses	(97)	(95)	2	2.1	-
53,848	29,220	Core Crown expenses (excl NZS Fund)	32,070	32,439	(365)	(1.1)	57,027
4,624	3,573	Core Crown OBEGAL (excl NZS Fund)	2,567	2,704	(141)	(5.2)	5,103

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 31 Jan 2007 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 14: Payables							
4,924	4,686	Accounts payable	4,731	5,033	302	6.0	5,177
3,179	3,647	Taxes repayable	3,408	3,529	121	3.4	3,157
8,103	8,333	Total payables	8,139	8,562	423	4.9	8,334
NOTE 15: Insurance liabilities							
17,328	15,214	ACC liability	18,608	17,659	(949)	(5.4)	19,594
68	57	EQC liability	79	63	(16)	(25.4)	69
23	20	Other insurance liabilities	11	14	3	21.4	14
17,419	15,291	Total insurance liabilities	18,698	17,736	(962)	(5.4)	19,677
NOTE 16: Provisions							
704	578	Provision for Kyoto	963	956	(7)	(0.7)	956
771	805	Provision for National Provident Fund guarantee	771	771	-	-	771
1,819	1,726	Provision for employee entitlements	1,754	1,589	(165)	(10.4)	1,668
1,229	798	Other provisions	1,019	1,126	107	9.5	1,130
4,523	3,907	Total provisions	4,507	4,442	(65)	(1.5)	4,525
NOTE 17: Changes in Net Worth							
36,214	36,214	Opening taxpayers funds	44,169	44,169	-	-	44,169
7,999	5,370	Operating balance excluding minority interest	198	3,793	(3,595)	(94.8)	7,388
(44)	(77)	Transfers from/(to) other reserves	(13)	2	(15)	-	(2)
44,169	41,507	Closing taxpayers funds	44,354	47,964	(3,610)	(7.5)	51,555
47,153	47,153	Opening revaluation reserve	52,371	52,371	-	-	52,371
5,163	(7)	Net Revaluations	(1)	37	(38)	(102.7)	58
55	79	Transfers from/(to) other reserves	13	-	13	-	-
52,371	47,225	Closing revaluation reserve	52,383	52,408	(25)	-	52,429
326	326	Opening other reserves	(132)	(132)	-	-	(132)
(458)	(25)	Net movements	42	125	(83)	(66.4)	167
(132)	301	Closing other reserves	(90)	(7)	(83)	-	35

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 \$m	7 Months to 31 Jan 2007 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
53,271	29,473	Total tax receipts	31,817	31,981	(164)	(0.5)	56,212
391	292	Total other sovereign receipts	298	302	(4)	(1.3)	514
1,896	1,108	Interest, profits and dividends	1,167	1,293	(126)	(9.7)	2,351
1,461	736	Sale of goods & services and other receipts	855	861	(6)	(0.7)	1,566
(16,489)	(9,578)	Subsidies and transfer payments	(10,175)	(10,138)	(37)	(0.4)	(17,401)
(29,740)	(17,454)	Personnel and operating costs	(19,474)	(19,532)	58	0.3	(34,648)
(2,220)	(1,411)	Finance costs	(1,477)	(1,614)	137	8.5	(2,647)
-	-	Forecast for future new operating spending	-	-	-	-	(201)
-	-	Top-down expense adjustment	-	173	(173)	(100.0)	750
8,570	3,166	Net cash flows from core Crown operations	3,011	3,326	(315)	(9.5)	6,496
(1,760)	(1,052)	Net purchase of physical assets	(725)	(965)	240	24.9	(2,023)
(1,743)	(490)	Net increase in advances	(465)	(450)	(15)	(3.3)	(1,323)
(281)	(119)	Net purchase of investments	(132)	(181)	49	27.1	(538)
(2,048)	(1,182)	Contribution to NZ Superannuation Fund	(1,211)	(1,211)	-	-	(2,103)
-	-	Top-down capital adjustment	-	69	(69)	(100.0)	250
2,738	323	Residual cash	478	588	(110)	(18.7)	759
Financed by:							
(6,011)	(3,164)	Other net sale/(purchase) of marketable securities and deposits	(1,997)	(3,424)	1,427	41.7	(4,506)
(3,273)	(2,841)	Total operating and investing activities	(1,519)	(2,836)	1,317	46.4	(3,747)
Used in:							
2,209	4,651	Net (repayment)/issue of other New Zealand dollar borrowing	(1,709)	2,058	(3,767)	(183.0)	2,203
1,775	(908)	Net (repayment)/issue of foreign currency borrowing	1,131	(952)	2,083	218.8	(1,495)
81	248	Issues of circulating currency	303	182	121	66.5	182
(458)	135	Increase/(decrease) in cash	364	254	110	43.3	185
3,607	4,126		89	1,542	(1,453)	(94.2)	1,075
334	1,285	Net cash inflow/(outflow) to be offset by domestic bonds	(1,430)	(1,294)	(136)	(10.5)	(2,672)
Gross Cash Proceeds from Domestic Bonds							
2,294	1,407	Domestic bonds (market)	1,300	1,166	134	11.5	2,453
570	85	Domestic bonds (non-market)	130	128	2	1.6	219
2,864	1,492	Total gross cash proceeds from domestic bonds	1,430	1,294	136	10.5	2,672
(2,777)	(2,777)	Repayment of domestic bonds (market)	-	-	-	-	-
(421)	-	Repayment of domestic bonds (non-market)	-	-	-	-	-
(3,198)	(2,777)		-	-	-	-	-
(334)	(1,285)	Net (repayments of)/cash proceeds from domestic bonds	1,430	1,294	136	10.5	2,672

IMPACT OF THE ADOPTION OF NZ IFRS

The aim of this section is to explain how the transition from old GAAP to NZ IFRS has affected the reported financial position and financial performance of the Government of New Zealand.

The Government is reporting in compliance with NZ IFRS for periods beginning on and after 1 July 2007. Previous reporting has been on the basis of approved accounting standards applicable in New Zealand at the time ("old GAAP"). The following pages describe the impact of the adoption of NZ IFRS by providing reconciliations between the old GAAP and the comparative information shown in these financial statements for:

- Net worth as at 1 July 2006, as at 31 January 2007 and as at 30 June 2007
- Operating Balance for the year ended 30 June 2007 and for the seven months ended 31 January 2007.

In addition to changes in measurement and recognition rules, NZ IFRS has resulted in a number of changes to the format of the financial statements. The major reclassifications are:

- depreciation and amortisation previously classified under operating expenses now separately disclosed
- share investments previously classified under marketable securities now separately disclosed
- some properties held by Land Information New Zealand (LINZ) have been reclassified from assets for sale to property, plant and equipment and as a result have been fair valued
- settlement deposits with the Reserve Bank previously classified under borrowings – sovereign-guaranteed now separately disclosed
- separation of borrowings between sovereign-guaranteed and non sovereign-guaranteed no longer in the statement of financial position (transferred to notes to the financial statements)
- payables and provisions previously classified as one category now split
- reclassifications between interest and dividend income, interest expense and gains/losses on financial instruments
- reclassifications between sales of goods and services and other revenue, and
- reclassifications between official development assistance and operating expenses.

IMPACT OF THE ADOPTION OF NZ IFRS

	Note	As at 1 July 2006 \$m	As at 30 June 2007 \$m	As at 31 Jan 2007 \$m
Net worth per old GAAP published accounts		71,403	95,836	87,353
Rail network valuation	a	10,330	-	-
Amended net worth per old GAAP		81,733	95,836	87,353
Changes as a result of transition to NZ IFRS				
Revaluation of GSF	b	3,133	3,137	3,084
Inclusion of a risk premium on ACC liability	c	(1,603)	(1,976)	(1,582)
Inclusion of derivatives	d	304	(355)	206
Fair value adjustments to receivables	e	(369)	(598)	(463)
Revaluation of NPF liability	f	195	182	195
Goodwill amortisation	g	-	98	48
Other movements		196	380	470
Net worth per NZ IFRS published accounts		83,589	96,704	89,311
	Note		Prior Year to 30 June 2007 \$m	7 months to 31 Jan 2007 \$m
Operating balance per old GAAP published accounts			8,663	5,575
Changes as a result of transition to NZ IFRS				
Revaluation of GSF	b		4	(49)
Inclusion of a risk premium on ACC liability	c		(373)	21
Inclusion of derivatives	d		(250)	(102)
Fair value adjustments to receivables	e		(229)	(94)
Revaluation of NPF liability	f		(13)	-
Goodwill amortisation	g		98	48
Other movements			99	(29)
Operating balance per NZ IFRS published accounts			7,999	5,370

IMPACT OF THE ADOPTION OF NZ IFRS

Notes to the NZ IFRS Transition

- a) On 1 July 2006 the accounting policy regarding the valuation basis of the rail network changed under old GAAP to depreciated replacement cost. Previously this asset was reported at historical cost.
- b) The reporting of the Government Superannuation Fund (GSF) has changed due to applying a specific standard for employee benefits, including pension schemes, under NZ IFRS. The main changes to the financial statement are:
- a reduction in the net liability of GSF due to valuing the liability on the basis that the Government meets its obligation on a pay-as-needed basis, rather than the amount to be invested today to fully fund future contributions under old GAAP. This latter approach assumes the Fund would invest in assets that would generate revenue on which there would be an additional obligation to pay tax, and
 - a netting of GSF plan assets against the pension liability (nil impact on net worth).
- c) The reporting of the ACC liability has changed owing to the new requirements under NZ IFRS. The main changes to the financial statements are:
- the ACC liability has increased due to adding an additional risk premium and liability adequacy test on the unearned levy liability to meet estimated future claims. The actuarially calculated liability under old GAAP represents a mid-point estimate – that is, equal chance of actual payouts being greater than or less than the estimate. To that extent, it represents the most likely outcome. Introducing an additional risk premium and liability adequacy test under NZ IFRS does not change the relative risk of ACC's activities; rather it simply changes how this risk is reported
 - changes to the presentation of the unearned levy liability (nil impact on net worth).
- d) Under NZ IFRS all derivative contracts must be recognised in the statement of financial position at fair value.
- e) Receivables from taxes and fines have been written down to reflect time value of money and collection costs.
- f) Like the reduction in the GSF liability above, the reduction in the National Provident Fund (NPF) liability is due to the tax effect of valuing the liability on the basis of present valuing the possible payments to this scheme under the current arrangements, rather than old GAAP which determines what payment would be required today to settle all future obligations.
- g) Under NZ IFRS goodwill is not amortised over a specified period. Instead, an annual impairment test is conducted.