Financial Statements of the Government of New Zealand

for the year ended 30 June 2013

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Ministerial Statement

The Crown's finances continued to strengthen in the year under review reflecting prudent management of the balance sheet and of operating expenses in a steadily expanding economy.

The total Crown's operating deficit before gains and losses (OBEGAL) halved for the second consecutive year to $4.4 billion, or to 2.1 per cent of GDP in the 12 months to June 30. This was considerably stronger result than the $7.9 billion deficit forecast by Treasury in Budget 2012 at the start of the financial year. It compares with deficits of $9.2 billion and $18.4 billion in the two preceding fiscal years.

Core Crown expenses were $3.4 billion lower than Budget 2012 forecasts, at $70.3 billion (33.1 per cent of GDP). This partly reflects the Government's focus on reducing costs while improving the services New Zealanders receive by consistently examining how public services are delivered. Careful management permitted the Government to target extra spending into areas of priority: Core Crown operating spending on social security was up 3.2 per cent to $22.7 billion; Health was up 2.4 per cent to $14.5 billion, education was up 7.3 per cent to $12.5 billion and law and order spending to make our communities safer were up 1.6 per cent to $3.5 billion.

Mirroring positive economic activity, tax revenue of $58.7 billion was 6.5 per cent higher than a year earlier and equal to 27.6 per cent of GDP. The corporate tax take was strong, indicating underlying strength in company profitability likely due, at least in part, to firms' increased investment returns.

Crown expenses (net of reinsurance) relating to rebuilding Canterbury totalled $0.5 billion this year, building on $11 billion over the previous two years. The total expected cost to the Crown was this year revised up to $15 billion. Although it will be some time off before we will know the final costs of some rebuild projects, we have recently received increased assurance on final costs associated with repairing horizontal infrastructure after a cost-sharing agreement being reached with Christchurch City Council.

The New Zealand Superannuation Fund booked an annual return of over 25 per cent and that performance, together with those of other investment funds, contributed to the operating balance inclusive of gains and losses moving into surplus this year ($6.9 billion). This was $21.8 billion better than the previous year, and $12.6 billion better than Treasury forecast at the start of the year. This underscores how volatile investment returns can be, tracking swings in international market conditions beyond the control of New Zealand.

The surplus, along with a rise in the value of the Crown's property assets, strengthened the Crown's net worth position for the first time in five years. Net worth attributable to the Crown, at $68.1 billion, reflected assets of $244.4 billion (up 1.7 per cent) and liabilities of $174.4 billion (down 3.4 per cent). Milestones during the year included the sale of a minority shareholding in Mighty River Power, which freed up $1.7 billion for higher priority investments. The Government's share offer programme continues to be rolled out and will free up further capital from the balance sheet to spend on public assets, including schools and hospitals.

In the year to 30 June, the Crown's residual cash deficit nearly halved to $5.7 billion. Funding this deficit was reflected in an increase in net core Crown debt which stood at 26.3 per cent of GDP.

The Crown is on target to record an OBEGAL surplus in 2014/15. It will be another two years, when annual surpluses reach levels sufficient to meet all priority capital investments, before the Crown can begin to pay down debt. The Government is committed to easing the burden of debt-serving costs of future generations, which is why it is targeting net core Crown debt to stand no higher than 20 per cent of GDP in 2020.

Hon Bill English
Minister of Finance
30 September 2013

Statement of Responsibility

These financial statements have been prepared by the Treasury in accordance with the provisions of the Public Finance Act 1989. The financial statements comply with New Zealand generally accepted accounting practice and with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for public benefit entities.

The Treasury is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance that the transactions recorded are within statutory authority and properly record the use of all public financial resources by the Crown. To the best of my knowledge, this system of internal control has operated adequately throughout the reporting period.

Gabriel Makhlouf
Secretary to the Treasury
30 September 2013

I accept responsibility for the integrity of these financial statements, the information they contain and their compliance with the Public Finance Act 1989.

In my opinion, these financial statements fairly reflect the financial position of the Crown as at 30 June 2013 and its operations for the year ended on that date.

Hon Bill English
Minister of Finance
30 September 2013

COMMENTARY

Fiscal Overview

FISCAL STRATEGY LONG-TERM OBJECTIVES

Operating revenue

Ensure sufficient operating revenues to meet the operating balance objective

Operating expenses

To control the growth in spending so that over time core Crown expenses are reduced to below 30% of GDP

Operating balance

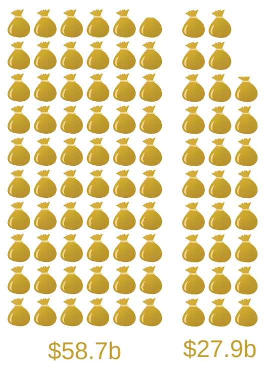
Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective

Total Crown

The difference between total Crown revenue and expenses gives us the operating balance before gains and losses (OBEGAL)

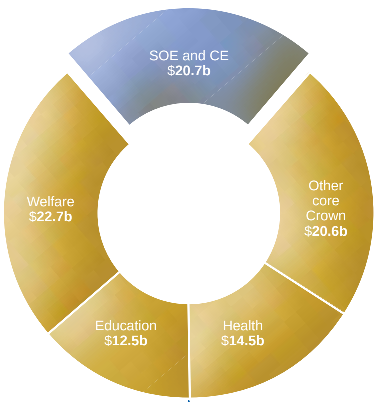
FINANCIAL RESULTS

$86.6b Total Crown revenue – **$91.0b Total expenses** = **($4.4b) OBEGAL**



Core Crown tax revenue (27.6% of GDP)

Other revenue

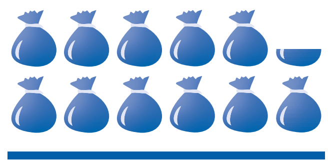


■ SOE and Crown Entities
■ Core Crown expenses (33.1% of GDP)

+

$11.3b

Net gain



$6.9b

Operating balance surplus

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Fiscal strategy

- Note 29 (pg 121)

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- Tax revenue (pg 10)
- Other revenue (pg 11)

Expenses

- Functional classification tables (pg 31)
- Detailed expense notes (pgs 57–63)
- SOE and Crown entities (CE) results (pg 178–179)
- Unappropriated expenditure (pg 165–167)

Net result

- Operating statement (pg 30)
- Gains and losses notes (pgs 64–65)
- ACC insurance liability (pg 98–102)
- GSF note (pg 109–112)

FISCAL STRATEGY
LONG-TERM OBJECTIVES

Debt

Manage total debt at prudent levels ensuring net debt remains consistently below 35% of GDP and brought back to a level no higher than 20% of GDP by 2020

Core Crown

Moving from total Crown accrual measure to core Crown cash measure

Movement in net debt

($4.4b) OBEGAL +
($0.1b) Non-residual cash items

–

$1.2b Capital items

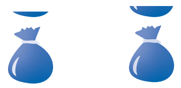
=

($5.7b) Residual cash deficit

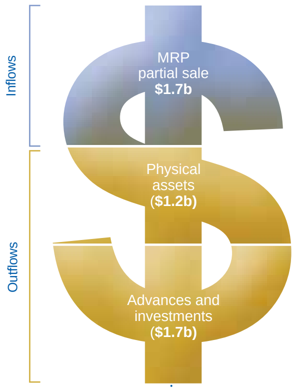
FINANCIAL RESULTS

$1.1b
Non-cash expenses (eg, depreciation)

($1.2b)
SOE, CE and NZSF OBEGAL



($4.5b)
Core Crown operating cash flows



Core Crown investing cash flows

–

$50.7b Opening net debt

+ $0.6b Other Movements

$55.8b
Closing Net debt

26.3% of GDP

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Non-cash movements

- SOE and CE results (pg 178–179)

Other impacts on cash

- Property, plant and equipment (pg 78)
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Debt

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Introduction

These financial statements[1] contain the audited results for the financial year ended 30 June 2013. The results are compared against previous years and against two sets of forecasts for the 2012/13 year:

- Budget 12 refers to the 2012 Budget Economic and Fiscal Update, and
- Budget 13 refers to the 2013 Budget Economic and Fiscal Update.
- This commentary should be read in conjunction with the financial statements on pages 30 to 172.

At a Glance

Table 1 – Financial results

Year ended 30 June $million	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Forecast 30 June 2013 Budget 12	 Budget 13
Core Crown tax revenue	54,681	50,744	51,557	55,081	**58,651**	58,251	58,286
Core Crown expenses	64,002	64,013	70,450	69,076	**70,306**	73,732	71,649
Operating balance before gains and losses (OBEGAL)	(3,893)	(6,315)	(18,396)	(9,240)	**(4,414)**	(7,897)	(6,285)
Operating balance	(10,505)	(4,509)	(13,360)	(14,897)	**6,925**	(5,699)	1,918
Residual cash	(8,639)	(9,000)	(13,343)	(10,644)	**(5,742)**	(9,671)	(7,750)
Gross debt	43,356	53,591	72,420	79,635	**77,984**	79,972	78,636
Net debt	17,119	26,738	40,128	50,671	**55,835**	61,265	57,945
Net worth attributable to the Crown	99,068	94,586	80,579	59,348	**68,071**	64,560	61,476

Headlines:

- Tax revenue up $3.6 billion from a year earlier (page 10).
- Core Crown expenses were $1.2 billion higher than the year before (page 12).
- OBEGAL deficit more than halved from 2012 to be $4.4 billion (page 15).
- Partial sale of equity in Mighty River Power raised proceeds of $1.7 billion (page 9).
- Strong investment returns of $6.2 billion (page 16).
- Long-term liabilities for ACC and GSF decreased $2.8 billion (page 21).
- Net debt up $5.2 billion to 26.3% of GDP (page 17).
- Total net worth attributable to the Crown rose for the first time since the global financial crisis (page 19).

1 The financial statements of the Government of New Zealand refer to both core Crown and total Crown results. Core Crown is comprised of Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand. Total Crown is comprised of the core Crown, State-owned enterprises and Crown entities.

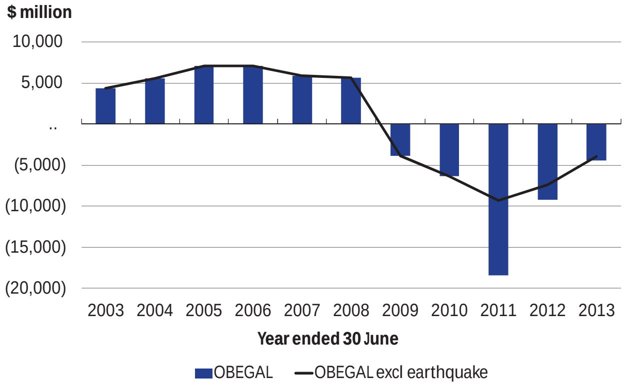
Summary

The operating balance before gains and losses (OBEGAL) deficit more than halved from a year earlier, from $9.2 billion, to $4.4 billion

The continued narrowing of the OBEGAL deficit was a result of further growth in the nominal economy (leading to a higher tax take) and lower expenditure (with Canterbury rebuild costs declining and last year's KiwiRail impairment not repeated).

Excluding the impact of the Canterbury rebuild, the adjusted OBEGAL deficit was $3.9 billion this year; which was $3.4 billion lower than the comparative figure for the previous year (a $7.3 billion deficit).

Figure 1 – OBEGAL



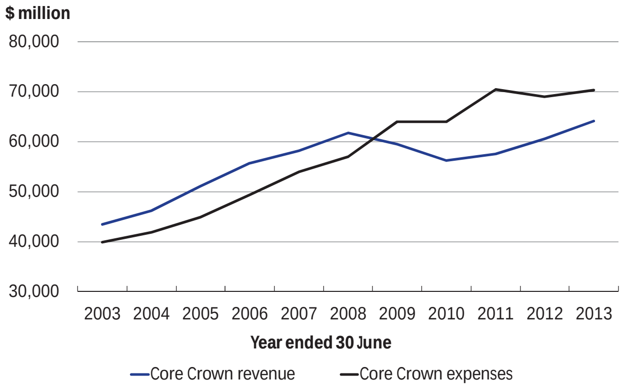
Source: The Treasury

The New Zealand economy continued to grow and helped increase the tax take...

The size of the nominal economy grew by 2.1% for the year, driven by an increase in consumer spending and a large increase in investment, particularly residential building. The labour market was fairly steady throughout the year, although employees worked more hours and earned higher wages.

The increase in economic activity, growth in employment, and the impacts of policy changes led to core Crown tax revenue being $3.6 billion higher than a year earlier, with all major tax types improving, and reach its highest level (at $58.7 billion). As a share of the economy, core Crown tax revenue was 27.6% of GDP compared with the peak of 31.2% of GDP in 2006.

Figure 2 – Core Crown revenue and expenses



Source: The Treasury

...while core Crown expenses remained relatively flat...

As a share of the economy, core Crown expenses were steady at 33.1% of GDP (the same as in 2012).

In nominal terms, core Crown expenses increased $1.2 billion (or 1.8%) to be $70.3 billion for the year to 30 June, and were at relatively similar levels for the past two years.

The two largest drivers of growth in core Crown expenditure were higher costs related to student loans (as loan repayments are now expected to be recovered over a longer period) and an increase in the number of recipients of NZ Superannuation (as the New Zealand population ages).

These increases were partially offset by lower expenses in relation to the rebuild in Canterbury. It is important to note that while the Canterbury rebuild continues, a lot of the expected costs were recognised in previous years, so these naturally decrease over time. In addition, as the rebuild gains momentum the nature of costs change, capital costs (which are not included in core Crown expenses) will start to increase as building in Canterbury gets underway.

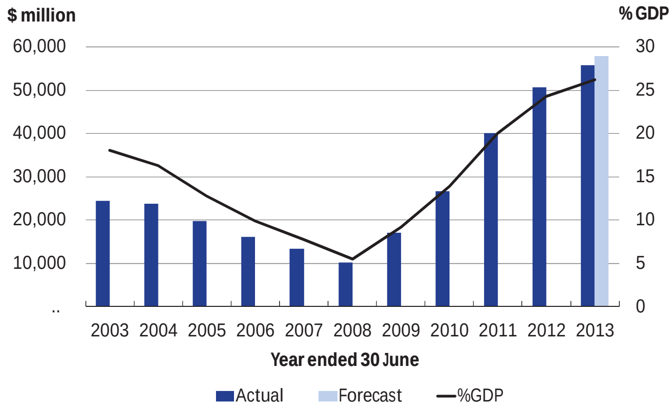
...and one-off expenses meant that total Crown expenses were less than last year

Expenses outside the core Crown (predominantly those of SOEs and Crown entities) were $20.7 billion ($2.9 billion less than the year before). The fall in expenses was largely owing to lower earthquake related insurance expenses (in EQC and Southern Response) as claims costs were updated to reflect the latest information, and impairments being at more regular levels this year compared to the one-off large impairment of KiwiRail assets in 2012.

Net debt continues to grow...

With the Crown recording an OBEGAL deficit, and continued capital spending, the resulting cash deficit meant that net debt continued to rise. With increases every year since 2008, the highest level of net debt was seen this year, at $55.8 billion (26.3% of GDP). However, the rate of growth of net debt has slowed in recent years as cash deficits have become smaller; at $5.7 billion, the residual cash deficit was $4.9 billion less than the year before. In addition, this year's cash deficit was smaller than prior years owing to the proceeds of $1.7 billion from the partial sale of shares in Mighty River Power.

Figure 3 – Net debt



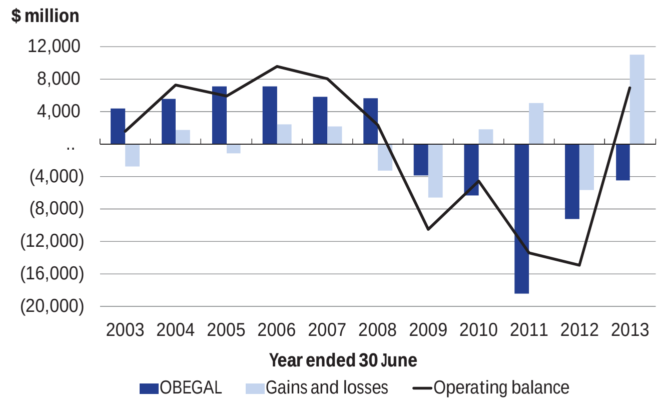
Source: The Treasury

...while investment gains led to an operating surplus...

The Crown recorded its first operating balance surplus since 2008, as net gains of $11.3 billion meant that once added to the OBEGAL deficit, the surplus was $6.9 billion.

Most of the gains this year were a result of strength in global equities, which meant that the NZS Fund and ACC recorded large gains on their investment portfolios ($4.4 billion and $1.8 billion respectively). In addition, favourable movements in the discount rate meant that actuarial gains totalling $3.6 billion were recorded on the valuations of the long-term liabilities for ACC claims and GSF pensions.

Figure 4 – Operating balance



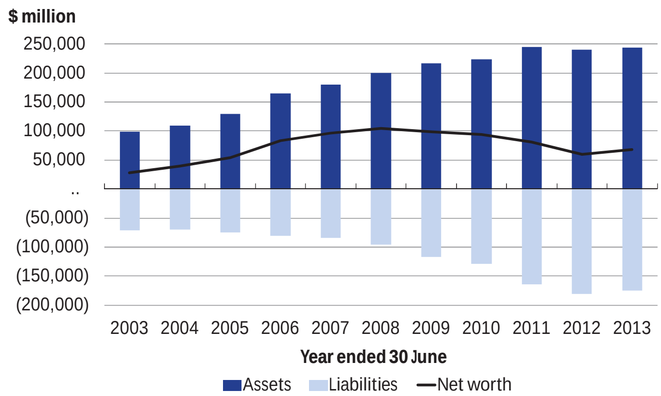
Source: The Treasury

...and an increase in the Crown's net worth

- With an operating surplus, the Crown's net worth increased for the first time since the global financial crisis. At $68.1 billion, the net worth attributable to the Crown was $8.7 billion higher than the previous year and stood equivalent to 32.0% of GDP (3.5% higher than last year).

- Making up the change in net worth was an increase in total assets of $4.1 billion and a fall in liabilities of $6.1 billion. The higher asset values were largely the result of strong equity markets, which led to an uplift in financial assets, while the fall in liabilities was mostly made up of lower obligations for insurance (ACC, EQC and Southern Response) and superannuation (GSF). These liabilities fell as claims were paid out, latest valuations reduced estimated future costs and discount rates rose, which meant that the discounted value of the future cash flows was less.

Figure 5 – Net worth



Source: The Treasury

Partial Sale of Shares in Mighty River Power

The Crown sold part of its shareholding in Mighty River Power (MRP) in May. MRP was the first SOE to be floated as part of the partial share sales programme announced by the Government in Budget 2012. Overall, the Crown received $1.69 billion from the sale of 48.2% of its ownership.

What was sold?

The Crown owned 100% of the shares in MRP prior to the partial sale, with the value of MRPs net assets being $3,052 million at the time of sale. In selling 48.2% of its shares, the Crown effectively sold that portion of its interest in MRP to other parties; equating to $1,471 million, but it did not relinquish control of the Company. The portion of shares that are now owned outside the Crown is referred to as the non-controlling "minority interest" in MRP.

What did the Crown receive?

As shown in Table 2, the Crown received $1,685 million from the sale of these shares. Once the cost of the sales ($22 million) and the estimated cost of the bonus share issue (explained further below) are deducted, the net proceeds from sale were $1,638 million. When these proceeds are compared to the interest in the net assets sold, the Crown made a gain on the partial sale of $167 million.

Table 2 – Partial sale of shares

	$m
Net assets at time of sale	3,052
Crown interest (51.8%)	1,581
Minority interest (48.2%)	1,471
Proceeds from sale	
Gross proceeds	1,685
Direct costs of share sale	(22)
Net Cash proceeds	1,663
Loyalty bonus shares	(25)
Net proceeds after bonus shares issued	1,638
Amount sold to minority interests	(1,471)
Gain on partial sale	**167**

Source: The Treasury (as at 14 May 2013)

What is the cost of the loyalty bonus shares?

Those New Zealand investors who purchased shares in the initial float of MRP will be eligible to receive up to 200 shares (one for every 25 shares purchased) if they hold those shares for two years. The bonus issue is a cost to the Crown because a portion of its assets are being given away for no compensation. The maximum cost of issuing these bonus shares was estimated at approximately $25 million.

How is the Crown's interest in MRP reflected in the financial statements?

The Crown continues to own more than 50% of MRP and therefore retains control of the Company and must continue to report 100% of the assets, liabilities, revenue and expenses in its financial statements. However, now that some of those net assets are owned by others, the Government needs to show the portion of MRP that can be attributed to the Crown and reflect that the residual is attributable to minority interests. In the financial statements this is presented through separate lines (in each of the operating statement and balance sheet) to reduce from the total operating balance and net worth the amount that is attributable to minority interests.

Why does the total Crown investment change?

As well as the Crown selling 48.2% of MRP, a number of Crown financial institutions (CFIs) have invested in the Company as part of their normal investment activity. Once the holding of the CFIs (3.8%) was added to the shares retained by the Crown, the total Crown ownership at 30 June 2013 increased to 55.0%. The Crown will continue to hold over 50% of shares, however, the CFIs shareholding will vary depending upon their investment strategies.

At 30 June 2013 MRP's net assets were $3,182 million, which meant that the total Crown ownership (including CFIs) was $1,749 million and the minority interest was $1,431 million.

Revenue

Table 3 – Breakdown of revenue

Year ended 30 June $ million	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Forecast 30 June 2012 Budget 12	Forecast 30 June 2012 Budget 13
Core Crown tax revenue	54,681	50,744	51,557	55,081	58,651	58,251	58,286
Core Crown other revenue	4,801	5,472	5,993	5,484	5,498	5,940	5,523
Core Crown revenue	59,482	56,216	57,550	60,565	64,149	64,191	63,809
Crown entities, SOEs and eliminations	20,024	18,509	24,013	22,918	22,506	22,112	22,654
Total Crown revenue	**79,506**	**74,725**	**81,563**	**83,483**	**86,655**	**86,303**	**86,463**
% of GDP							
Core Crown tax revenue	29.5%	26.5%	25.7%	26.4%	27.6%	26.7%	27.3%
Core Crown other revenue	2.6%	2.9%	3.0%	2.6%	2.6%	2.7%	2.6%
Core Crown revenue	32.1%	29.3%	28.7%	29.1%	30.2%	29.5%	29.8%
Crown entities, SOEs and eliminations	10.8%	9.7%	12.0%	11.0%	10.6%	10.1%	10.6%
Total Crown revenue	**42.9%**	**39.0%**	**40.7%**	**40.1%**	**40.7%**	**39.6%**	**40.4%**

Total Crown revenue was $86.6 billion, an increase of $3.2 billion from a year earlier. While tax revenue was $3.6 billion higher than in 2012 this was partially offset by a fall in the earthquake related revenue of Crown entities.

Core Crown Tax Revenue

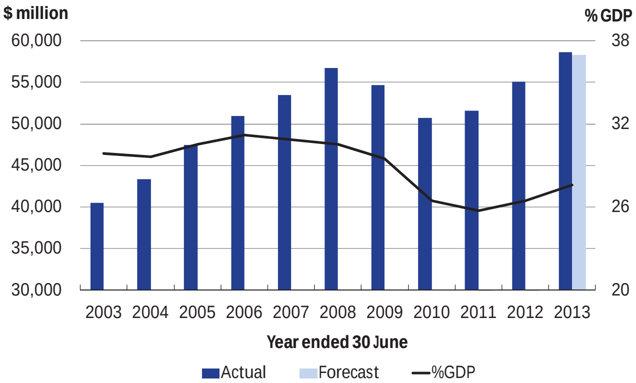
In nominal terms, core Crown tax revenue increased $3.6 billion to reach its highest nominal level ever. As a share of the economy, tax revenue increased to 27.6% of GDP, but remains below the levels seen before the global financial crisis (Figure 6).

All major tax types contributed to the increase in tax over the year, as detailed in Table 4, with four tax types making up most of the increase:

- Source deductions: $1.1 billion higher than last year owing to a stronger labour market. More people were employed (0.7% higher than 2012), and wages were higher (2.1% above the same time a year earlier), which directly resulted in increased tax from source deductions. Also, as taxpayers' earnings increase, their average tax rate increases owing to the progressive nature of the personal income tax scale (often referred to as fiscal drag). In addition, the tax exemptions related to KiwiSaver contributions were removed during the year, increasing the tax take.

- Other individuals[2]: $1.1 billion (or 36.8%) higher than a year earlier, largely owing to growth in taxable income over the past year and boosted by the base broadening measures from Budget 2010 (eg, removing the depreciation exemption on buildings). While the tax policy changes took effect in the 2011/12 tax year, for many taxpayers the financial impact first occurred within the current financial year. In addition, strength in equity markets is likely to have led to higher income from investments.

Figure 6 – Core Crown tax revenue



Source: The Treasury

Table 4 – Increase in core Crown tax revenue ($ billion)

2012 core Crown tax revenue	**55.1**
Source deductions	1.1
Other individuals	1.1
GST	0.6
Corporate tax	0.5
Other movements	0.3
2013 core Crown tax revenue	**58.7**

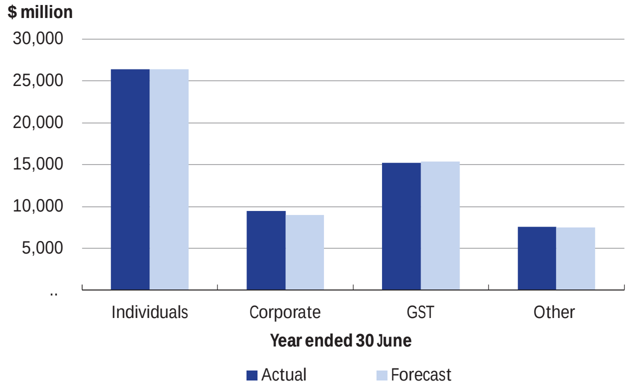
Source: The Treasury

2 This tax type includes tax paid by sole traders, partnerships and trusts

Revenue (continued)

- GST: $0.6 billion stronger as both private consumption and residential investment increased (up 2.8% and 23% respectively).
- Corporate tax: $0.5 billion higher than the year before, mainly owing to growth in current-year taxable profits of firms and an increase in investment returns.
- Compared to forecast in Budget 2013, core Crown tax revenue was $0.4 billion (0.6%) above, with the largest differences being in corporate tax and GST.
- Corporate tax was $0.5 billion above Budget 2013 forecast mainly owing to higher-than-expected current-year taxable profits, mostly concentrated within a few sectors of the economy.
- GST was $0.2 billion lower than forecast mainly because both private consumption and residential investment were slightly weaker than forecast.

Figure 7 – Core Crown tax revenue against Budget 2013



Source: The Treasury

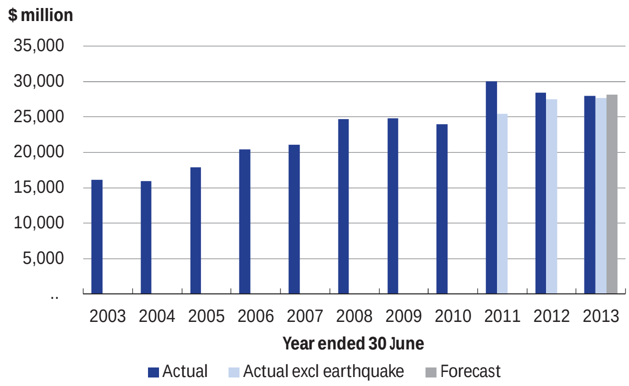
Other Revenue

Other revenue includes other fees and levies (eg, ACC levies), revenue from operations of Crown entities (CEs) and State-owned enterprises (SOEs), interest income and dividend income.

Core Crown other revenue was steady at $5.5 billion while the SOE and CE sectors recorded revenue of $22.5 billion, $0.4 billion lower than a year earlier (Figure 8).

Most of the reduction in revenue ($0.6 billion) was attributable to a fall in EQC's reinsurance revenue. The reduction was a result of a revised estimate in the outstanding receivable from reinsurers, taking into account the latest information at 30 June 2013. There were corresponding reductions in the insurance expense (detailed on the next page) that more than offset the reduction in revenue, meaning that overall the EQC operating balance was better than last year.

Figure 8 – Other revenue



Source: The Treasury

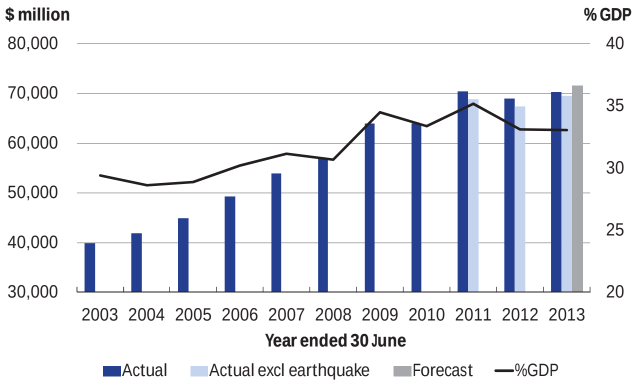
Expenses

Table 5 – Breakdown of expenses

Year ended 30 June $ million	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Forecast 30 June 2013 Budget 12	Forecast 30 June 2013 Budget 13
Social security and welfare	19,382	21,185	22,005	22,028	22,741	23,239	22,893
Health	12,368	13,128	13,753	14,160	14,498	14,745	14,526
Education	11,455	11,724	11,650	11,654	12,504	12,387	12,355
Core government services	5,293	2,974	5,563	5,428	4,294	6,537	5,572
Law and order	3,089	3,191	3,382	3,403	3,456	3,558	3,511
Other core Crown expenses	12,415	11,811	14,097	12,403	12,813	13,266	12,792
Core Crown expenses	**64,002**	**64,013**	**70,450**	**69,076**	**70,306**	**73,732**	**71,649**
Crown entities, SOEs and eliminations	19,397	17,027	29,509	23,647	20,701	20,378	21,089
Total Crown expenses	**83,399**	**81,040**	**99,959**	**92,723**	**91,007**	**94,110**	**92,738**
% of GDP							
Social security and welfare	10.4%	11.0%	11.0%	10.6%	10.7%	10.7%	10.7%
Health	6.7%	6.8%	6.9%	6.8%	6.8%	6.8%	6.8%
Education	6.2%	6.1%	5.8%	5.6%	5.9%	5.7%	5.8%
Core government services	2.9%	1.6%	2.8%	2.6%	2.0%	3.0%	2.6%
Law and order	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%
Other core Crown expenses	6.7%	6.2%	7.0%	6.0%	6.0%	6.1%	6.0%
Core Crown expenses	**34.5%**	**33.4%**	**35.2%**	**33.1%**	**33.1%**	**33.8%**	**33.5%**
Crown entities, SOEs and eliminations	10.5%	8.9%	14.7%	11.3%	9.7%	9.4%	9.9%
Total Crown expenses	**45.0%**	**42.3%**	**49.9%**	**44.5%**	**42.8%**	**43.2%**	**43.4%**

Total Crown expenses decreased for the second successive year, to be $91.0 billion this year, $1.7 billion less than the year earlier. The decreases were owing to a large one-off impairment of KiwiRail assets last year and a fall in earthquake costs.

Figure 9 – Core Crown expenses



Source: The Treasury

Core Crown Expenses

- While total Crown expenses fell, core Crown expenses were $1.2 billion higher than a year earlier. Despite the nominal expenditure increase, as a share of the economy core Crown expenses were the same as last year at 33.1% of GDP (Figure 9).

Table 6 shows the largest contributors to the nominal increase in core Crown expenses over the year, with three key areas contributing to the increase:

- Education expenses made up most of the increase as they were $0.9 billion higher than in 2012, with the majority being related to impairments of the student loan receivables ($0.8 billion). The impairments were higher because of one-off improvements last year and updated assumptions about student incomes, which meant that repayments are now expected to be slightly slower than previously estimated. The remainder of the increase was a result of funding allocations to Education in the 2012 Budget.

Table 6 – Movement in core Crown expenses

Year ended 30 June	
2012 core Crown expenses	**69.1**
Education	0.9
New Zealand Superannuation	0.7
Weathertight homes	0.4
Earthquake costs	(0.9)
Other	0.1
2013 core Crown expenses	**70.3**

Source: The Treasury

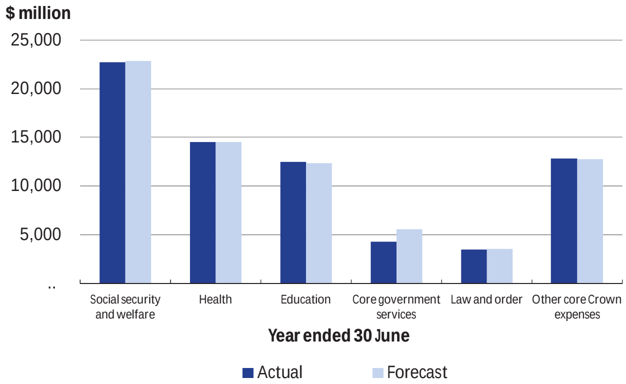
Expenses (continued)

- Spending on benefits increased $0.7 billion, mostly a result of an increase in recipients of New Zealand Superannuation, from 585,000 to 613,000, as the population ages.
- Expenses related to weathertight homes were impacted by a one-off $400 million decrease in 2012, which was not repeated this year. Overall, the remaining provision is $123 million (refer to note 27 of the financial statements for further details).
- The increases in expenses were partially offset by reductions of $0.9 billion in earthquake expenses. While spending will continue for many years, a number of costs have already been estimated and included in previous years. Also, as time goes on the recovery moves towards rebuild, with the type of spending moving from operating to capital. Further details about the spending on the Canterbury earthquake recovery this year and analysis against budgeted figures is provided on the following page.

Compared to Budget

- When compared to Budget 2013, core Crown expenses were $1.3 billion lower than expected.
- The largest area contributing to the lower than forecast result was spending on core Government services, which was largely associated with the earthquake costs. Explanations of these differences are detailed on the next page.
- Welfare spending was the next largest difference to forecast, spread across a number of benefit types. The main driver for the difference was that the take-up of tax credits relating to working for families and KiwiSaver was less than expected ($42 million).

Figure 10 – Core Crown expenses compared to Budget 13



Source: The Treasury

SOE and Crown Entity Expenses

At $20.7 billion, expenses outside the core Crown were $2.9 billion lower than in 2012. There were two main reasons for the fall:

- The earthquake-related insurance expenses of EQC and Southern Response were $1.8 billion lower than in 2012 (at negative $0.1 billion). The reduction in the expenses reflect that two years from the Canterbury earthquakes the estimates for outstanding insurance claims are becoming more certain and have led to a reduction in the estimated outstanding claims cost.
- KiwiRail restructured its operations during 2012, which resulted in one-off impairments of the network assets, with $1.4 billion of that being an expense. In the latest year, the network assets were only impaired by a further $0.2 billion, a reduction of $1.2 billion.

Canterbury Earthquake Recovery

Table 7 – Net costs to the Crown of the Canterbury Earthquakes

Year ending 30 June $million	Total	Actual 2011	Actual 2012	Actual 2013	Forecast 2013	Difference to forecast
Local Infrastructure	1,407	195	729	483	1,164	(681)
Land zoning	903	653	258	(8)	189	(197)
Southern Response support package	458	355	156	(53)	(49)	(4)
Christchurch central city rebuild	115	-	-	115	187	(72)
Other earthquake costs	783	390	149	244	295	(51)
Canterbury earthquake recovery costs	**3,666**	**1,593**	**1,292**	**781**	**1,786**	**(1,005)**
EQC (net of reinsurance proceeds)	8,026	7,471	662	(107)	(164)	57
Other Crown Entities	(217)	23	(41)	(199)	40	(239)
Total Crown net earthquake costs	**11,475**	**9,087**	**1,913**	**475**	**1,662**	**(1,187)**
Operating expenses	11,253	9,087	1,900	266	1,395	(1,129)
Capital expenditure	222	-	13	209	267	(58)
Total Crown net earthquake costs	**11,475**	**9,087**	**1,913**	**475**	**1,662**	**(1,187)**

This year the net cost (including both operating and capital spending) of the Canterbury earthquakes was $0.5 billion, $1.4 billion lower than the previous year, and $1.2 billion lower than expected in Budget 13 (Table 7). These results bring the total net costs to date to $11.5 billion. It is important to note that this is not an estimate of full costs; more costs will be incurred as the rebuild progresses and as further policy decisions are made.

Operating expenses

The largest expense this year was in relation to the estimate of repair costs of local infrastructure (mainly water and roads), which increased $0.5 billion as estimates of the Crown's obligation became more certain. In June the Crown negotiated a cost sharing agreement with the Christchurch City Council to contribute up to $1.8 billion for these costs. With $1.4 billion spent so far, a further $0.4 billion is yet to be incurred.

Capital expenses

In total, $0.2 billion of costs were capitalised during 2013, including:

- $0.1 billion that related to the Crown acquiring land that will be used to develop the Anchor Projects (eg, the Avon River Precinct) as part of the rebuild of Christchurch. As business cases for these projects are finalised and approved, construction will begin and further costs will be incurred.
- $0.1 billion of refurbishment costs for tertiary institutes, hospitals, the state housing stock and schools.

As noted earlier, capital costs will start to increase as the work in Christchurch moves into the rebuild stage.

Compared to Budget

The $0.5 billion of costs incurred this year was $1.2 billion lower than forecast in Budget 13 with costs of infrastructure, land zoning and the central city rebuild all being less than expected:

- Local infrastructure costs were lower than forecast as the cost sharing agreement was finalised after the Budget was released and the Crown's agreed share was lower than previously expected.
- Land zoning was $0.2 billion lower than forecast as updated information was received on settlements during the year providing additional clarity over the cost of outstanding offers.
- There was $0.1 billion less spent on acquisitions of land in the CBD for anchor projects, largely a result of delays in planned purchases. These acquisitions will still happen, but in later years.

Risk to cost estimates

Risks remain that the Canterbury earthquake costs are higher than expected in future years, for example the Crown could contribute more to the rebuild than currently agreed if the Council's actual costs exceed current estimates. Note 30 in the financial statements includes more detail about the costs this year and provides detailed information about the judgements and uncertainties involved in the cost estimations.

Operating Balance

Table 8 – Total Crown operating balance

Year ended 30 June $million	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Forecast 30 June 2013 Budget 12	 Budget 13
Total Crown OBEGAL	**(3,893)**	**(6,315)**	**(18,396)**	**(9,240)**	**(4,414)**	**(7,897)**	**(6,285)**
Gains and losses:							
ACC actuarial gain/(loss)	(4,491)	410	996	(2,942)	2,369	-	1,047
GSF actuarial gain/(loss)	(695)	(1,231)	(574)	(3,896)	1,251	-	918
ETS/Kyoto net position	768	(15)	47	350	103	-	212
Investment portfolios:							
NZS Fund	(3,495)	1,750	3,518	(204)	4,374	1,327	3,431
ACC	(181)	745	961	944	1,796	264	2,526
Earthquake Commission	(349)	37	109	(53)	1	-	-
Other gains/(losses)[3]	1,831	110	(21)	144	1,445	607	69
Total Crown gains/(losses)	**(6,612)**	**1,806**	**5,036**	**(5,657)**	**11,339**	**2,198**	**8,203**
Total Crown operating balance	**(10,505)**	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**	**(5,699)**	**1,918**
% of GDP							
Total Crown OBEGAL	(2.1)%	(3.3)%	(9.2)%	(4.4)%	(2.1)%	(3.6)%	(2.9)%
Total Crown gains/(losses)	(3.6)%	0.9%	2.5%	(2.7)%	5.3%	1.0%	3.8%
Total Crown Operating balance	**(5.7)%**	**(2.4)%**	**(6.7)%**	**(7.1)%**	**3.3%**	**(2.6)%**	**0.9%**

OBEGAL

The OBEGAL deficit more than halved compared to the year earlier, $4.4 billion compared to $9.2 billion in 2012 (Table 8). The improved result was owing to higher revenue and lower expenditure at the total Crown level (as discussed in earlier sections). When compared to Budget 2013 the OBEGAL deficit was $1.9 billion smaller than expected owing to the favourable variances in both revenue and expenses.

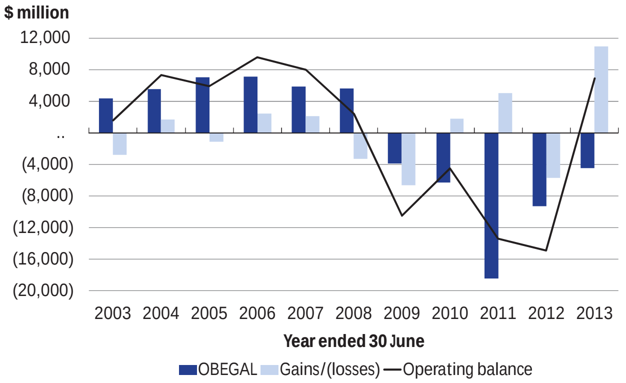
Operating Balance

Adding the Crown's net gains of $11.3 billion to the OBEGAL deficit, the operating balance was a surplus of $6.9 billion ($21.8 billion higher than 2012).

Much of the improvement in the operating balance was owing to gains on the investment portfolios of the NZS Fund and ACC ($6.2 billion) and favourable changes in discount rates leading to actuarial gains ($3.6 billion). This contrasts to the year before when equity markets were more subdued and discounts rates decreased, resulting in losses of $5.7 billion.

The large change since last year highlights the volatile nature of the operating balance. For more details about the sensitivities to the operating balance, refer to the box on page 22.

Figure 11 – Operating balance



Source: The Treasury

[3] Other gains and losses includes the net surplus from associates and joint ventures and operating balances from minority interests.

Operating Balance (continued)

Investment gains of $6.2 billion: The NZS Fund recorded $4.4 billion of the total Crown net gains. Their investment portfolio earned strong returns as global equity markets rose, as did the value of their private market assets (notably Z Energy). Overall, the Fund returned a record 25.83% for the 12 months to June (1.21% last year) and now has pre-tax assets of approximately $23 billion ($19 billion in 2012).

Actuarial gains of $3.6 billion: Changes in the discount rate and improvements in experience resulted in large actuarial gains on the long-term liabilities for ACC insurance and GSF pensions. The short term discount rates increased, and offset the impact of a reduction in the long-term rate (from 6.0% to 5.5%) reflecting the low interest rate environment of recent years and the view that, on balance, it is expected that forward looking interest rates will continue this trend. Overall, changes in discount rates resulted in gains of $1.7 billion ($0.9 billion for ACC and $0.8 billion for GSF). In addition, recent data shows that actual claims costs are proving to be less expensive than previously thought, resulting in a $1.2 billion reduction in the ACC insurance liability.

Debt

Table 9 – Net debt[4] and Gross debt[5]

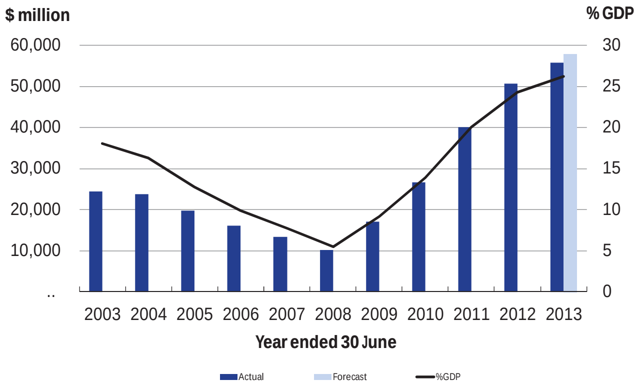
Year ended 30 June	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Forecast 30 June 2013 Budget 12	Budget 13
Net debt ($m)	17,119	26,738	40,128	50,671	55,835	61,265	57,945
Net debt (% GDP)	9.2%	13.9%	20.0%	24.3%	26.3%	28.1%	27.1%
Gross debt ($m)	43,356	53,591	72,420	79,635	77,984	79,972	78,636
Gross debt (% GDP)	23.4%	27.9%	36.2%	38.2%	36.7%	36.7%	36.8%

Net Debt

Net debt increases when the Crown is running cash deficits and it declines when there are cash surpluses. It also fluctuates in line with valuation movements in the underlying financial assets and liabilities of the Crown and movements in the amounts of currency issued to New Zealand banks.

Net debt increased by $5.2 billion this year, as the Crown continued to run a residual cash deficit. As a share of the economy, net debt was 26.3% of GDP (a 2.0% increase from last year).

Figure 12 – Net debt



Source: The Treasury

Residual Cash

The residual cash deficit was $5.7 billion, $4.9 billion less than last year. Table 10 summarises the contributors to the reduction in the residual cash deficit over the year.

Table 10 – Movements in residual cash

Year ended 30 June ($billion)	
2012 core Crown residual cash	**(10.6)**
Increase in tax receipts	3.6
Proceeds from sale of MRP	1.7
Decreases in advances	0.7
Increase in operating payments	(0.4)
Higher interest payments	(0.4)
Other movements	(0.3)
2013 core Crown residual cash	**(5.7)**

Source: The Treasury

- Tax receipts were $3.6 billion higher than last year, which was in line with the improvement in core Crown tax revenue as discussed on page 10.
- The Crown received $1.7 billion from the partial sale of MRP, lowering the cash deficit. Refer to the box on page 9 for further discussion about the share sales.
- Advances were $0.7 billion lower than last year as more loans were issued in 2012.
- Operating and interest payments were $0.8 billion more than last year, which is largely in line with the increase in core Crown expenses ($1.2 billion) as mentioned on page 12. The increase in cash payments tends to be lower than the expenditure increase owing to the fact that some expenses do not result in cash payments at the same time, and some expenses do not have operating cash payments at all (eg, depreciation).
- The fiscal overview, on pages 4 and 5, summarises the link from the operating balance (a total Crown measure of total revenue less total expenses, including gains and losses) to net debt (a core Crown measure of debt).

4 Net debt is defined as core Crown net debt excluding the NZS Fund and advances.

5 Gross debt is defined as gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills.

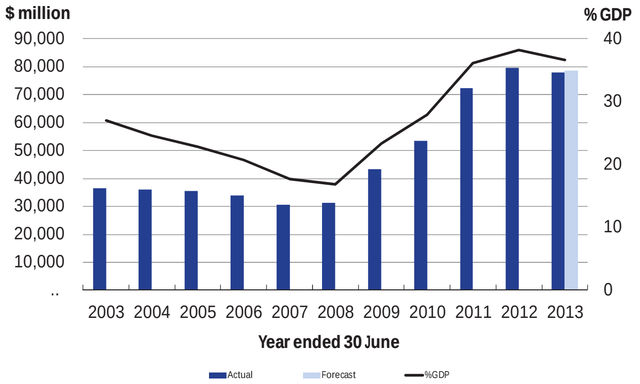
Gross Debt

While net debt increased this year, gross debt, which reflects the total borrowings of the core Crown, was $1.7 billion lower than a year earlier at $78.0 billion (Figure 13). As a percentage of GDP gross debt fell from 38.2% to 36.7%.

This decline in gross debt was largely mirrored by a decrease in financial assets (mostly held by the Reserve Bank and NZDMO), which meant that overall there was minimal impact to net debt (as discussed on the previous page).

The fall in gross debt was a result of movements in the following items:

Figure 13 – Gross debt



Source: The Treasury

- $1.1 billion fall in debt instruments issued by the Crown. While the Crown continued to issue government bonds, it also repaid maturing debt and reduced its treasury bills during the year.

- $0.9 billion decrease in other financial liabilities, which was largely due to a reduction in cash collateral deposits from trade counterparties. These deposits fluctuate with the level of derivative asset positions (the higher the asset, the more collateral that is required).

Partially offsetting these decreases was a $0.3 billion increase in the Reserve Bank's derivative liabilities. These liabilities are largely foreign exchange instruments used as a means of either investing funds overseas or funding a portion of the Bank's foreign reserves portfolios. The decline in value was a result of the volatility in foreign exchange rates between the issue date and 30 June. However, the increase in these liabilities was largely offset by corresponding increases in foreign currency denominated assets.

Crown's Borrowing Programme

The debt programme (Table 11) during 2012/13 returned net cash proceeds from the market of $0.1 billion. While the Crown continued to undertake a large ($14 billion face value) bond programme, the majority of proceeds were used to fund maturing debt. In total, debt issuance raised $15.5 billion, with $10.0 billion to fund maturing market government bonds and $5.4 billion to reduce outstanding Treasury Bills; a change in the programme that was signalled in Budget 2012.

Overall, once the non-market cash-flows (debt issued directly to agencies within the Crown) were included, net cash payments from borrowing were $0.3 billion.

Table 11 – Cash proceeds from debt programme

Year ended 30 June $million	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Forecast 30 June 2013 Budget 12	 Budget 13
Issue of government bonds	5,775	12,424	19,468	15,146	15,458	14,122	15,554
Repayment of government bonds	(2,750)	(4,197)	-	(7,602)	(9,982)	(9,982)	(9,982)
Net issue/(repayment) of short-term borrowing[6]	5,782	636	(422)	2,139	(5,404)	(3,701)	(5,553)
Total market debt cash flows	**8,807**	**8,863**	**19,046**	**9,683**	**72**	**439**	**19**
Issue of government bonds	541	799	270	-	-	-	-
Repayment of government bonds	(515)	(656)	(803)	(1,501)	(499)	(499)	(499)
Net issue/(repayment) of short-term borrowing	(150)	170	(125)	430	100	-	-
Total non-market debt cash flows	**(124)**	**313**	**(658)**	**(1,071)**	**(399)**	**(499)**	**(499)**
Total debt programme cash flows	**8,683**	**9,176**	**18,388**	**8,612**	**(327)**	**(60)**	**(480)**

6 Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper

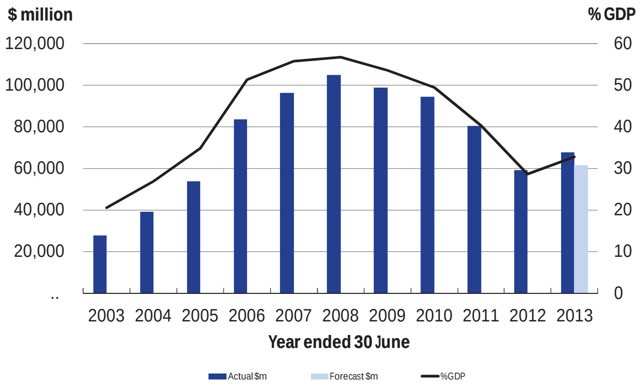
Net Worth Attributable to the Crown

Table 12 – Movement in net worth attributable to the Crown

Year ended 30 June						Forecast	
	Actual	Actual	Actual	Actual	Actual	30 June 2013	
$ million	2009	2010	2011	2012	2013	Budget 12	Budget 13
Opening net worth	**105,132**	**99,068**	**94,586**	**80,579**	**59,348**	**70,303**	**59,348**
Operating balance	(10,505)	(4,509)	(13,360)	(14,897)	6,925	(5,699)	1,918
Property, plant and equipment revaluations	4,235	196	(443)	(6,461)	1,367	-	(29)
Other movements in reserves	206	(169)	(204)	127	431	(44)	239
Closing net worth	**99,068**	**94,586**	**80,579**	**59,348**	**68,071**	**64,560**	**61,476**

Net worth attributable to the Crown was $68.1 billion as at 30 June 2013, an increase of $8.7 billion from a year earlier, and is the first time since 2008 that net worth has increased in nominal terms. As a share of the economy net worth was 32.0% of GDP, which was 3.5% higher than a year earlier. The growth in net worth helps to rebuild the Crown's buffer against future shocks; however, this level remains significantly below the peak of $105.1 billion in 2008 (or 56.6% of GDP).

Figure 14 – Net worth attributable to the Crown



Source: The Treasury

The main reason for the improvement in the Crown's net worth, as shown in Table 12, was the operating balance surplus, with the gains on financial assets and reductions in long-term liabilities being the key drivers of the surplus (as discussed on pages 15 and 16). In addition, revaluation uplifts of the Crown's property, plant and equipment helped contribute to the higher net worth position.

Despite the increase in net worth, the composition of the balance sheet remains similar to previous years (Table 13). The most notable change is the decrease in "other liabilities", largely being the fall in insurance and pension obligations. Later this year, the Treasury will publish the *2013 Investment Statement of the Government of New Zealand,* which is a reporting requirement mandated by a recent amendment to the Public Finance Act. The statement will delve into the composition of the assets and liabilities on the Crown's balance sheet, identifying risks and opportunities to further strengthen performance and manage risks.

The other notable change from last year is the increase in minority interests, which reflects the amount of the Crown's net worth that is attributable to external parties. In this past the minority interests largely related to external shareholders of Air New Zealand; however, minority interests have increased significantly with the partial sale of shares in Mighty River Power this year. For further information on the partial sale, refer to the box on page 9, and note 35 in the financial statements (pages 162 and 163).

Table 13 – Composition of the statement of financial position

Year ended 30 June						Forecast	
	Actual	Actual	Actual	Actual	Actual	30 June 2013	
$million	2009	2010	2011	2012	2013	Budget 12	Budget 13
Property, plant and equipment	110,135	113,330	114,854	108,584	109,833	121,335	109,334
Financial assets and sovereign receivables	93,359	95,971	115,362	116,178	118,779	107,071	116,121
Other assets	13,657	14,054	14,999	15,556	15,804	15,881	15,230
Total assets	**217,151**	**223,355**	**245,215**	**240,318**	**244,416**	**244,287**	**240,685**
Borrowings	61,953	69,733	90,245	100,534	100,087	103,207	100,780
Other liabilities	55,683	58,634	74,083	80,004	74,318	74,872	76,635
Total liabilities	**117,636**	**128,367**	**164,328**	**180,538**	**174,405**	**178,079**	**177,415**
Net worth	**99,515**	**94,988**	**80,887**	**59,780**	**70,011**	**66,208**	**63,270**
Minority interests	(447)	(402)	(308)	(432)	(1,940)	(1,648)	(1,794)
Net worth attributable to the Crown	**99,068**	**94,586**	**80,579**	**59,348**	**68,071**	**64,560**	**61,476**

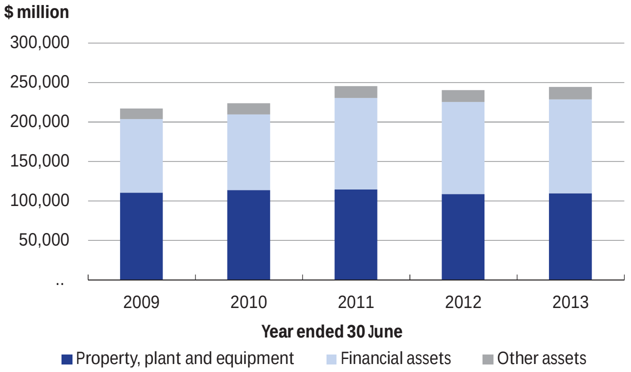
Net Worth Attributable to the Crown (continued)

Assets

Total Crown assets were $244.4 billion as at 30 June 2013 (Figure 15), a $4.1 billion increase over the year with the growth largely in financial assets ($2.6 billion) and property, plant and equipment ($1.2 billion).

The increase in financial assets was driven by the strong equity market returns, which increased fair values of investment assets. Refer to page 16 for discussion about the investment gains this year (largely from the NZS Fund).

Figure 15 – Total Crown assets



Source: The Treasury

Values of property, plant and equipment were higher than last year as revaluations of the assets to market rates had positive impacts. While most assets are revalued, the largest uplift related to the state housing portfolio ($1.2 billion), largely reflecting the strength of the property market in Auckland.

Solid Energy

Subsequent to balance date Solid Energy reached an agreement that addresses the Company's current solvency and liquidity issues. The agreement for the capital restructure includes:

- A restructuring of the bulk of its bank debt facilities, including renegotiation of covenant requirements,
- An exchange of certain portions of bank debt and Medium Term Note facilities for $75 million of Redeemable Preference Shares,
- Issuing $25 million of additional Redeemable Preference Shares to the Crown for cash,
- A new flexible working capital secured facility of $50 million to be provided by the Crown,
- A land mortgage secured facility of up to $50 million to be provided by the Crown, and
- A stand-by facility of up to $30 million in the event the Company is unable to discharge certain obligations.

The key terms of the capital restructure were agreed by 30 September 2013, however final settlement and documentation was not completed and is expected to be finalised during October 2013.

As a result of this agreement, the financial position of the Company has been reported in these financial statements on a going concern basis and the assets have been valued, where appropriate, based on their value-in-use rather than disposal value.

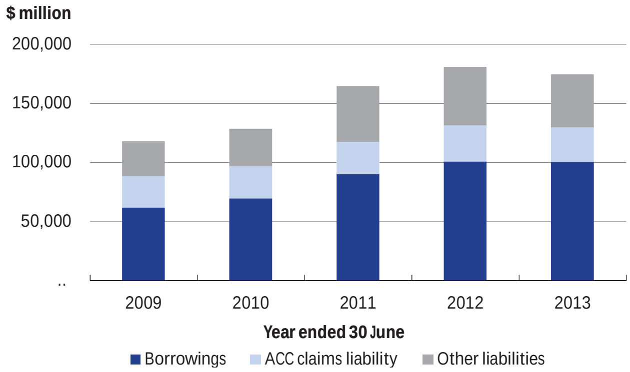
Challenges, however, remain for the Company, given the scale of restructure required and its inherent exposure to the USD coal price and USD/NZD exchange rate. The capital restructure is yet to be implemented and there remain certain risks, including that the agreement may be subject to dispute. Any further deterioration in the Company's financial position, or amendments to the current agreement, may adversely impact the Crown as it is unlikely to recover the carrying value of the assets in the event the Company is unable to continue trading.

Liabilities

Total Crown liabilities were $174.4 billion as at 30 June 2013, a decrease of $6.1 billion (3.4%) from the previous year (Figure 16).

Borrowings remained at a similar level to last year, at around $100 billion. Core Crown gross debt made up a significant portion of this ($78.0 billion) and are generally the key driver for growth in total Crown borrowing; refer to page 18 for a discussion of the Crown's gross debt and the borrowing programme. Outside of the core Crown, the most significant borrowings are the deposits held by Kiwibank ($12.1 billion). These increased this year by $0.6 billion, which allowed the bank to issue more lending to customers.

Figure 16 – Total Crown liabilities



Source: The Treasury

ACC's insurance liability decreased this year from $30.6 billion to $29.4 billion, related in part to favourable claims experience and changes in discount rates (as discussed on page 16).

Other liabilities were $45.0 billion at 30 June 2013, compared to $49.4 billion at the end of last year.

The decrease of $4.4 billion was largely owing to two items:

- earthquake related insurance liabilities of EQC and Southern Response were $2.0 billion and $0.3 billion lower respectively as claims were paid out. In addition, the estimated future costs were reduced to reflect greater certainty about the cost of future claims (as discussed on page 13).
- retirement plan obligations for the Government Superannuation Fund were $1.6 billion lower than the year earlier largely owing to the increase in the short-term discount rate (as discussed on page 16). In addition, the plan assets (which are held by the Fund to offset the future obligations) increased this year as global equity markets provided strong returns.

Sensitivities and Risks to the Crown Balance Sheet

Many of the assets and liabilities on the Crown's balance sheet are measured at "fair value" in order to disclose current estimates of what the Crown owns and owes. Fair value can be derived in a number of ways, traditionally based on market prices, but where these are not available, values can be best estimates based on certain assumptions. While the measurement at fair value is seen as the most appropriate value of these items, it can be volatile, resulting in fluctuations in the value of the assets and liabilities with changes in the underlying assumptions. Below is a summary of some of the key sensitivities to the valuation of the Crown's major assets and liabilities and the impact these can have on the operating balance (but usually no impact to OBEGAL).

Interest rates, share prices and exchange rates

Financial assets are the largest asset type on the Crown's balance sheet and have increased significantly in recent years (an increase of $90 billion in the last ten years, to be $119 billion in 2013). Crown Financial Institutions (eg, NZSF and ACC) hold investments to make financial returns, and those asset values are dependent on market prices, interest rates and exchange rates, which can all be volatile. Table 14 shows the sensitivity of the operating balance to changes in these variables.

Table 14 – Financial instruments sensitivities

Financial assets **Impact on operating balance**	**%change**	**$million**
Interest rates	+ 1 %	(532)
	- 1 %	592
Share prices	+ 10 %	1,681
	- 10 %	(1,681)
NZD exchange rate	+ 10 %	(1,029)
	- 10 %	1,160

Source: The Treasury

Discount rates and inflation rates

The Crown has a number of significant long-term liabilities which are actuarially valued based on estimated future cash flows over 50 years into the future. As part of the actuarial valuation, inflation rates are used to help estimate future cash flows while discount rates are used to obtain the value of those future cash flows in today's dollars (its present value). Changes in these assumptions can have significant impacts on the valuation because the cash flows are so large and over such long periods (eg, ACC's cash flows of $75 billion are discounted to $27 billion). Table 15 shows the impact that a 1% change in inflation and discount rates would have on the operating balance.

Table 15 – Long term liability sensitivities

Impact on operating balance	**Discount rate**		**Inflation rate**	
$million	**+ 1 %**	**- 1 %**	**+ 1 %**	- 1 %
ACC outstanding claims	3,628	(4,823)	(4,966)	3,788
GSF retirement liability	1,587	(1,927)	(1,508)*	1,831*
EQC outstanding claims	33	(33)	(19)	43
SRESL outstanding claims	19	(19)	(29)	28

Source: The Treasury

*Estimated as at 30 June 2013

Changes in other estimates

Outside of market factors, valuations are subject to a number of judgements and estimates. In general, as time goes on, better information becomes available and initial estimates are updated to reflect current information. Some examples of this, as discussed earlier, include:

- The valuation of ACC claims: better information about future costs and rehabilitation rates led to a $1.2 billion reduction in the claims liability (page 16).
- The cost of the weathertight homes financial assistance package: claims experience reduced initial estimates of costs by $400 million last year (page 13).
- Earthquake related insurance liabilities: reassessments of future claim costs led to a $1.8 billion fall in expenses of EQC and Southern Response this year (page 13).
- Student loan receivables: assumptions around the expectations of student incomes and repayment rates effect the speed the Crown will recoup these loans, with changes being reported as an expense (page 12).

Other risks to the balance sheet

In addition to those items on balance sheet there are a number of liabilities that may arise in the future but are not yet included; either because they're dependent on an uncertain future event occurring (eg, outcome of litigation) or the liability cannot yet be measured reliably. If these contingencies crystallise, there will be associated costs with a negative impact on the operating balance. Refer to note 32 for a list of the contingent liabilities that the Crown was exposed to at 30 June 2013.

Historical Financial Information

Year ended 30 June $ million	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual
Statement of financial performance											
Core Crown tax revenue	40,518	43,358	47,468	50,973	53,477	56,747	54,681	50,744	51,557	55,081	58,651
Core Crown other revenue	2,922	2,861	3,577	4,762	4,734	5,072	4,801	5,472	5,993	5,484	5,498
Core Crown revenue	43,440	46,219	51,045	55,735	58,211	61,819	59,482	56,216	57,550	60,565	64,149
Crown entities, SOE revenue and eliminations	13,170	13,051	14,322	15,690	16,378	19,660	20,024	18,509	24,013	22,918	22,506
Total Crown revenue	**56,611**	**59,271**	**65,367**	**71,425**	**74,589**	**81,479**	**79,506**	**74,725**	**81,563**	**83,483**	**86,655**
Social security and welfare	13,907	14,252	14,682	15,598	16,768	17,877	19,382	21,185	22,005	22,028	22,741
Health	7,501	8,111	8,813	9,547	10,355	11,297	12,368	13,128	13,753	14,160	14,498
Education	7,016	7,585	7,930	9,914	9,269	9,551	11,455	11,724	11,650	11,654	12,504
Core government services	2,130	2,091	2,567	2,507	4,817	3,371	5,293	2,974	5,563	5,428	4,294
Other core Crown expenses	9,343	9,843	10,903	11,754	12,795	14,901	15,504	15,002	17,479	15,806	16,269
Core Crown expenses	39,897	41,882	44,895	49,320	54,004	56,997	64,002	64,013	70,450	69,076	70,306
Crown entities, SOE expenses and eliminations	12,347	11,816	13,397	15,015	14,725	18,845	19,397	17,027	29,509	23,647	20,701
Total Crown expenses	**52,245**	**53,698**	**58,292**	**64,334**	**68,729**	**75,842**	**83,399**	**81,040**	**99,959**	**92,723**	**91,007**
OBEGAL	**4,366**	**5,573**	**7,075**	**7,091**	**5,860**	**5,637**	**(3,893)**	**(6,315)**	**(18,396)**	**(9,240)**	**(4,414)**
Gains/(losses)	(2,745)	1,736	(1,144)	2,451	2,162	(3,253)	(6,612)	1,806	5,036	(5,657)	11,339
Operating balance	**1,621**	**7,309**	**5,931**	**9,542**	**8,022**	**2,384**	**(10,505)**	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**
Statement of financial position											
Property, plant and equipment	52,667	57,940	67,494	89,141	95,598	103,329	110,135	113,330	114,854	108,584	109,833
Financial assets	27,799	32,654	42,005	66,396	73,718	85,063	93,359	95,971	115,362	116,178	118,779
Other assets	18,461	18,756	19,714	9,503	11,031	12,443	13,657	14,054	14,999	15,556	15,804
Total assets	**98,927**	**109,351**	**129,212**	**165,040**	**180,347**	**200,835**	**217,151**	**223,355**	**245,215**	**240,318**	**244,416**
Borrowings	39,327	37,720	37,728	40,027	41,898	46,110	61,953	69,733	90,245	100,534	100,087
Other liabilities	31,588	32,036	37,243	41,042	41,622	49,211	55,683	58,634	74,083	80,004	74,318
Total liabilities	**70,915**	**69,756**	**74,972**	**81,069**	**83,520**	**95,321**	**117,636**	**128,367**	**164,328**	**180,538**	**174,405**
Minority interests	94	139	215	293	369	382	447	402	308	432	1,940
Net worth attributable to the Crown	**27,918**	**39,456**	**54,025**	**83,678**	**96,458**	**105,132**	**99,068**	**94,586**	**80,579**	**59,348**	**68,071**
Debt Indicators											
Net debt	24,531	23,858	19,879	16,163	13,380	10,258	17,119	26,738	40,128	50,671	55,835
Gross debt	36,617	36,017	35,478	33,903	30,647	31,390	43,356	53,591	72,420	79,635	77,984

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Historical Financial Information (continued)

Year ended 30 June as % of GDP	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual
Nominal GDP (revised)	135,673	146,350	155,381	163,291	173,288	185,729	185,476	191,745	200,294	208,394	212,701
Statement of financial performance											
Core Crown tax revenue	29.9%	29.6%	30.5%	31.2%	30.9%	30.6%	29.5%	26.5%	25.7%	26.4%	27.6%
Core Crown other revenue	2.2%	2.0%	2.3%	2.9%	2.7%	2.7%	2.6%	2.9%	3.0%	2.6%	2.6%
Core Crown revenue	32.0%	31.6%	32.9%	34.1%	33.6%	33.3%	32.1%	29.3%	28.7%	29.1%	30.2%
Crown entities, SOE and elimination revenue	9.7%	8.9%	9.2%	9.6%	9.5%	10.6%	10.8%	9.7%	12.0%	11.0%	10.6%
Total Crown revenue	**41.7%**	**40.5%**	**42.1%**	**43.7%**	**43.0%**	**43.9%**	**42.9%**	**39.0%**	**40.7%**	**40.1%**	**40.7%**
Social security and welfare	10.3%	9.7%	9.4%	9.6%	9.7%	9.6%	10.4%	11.0%	11.0%	10.6%	10.7%
Health	5.5%	5.5%	5.7%	5.8%	6.0%	6.1%	6.7%	6.8%	6.9%	6.8%	6.8%
Education	5.2%	5.2%	5.1%	6.1%	5.3%	5.1%	6.2%	6.1%	5.8%	5.6%	5.9%
Core government services	1.6%	1.4%	1.7%	1.5%	2.8%	1.8%	2.9%	1.6%	2.8%	2.6%	2.0%
Other core Crown expenses	6.9%	6.7%	7.0%	7.2%	7.4%	8.0%	8.4%	7.8%	8.7%	7.6%	7.6%
Core Crown expenses	29.4%	28.6%	28.9%	30.2%	31.2%	30.7%	34.5%	33.4%	35.2%	33.1%	33.1%
Crown entities, SOE and elimination expenses	9.1%	8.1%	8.6%	9.2%	8.5%	10.1%	10.5%	8.9%	14.7%	11.3%	9.7%
Total Crown expenses	**38.5%**	**36.7%**	**37.5%**	**39.4%**	**39.7%**	**40.8%**	**45.0%**	**42.3%**	**49.9%**	**44.5%**	**42.8%**
OBEGAL	**3.2%**	**3.8%**	**4.6%**	**4.3%**	**3.4%**	**3.0%**	**-2.1%**	**-3.3%**	**-9.2%**	**-4.4%**	**-2.1%**
Gains/(losses)	-2.0%	1.2%	-0.7%	1.5%	1.2%	-1.8%	-3.6%	0.9%	2.5%	-2.7%	5.3%
Operating balance	**1.2%**	**5.0%**	**3.8%**	**5.8%**	**4.6%**	**1.3%**	**-5.7%**	**-2.4%**	**-6.7%**	**-7.1%**	**3.3%**
Statement of financial position											
Property, plant and equipment	38.8%	39.6%	43.4%	54.6%	55.2%	55.6%	59.4%	59.1%	57.3%	52.1%	51.6%
Financial assets and sovereign receivables	20.5%	22.3%	27.0%	40.7%	42.5%	45.8%	50.3%	50.1%	57.6%	55.7%	55.8%
Other assets	13.6%	12.8%	12.7%	5.8%	6.4%	6.7%	7.4%	7.3%	7.5%	7.5%	7.4%
Total assets	**72.9%**	**74.7%**	**83.2%**	**101.1%**	**104.1%**	**108.1%**	**117.1%**	**116.5%**	**122.4%**	**115.3%**	**114.9%**
Borrowings	29.0%	25.8%	24.3%	24.5%	24.2%	24.8%	33.4%	36.4%	45.1%	48.2%	47.1%
Other liabilities	23.3%	21.9%	24.0%	25.1%	24.0%	26.5%	30.0%	30.6%	37.0%	38.4%	34.9%
Total liabilities	**52.3%**	**47.7%**	**48.3%**	**49.6%**	**48.2%**	**51.3%**	**63.4%**	**66.9%**	**82.0%**	**86.6%**	**82.0%**
Minority interests	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.9%
Net worth attributable to the Crown	**20.6%**	**27.0%**	**34.8%**	**51.2%**	**55.7%**	**56.6%**	**53.4%**	**49.3%**	**40.2%**	**28.5%**	**32.0%**
Debt Indicators											
Net debt	18.1%	16.3%	12.8%	9.9%	7.7%	5.5%	9.2%	13.9%	20.0%	24.3%	26.3%
Gross debt	27.0%	24.6%	22.8%	20.8%	17.7%	16.9%	23.4%	27.9%	36.2%	38.2%	36.7%

INDEPENDENT REPORT OF THE AUDITOR-GENERAL

OFFICE OF THE AUDITOR-GENERAL
Te Mana Arotake

To the Readers of the Financial Statements of the Government of New Zealand for the Year Ended 30 June 2013

I have audited the financial statements of the Government of New Zealand (the Government) for the year ended 30 June 2013 using my staff, resources and appointed auditors and their staff.

The financial statements of the Government on pages 30 to 172 comprise:

- The annual financial statements that include the statement of financial position as at 30 June 2013, the statement of financial performance, analysis of expenses by functional classification, statement of comprehensive income, statement of changes in net worth and statement of cash flows for the year ended on that date, a statement of segments and the notes to the financial statements that include accounting policies, a statement of borrowings in note 24, and other explanatory information; and
- The statement of unappropriated expenditure, statement of expenses or capital expenditure incurred in emergencies and statement of trust money.

Opinion

In my opinion, the financial statements of the Government on pages 30 to 172:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Government's:
  - financial position as at 30 June 2013;
  - financial performance and cash flows for the year ended on that date; and
  - borrowings as at 30 June 2013, and unappropriated expenditure, expenses or capital expenditure incurred in emergencies, and trust monies managed by the Government, for the year ended on that date.

My audit was completed on 30 September 2013. This is the date at which my opinion is expressed.

The basis of my opinion is explained below. In addition, I outline the responsibilities of the Treasury and the Minister of Finance, and my responsibilities, and I explain my independence.

Basis of opinion

Using my staff and appointed auditors and their staff, I have carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require ethical requirements to be complied with. They also require me to plan and carry out the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that in my judgement are likely to influence readers' overall understanding of the financial statements. If material misstatements had been found that were not corrected, I would have referred to them in my opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgements of my staff and appointed auditors and their staff. Also the procedures depend on my judgement, including my assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments I consider internal control relevant to the Treasury's preparation of the financial statements that fairly reflect the matters to which they relate. I consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

My staff and appointed auditors and their staff did not examine every transaction. Therefore, I do not guarantee complete accuracy of the financial statements. Also, I did not evaluate the security and controls over electronic publication of the financial statements of the Government.

I have obtained all the information and explanations I have required and I believe I have obtained sufficient and appropriate audit evidence to provide a basis for my audit opinion.

Responsibilities of the Treasury and the Minister of Finance

The Treasury is responsible for preparing financial statements for the Government that:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Government's financial position, financial performance and cash flows; and
- fairly reflect the Government's borrowings, unappropriated expenditure, expenses or capital expenditure incurred in emergencies, and trust money.

The Treasury is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Treasury is also responsible for the publication of the financial statements of the Government, whether in printed or electronic form.

The Minister of Finance is responsible for forming an opinion that the financial statements fairly reflect the financial position and financial performance of the Government.

The responsibilities of the Treasury and the Minister of Finance arise from the Public Finance Act 1989.

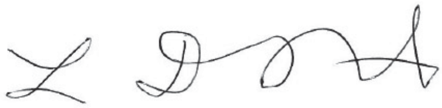
Responsibilities of the Auditor

I am responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on my audit. My responsibility arises from section 15 of the Public Audit Act 2001 and section 30 of the Public Finance Act 1989.

Independence

While carrying out this audit, my appointed auditors and their staff followed my independence requirements, which incorporate the independence requirements of the External Reporting Board.

As an Officer of Parliament, I am constitutionally and operationally independent of the Government and in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in the Government.



Lyn Provost
Controller and Auditor-General
Wellington, New Zealand