

# Financial Statements of the Government of New Zealand

for the year ended 30 June 2013

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# Contents

<b>Ministerial Statement</b>	<b>1</b>
<b>Statement of Responsibility</b>	<b>2</b>
<b>Commentary</b>	<b>3</b>
Fiscal Overview	4
Introduction	6
At a Glance	6
Summary	7
Partial Sale of Shares in Mighty River Power	9
Revenue	10
Expenses	12
Canterbury Earthquake Recovery	14
Operating Balance	15
Debt	17
Net Worth Attributable to the Crown	19
Solid Energy	20
Sensitivities and Risks to the Crown Balance Sheet	22
Historical Financial Information	23
<b>Independent Report of the Auditor-General</b>	<b>25</b>
<b>Audited Financial Statements</b>	<b>29</b>
Statement of Financial Performance	30
Analysis of Expenses by Functional Classification	31
Statement of Comprehensive Income	32
Statement of Cash Flows	33
Statement of Changes in Net Worth	36
Statement of Financial Position	37
Statement of Segments	38
Notes to the Financial Statements	40
Note 1: Summary of Accounting Policies	40
Note 2: Sovereign Revenue and Receipts	54
Note 3: Sales of Goods and Services	56
Note 4: Interest Revenue and Dividends	56
Note 5: Other Revenue	57
Note 6: Transfer Payments and Subsidies	57
Note 7: Personnel Expenses	58
Note 8: Depreciation and Amortisation	58
Note 9: Other Operating Expenses	59
Note 10: Interest Expenses	60
Note 11: Insurance Expenses	60
Note 12: Gains and Losses on Financial Instruments	64
Note 13: Gains and Losses on Non-Financial Instruments	65
Note 14: Receivables	66
Note 15: Marketable securities, deposits and derivatives in gain	71
Note 16: Share Investments	71
Note 17: Advances	72
Note 18: Inventory	76

Note 19: Other Assets	76
Note 20: Property, Plant and Equipment	77
Note 21: Equity Accounted Investments	87
Note 22: Intangible Assets and Goodwill	88
Note 23: Payables	92
Note 24: Borrowings	93
Note 25: Insurance Liabilities	97
Note 26: Retirement Plan Liabilities	109
Note 27: Provisions	113
Note 28: Net Worth	118
Note 29: Capital Objectives and Fiscal Policy	121
Note 30: Canterbury Earthquakes	125
Note 31: Commitments	130
Note 32: Contingent Liabilities and Contingent Assets	131
Note 33: Financial Instruments	141
Note 34: Related Parties	161
Note 35: Partial Sale of Mighty River Power	162
Note 36: Subsequent Events	164
<b>Supplementary Statements</b>	<b>165</b>
Statement of Unappropriated Expenditure	165
Statement of Expenses or Capital Expenditure Incurred in Emergencies	168
Statement of Trust Money	169
<b>Additional Financial Information</b>	<b>173</b>
Fiscal Indicator Analysis	174
Core Crown Residual Cash	175
Debt	176
Information on State-owned Enterprises and Crown Entities	177
Government Reporting Entity as at 30 June 2013	180
<b>Glossary of Terms</b>	<b>182</b>

## 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 Makhoul**  
**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

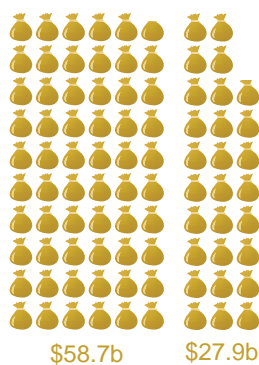
<h3 style="margin: 0;">Operating revenue</h3> <p style="margin: 5px 0 0 0;">Ensure sufficient operating revenues to meet the operating balance objective</p>	<h3 style="margin: 0;">Operating expenses</h3> <p style="margin: 5px 0 0 0;">To control the growth in spending so that over time core Crown expenses are reduced to below 30% of GDP</p>	<h3 style="margin: 0;">Operating balance</h3> <p style="margin: 5px 0 0 0;">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</p>
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### Total Crown

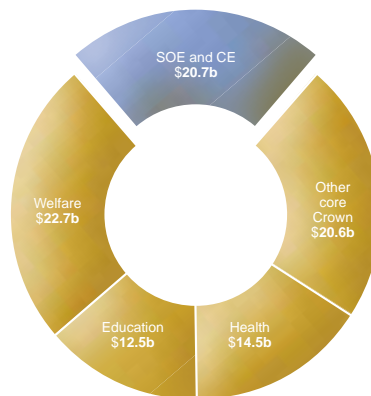
The difference between total Crown revenue and expenses gives us the operating balance before gains and losses (OBEGAL)



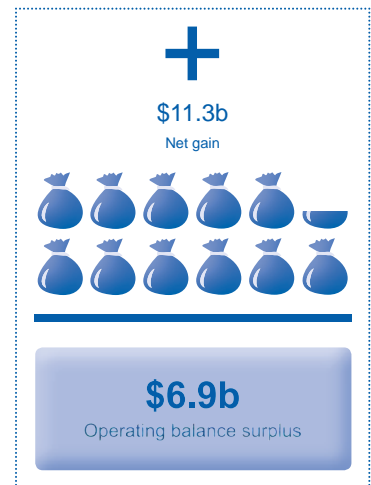
FINANCIAL RESULTS



Core Crown tax revenue (27.6% of GDP)  
Other revenue



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



WHERE TO FIND THESE IN THE  
FINANCIAL STATEMENTS

<h4 style="margin: 0;">Fiscal strategy</h4> <ul style="list-style-type: none"> <li>■ Note 29 (pg 121)</li> </ul> <h4 style="margin: 10px 0 0 0;">Revenue</h4> <ul style="list-style-type: none"> <li>■ Tax revenue (pg 10)</li> <li>■ Other revenue (pg 11)</li> </ul>	<h4 style="margin: 0;">Expenses</h4> <ul style="list-style-type: none"> <li>■ Functional classification tables (pg 31)</li> <li>■ Detailed expense notes (pgs 57–63)</li> <li>■ SOE and Crown entities (CE) results (pg 178–179)</li> <li>■ Unappropriated expenditure (pg 165–167)</li> </ul>	<h4 style="margin: 0;">Net result</h4> <ul style="list-style-type: none"> <li>■ Operating statement (pg 30)</li> <li>■ Gains and losses notes (pgs 64–65)</li> <li>■ ACC insurance liability (pg 98–102)</li> <li>■ GSF note (pg 109–112)</li> </ul>
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FISCAL STRATEGY  
LONG-TERM OBJECTIVES

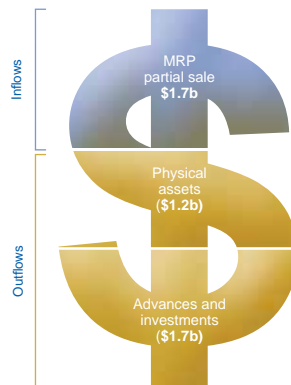
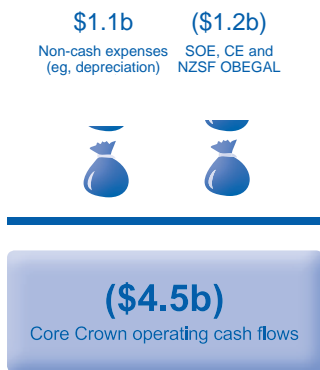
## Debt

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

Moving from total Crown accrual measure to core Crown cash measure

## Core Crown

Movement in net debt



FINANCIAL RESULTS

Core Crown investing cash flows

26.3% of GDP

### Non-cash movements

- SOE and CE results (pg 178–179)

### Other impacts on cash

- Property, plant and equipment (pg 78)
- Advances (pg 72)
- Core Crown residual cash (pg 175)
- MRP partial share sales (pg 9, 162–163)

### Debt

- Debt calculation (pg 176)
- Borrowings note (pg 93)

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

## Introduction

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

<sup>1</sup> 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).

### 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.

### ...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.

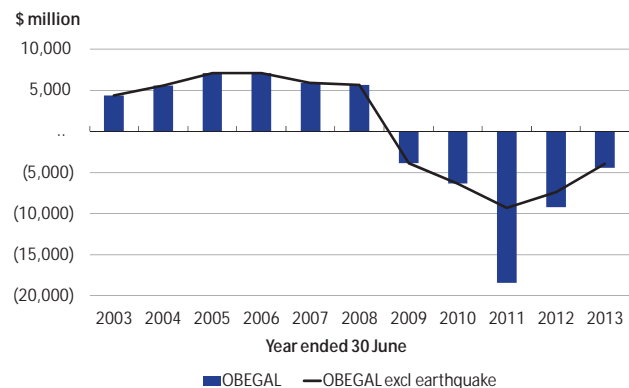
The two largest drivers of growth in core Crown expenditure were higher costs related to student loans (as loan repayments are now expected to be recovered over a longer period) and an increase in the number of recipients of NZ Superannuation (as the New Zealand population ages).

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

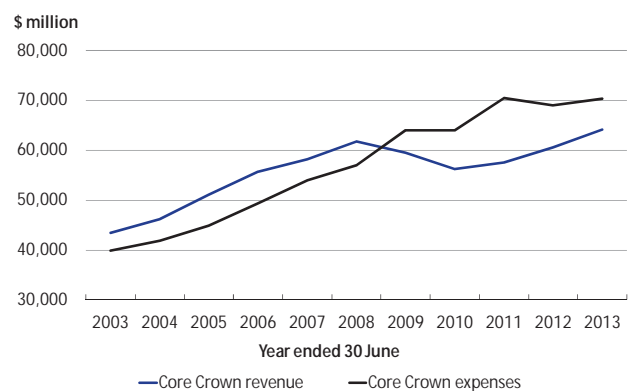
Expenses outside the core Crown (predominantly those of SOEs and Crown entities) were \$20.7 billion (\$2.9 billion less than the year before). The fall in expenses was largely owing to lower earthquake related insurance expenses (in EQC and Southern Response) as claims costs were updated to reflect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

Figure 1 – OBEGAL



Source: The Treasury

Figure 2 – Core Crown revenue and expenses



Source: The Treasury

### 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.

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

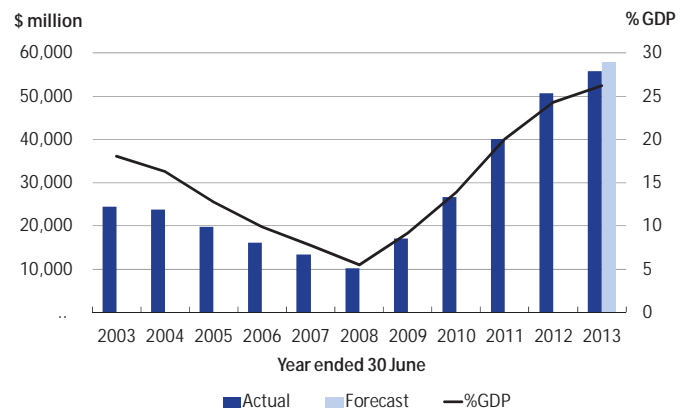
The Crown recorded its first operating balance surplus since 2008, as net gains of \$11.3 billion meant that once added to the OBEGAL deficit, the surplus was \$6.9 billion.

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.

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

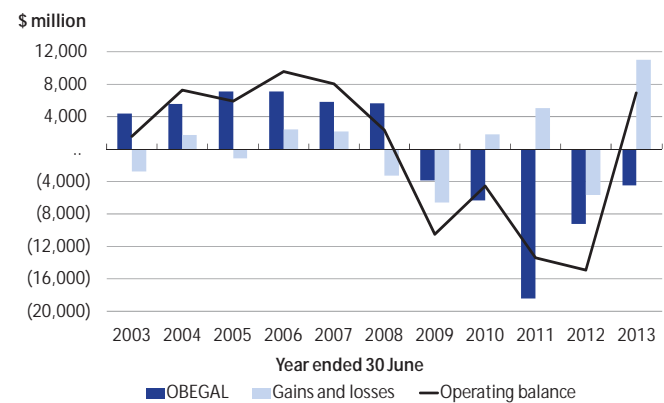
- With an operating surplus, the Crown's net worth increased for the first time since the global financial crisis. At \$68.1 billion, the net worth attributable to the Crown was \$8.7 billion higher than the previous year and stood equivalent to 32.0% of GDP (3.5% higher than last year).
- Making up 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 3 – Net debt



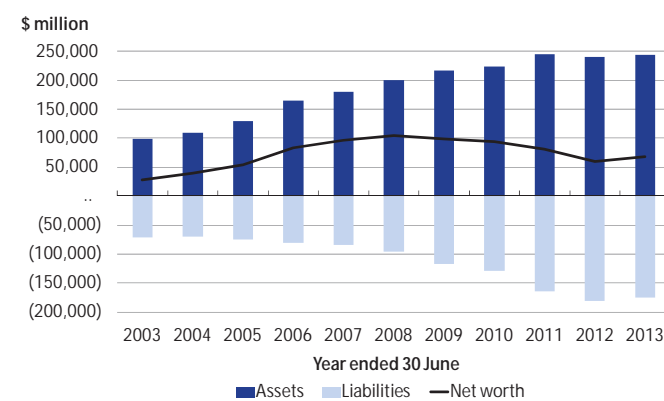
Source: The Treasury

Figure 4 – Operating balance



Source: The Treasury

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
<b>Proceeds from sale</b>	
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)
<b>Gain on partial sale</b>	<b>167</b>

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	Actual	Actual	Actual	Actual	Forecast 30 June 2012	
	2009	2010	2011	2012	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 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
<b>Total Crown revenue</b>	<b>79,506</b>	<b>74,725</b>	<b>81,563</b>	<b>83,483</b>	<b>86,655</b>	<b>86,303</b>	<b>86,463</b>
<b>% of GDP</b>							
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%
<b>Total Crown revenue</b>	<b>42.9%</b>	<b>39.0%</b>	<b>40.7%</b>	<b>40.1%</b>	<b>40.7%</b>	<b>39.6%</b>	<b>40.4%</b>

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.

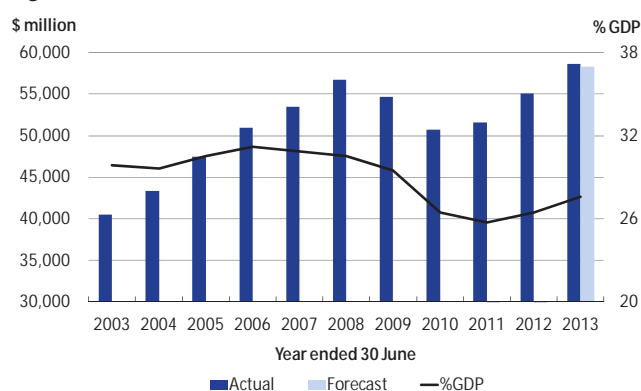
### Core Crown Tax Revenue

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<sup>2</sup>: \$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
<b>2013 core Crown tax revenue</b>	<b>58.7</b>

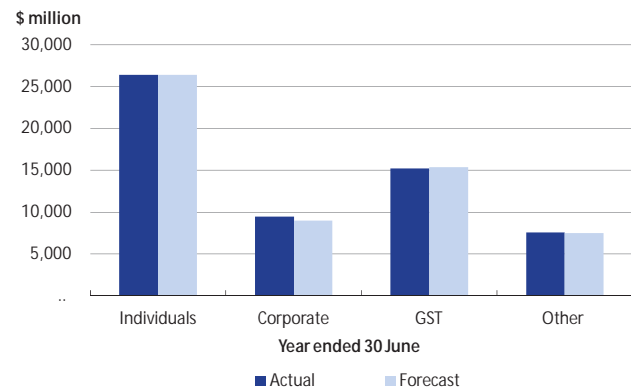
Source: The Treasury

<sup>2</sup> 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

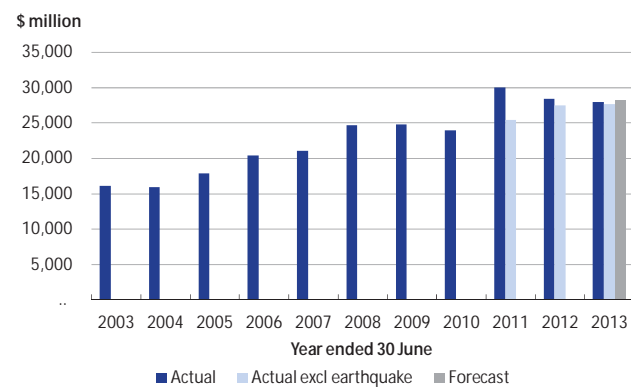
### Other Revenue

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	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Forecast 30 June 2013	
						Budget 12	Budget 13
<b>\$ million</b>							
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
<b>Core Crown expenses</b>	<b>64,002</b>	<b>64,013</b>	<b>70,450</b>	<b>69,076</b>	<b>70,306</b>	<b>73,732</b>	<b>71,649</b>
Crown entities, SOEs and eliminations	19,397	17,027	29,509	23,647	20,701	20,378	21,089
<b>Total Crown expenses</b>	<b>83,399</b>	<b>81,040</b>	<b>99,959</b>	<b>92,723</b>	<b>91,007</b>	<b>94,110</b>	<b>92,738</b>
<b>% of GDP</b>							
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%
<b>Core Crown expenses</b>	<b>34.5%</b>	<b>33.4%</b>	<b>35.2%</b>	<b>33.1%</b>	<b>33.1%</b>	<b>33.8%</b>	<b>33.5%</b>
Crown entities, SOEs and eliminations	10.5%	8.9%	14.7%	11.3%	9.7%	9.4%	9.9%
<b>Total Crown expenses</b>	<b>45.0%</b>	<b>42.3%</b>	<b>49.9%</b>	<b>44.5%</b>	<b>42.8%</b>	<b>43.2%</b>	<b>43.4%</b>

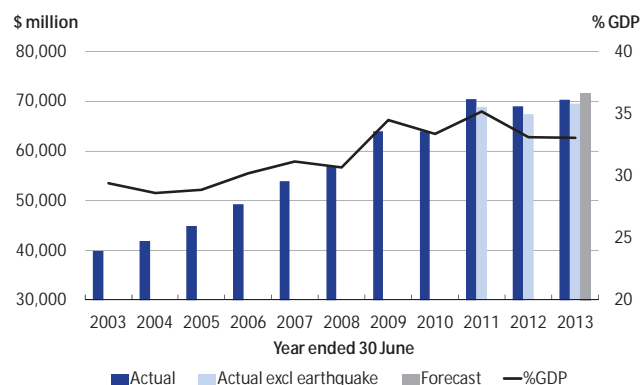
Total Crown expenses decreased for the second successive year, to be \$91.0 billion this year, \$1.7 billion less than the year earlier. The decreases were owing to a large one-off impairment of KiwiRail assets last year and a fall in earthquake costs.

### 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.

**Figure 9** – Core Crown expenses


Source: The Treasury

**Table 6** – Movement in core Crown expenses

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

Source: The Treasury



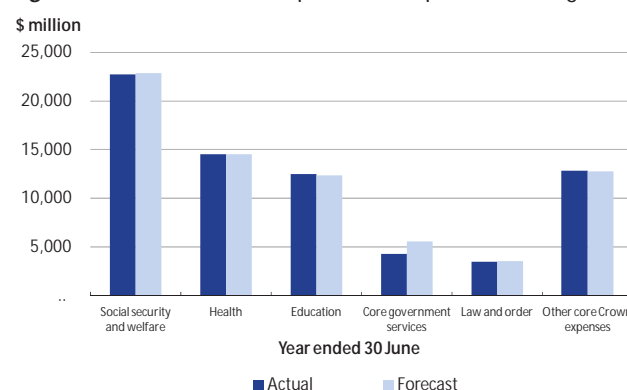
## Expenses (continued)

- 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 EOC 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		Actual	Actual	Actual	Forecast	Difference
\$million	Total	2011	2012	2013	2013	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)
<b>Canterbury earthquake recovery costs</b>	<b>3,666</b>	<b>1,593</b>	<b>1,292</b>	<b>781</b>	<b>1,786</b>	<b>(1,005)</b>
EQC (net of reinsurance proceeds)	8,026	7,471	662	(107)	(164)	57
Other Crown Entities	(217)	23	(41)	(199)	40	(239)
<b>Total Crown net earthquake costs</b>	<b>11,475</b>	<b>9,087</b>	<b>1,913</b>	<b>475</b>	<b>1,662</b>	<b>(1,187)</b>
Operating expenses	11,253	9,087	1,900	266	1,395	(1,129)
Capital expenditure	222	-	13	209	267	(58)
<b>Total Crown net earthquake costs</b>	<b>11,475</b>	<b>9,087</b>	<b>1,913</b>	<b>475</b>	<b>1,662</b>	<b>(1,187)</b>

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
<b>Total Crown OBEGAL</b>	<b>(3,893)</b>	<b>(6,315)</b>	<b>(18,396)</b>	<b>(9,240)</b>	<b>(4,414)</b>	<b>(7,897)</b>	<b>(6,285)</b>
<b>Gains and losses:</b>							
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
<b>Investment portfolios:</b>							
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) <sup>3</sup>	1,831	110	(21)	144	1,445	607	69
<b>Total Crown gains/(losses)</b>	<b>(6,612)</b>	<b>1,806</b>	<b>5,036</b>	<b>(5,657)</b>	<b>11,339</b>	<b>2,198</b>	<b>8,203</b>
<b>Total Crown operating balance</b>	<b>(10,505)</b>	<b>(4,509)</b>	<b>(13,360)</b>	<b>(14,897)</b>	<b>6,925</b>	<b>(5,699)</b>	<b>1,918</b>
<b>% of GDP</b>							
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%
<b>Total Crown Operating balance</b>	<b>(5.7)%</b>	<b>(2.4)%</b>	<b>(6.7)%</b>	<b>(7.1)%</b>	<b>3.3%</b>	<b>(2.6)%</b>	<b>0.9%</b>

### 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.

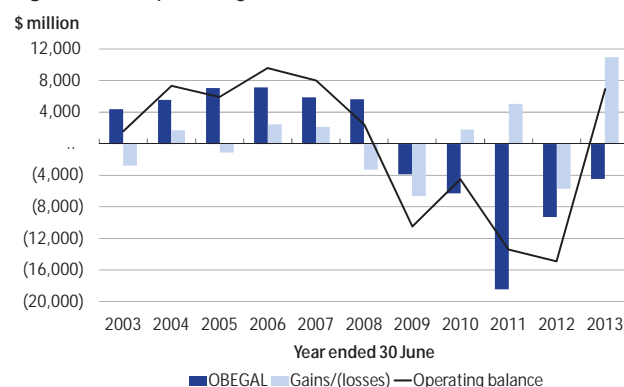
### Operating Balance

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

<sup>3</sup> 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<sup>4</sup> and Gross debt<sup>5</sup>

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).

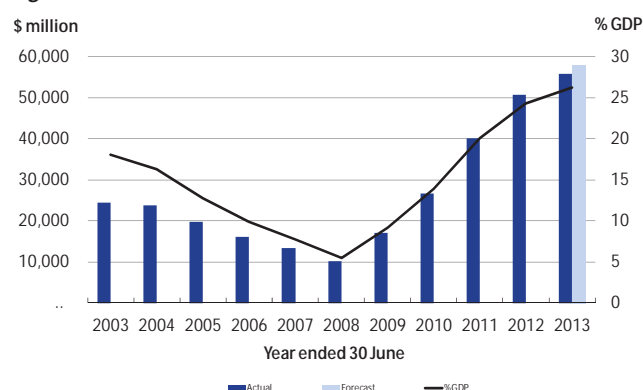
### Residual Cash

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.

- 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).

**Figure 12** – Net debt



Source: The Treasury

**Table 10** – Movements in residual cash

Year ended 30 June (\$billion)	
<b>2012 core Crown residual cash</b>	<b>(10.6)</b>
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)
<b>2013 core Crown residual cash</b>	<b>(5.7)</b>

Source: The Treasury

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

<sup>5</sup> 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:

- \$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

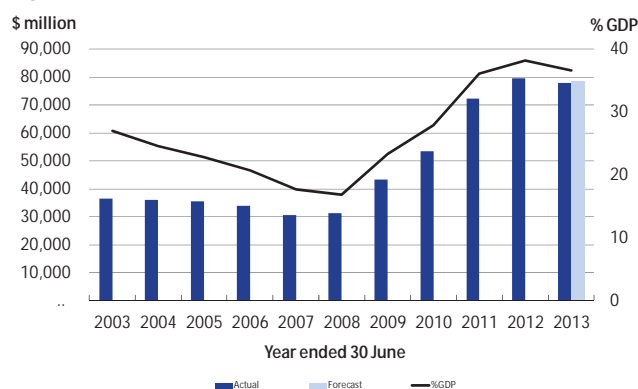
The debt programme (Table 11) during 2012/13 returned net cash proceeds from the market of \$0.1 billion. While the Crown continued to undertake a large (\$14 billion face value) bond programme, the majority of proceeds were used to fund maturing debt. In total, debt issuance raised \$15.5 billion, with \$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	Actual	Actual	Actual	Actual	Forecast 30 June 2013	
	2009	2010	2011	2012	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 <sup>6</sup>	5,782	636	(422)	2,139	(5,404)	(3,701)	(5,553)
<b>Total market debt cash flows</b>	<b>8,807</b>	<b>8,863</b>	<b>19,046</b>	<b>9,683</b>	<b>72</b>	<b>439</b>	<b>19</b>
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	-	-
<b>Total non-market debt cash flows</b>	<b>(124)</b>	<b>313</b>	<b>(658)</b>	<b>(1,071)</b>	<b>(399)</b>	<b>(499)</b>	<b>(499)</b>
<b>Total debt programme cash flows</b>	<b>8,683</b>	<b>9,176</b>	<b>18,388</b>	<b>8,612</b>	<b>(327)</b>	<b>(60)</b>	<b>(480)</b>

**Figure 13** – Gross debt



Source: The Treasury

<sup>6</sup> Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper

## Net Worth Attributable to the Crown

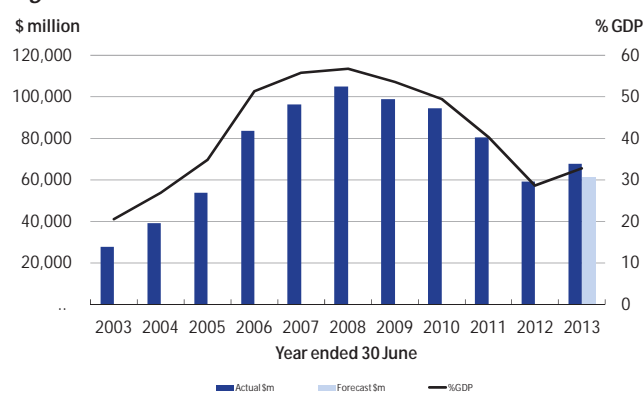
Table 12 – Movement in net worth attributable to the Crown

Year ended 30 June	Actual	Actual	Actual	Actual	Actual	Forecast		
						2009	2010	2011
<b>\$ million</b>								
<b>Opening net worth</b>	<b>105,132</b>	<b>99,068</b>	<b>94,586</b>	<b>80,579</b>	<b>59,348</b>		<b>70,303</b>	<b>59,348</b>
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
<b>Closing net worth</b>	<b>99,068</b>	<b>94,586</b>	<b>80,579</b>	<b>59,348</b>	<b>68,071</b>		<b>64,560</b>	<b>61,476</b>

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).

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.

Figure 14 – Net worth attributable to the Crown



Source: The Treasury

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	Actual	Actual	Actual	Actual	Actual	Forecast		
						2009	2010	2011
<b>\$million</b>								
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
<b>Total assets</b>	<b>217,151</b>	<b>223,355</b>	<b>245,215</b>	<b>240,318</b>	<b>244,416</b>		<b>244,287</b>	<b>240,685</b>
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
<b>Total liabilities</b>	<b>117,636</b>	<b>128,367</b>	<b>164,328</b>	<b>180,538</b>	<b>174,405</b>		<b>178,079</b>	<b>177,415</b>
<b>Net worth</b>	<b>99,515</b>	<b>94,988</b>	<b>80,887</b>	<b>59,780</b>	<b>70,011</b>		<b>66,208</b>	<b>63,270</b>
Minority interests	(447)	(402)	(308)	(432)	(1,940)		(1,648)	(1,794)
<b>Net worth attributable to the Crown</b>	<b>99,068</b>	<b>94,586</b>	<b>80,579</b>	<b>59,348</b>	<b>68,071</b>		<b>64,560</b>	<b>61,476</b>

## Net Worth Attributable to the Crown (continued)

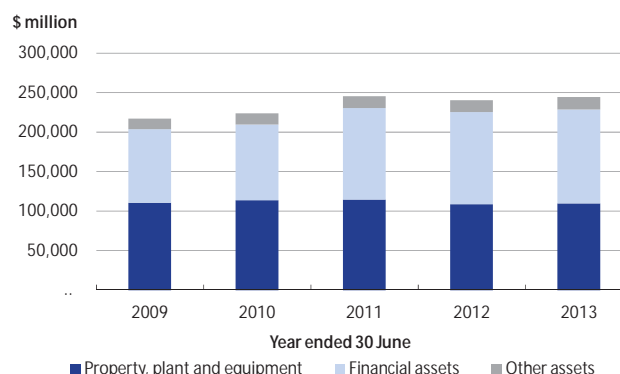
### Assets

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).

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.

Figure 15 – Total Crown assets



Source: The Treasury

### 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.

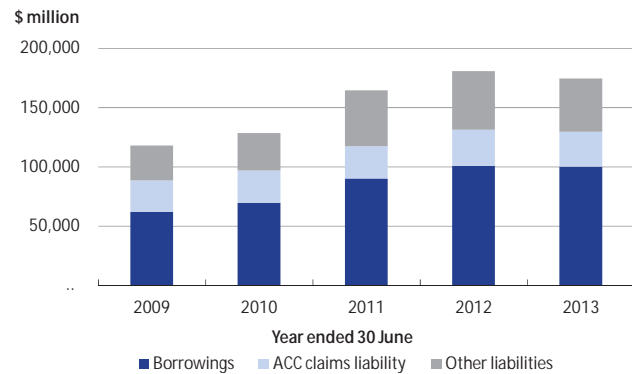
ACC’s insurance liability decreased this year from \$30.6 billion to \$29.4 billion, related in part to favourable claims experience and changes in discount rates (as discussed on page 16).

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.

Figure 16 – Total Crown liabilities



Source: The Treasury

## 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 \$million	Discount rate		Inflation rate	
	+ 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	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
\$ million	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
<b>Statement of financial performance</b>											
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
<b>Total Crown revenue</b>	<b>56,611</b>	<b>59,271</b>	<b>65,367</b>	<b>71,425</b>	<b>74,589</b>	<b>81,479</b>	<b>79,506</b>	<b>74,725</b>	<b>81,563</b>	<b>83,483</b>	<b>86,655</b>
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
<b>Core Crown expenses</b>	<b>39,897</b>	<b>41,882</b>	<b>44,895</b>	<b>49,320</b>	<b>54,004</b>	<b>56,997</b>	<b>64,002</b>	<b>64,013</b>	<b>70,450</b>	<b>69,076</b>	<b>70,306</b>
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
<b>Total Crown expenses</b>	<b>52,245</b>	<b>53,698</b>	<b>58,292</b>	<b>64,334</b>	<b>68,729</b>	<b>75,842</b>	<b>83,399</b>	<b>81,040</b>	<b>99,959</b>	<b>92,723</b>	<b>91,007</b>
<b>OBEGAL</b>	<b>4,366</b>	<b>5,573</b>	<b>7,075</b>	<b>7,091</b>	<b>5,860</b>	<b>5,637</b>	<b>(3,893)</b>	<b>(6,315)</b>	<b>(18,396)</b>	<b>(9,240)</b>	<b>(4,414)</b>
Gains/(losses)	(2,745)	1,736	(1,144)	2,451	2,162	(3,253)	(6,612)	1,806	5,036	(5,657)	11,339
<b>Operating balance</b>	<b>1,621</b>	<b>7,309</b>	<b>5,931</b>	<b>9,542</b>	<b>8,022</b>	<b>2,384</b>	<b>(10,505)</b>	<b>(4,509)</b>	<b>(13,360)</b>	<b>(14,897)</b>	<b>6,925</b>
<b>Statement of financial position</b>											
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
<b>Total assets</b>	<b>98,927</b>	<b>109,351</b>	<b>129,212</b>	<b>165,040</b>	<b>180,347</b>	<b>200,835</b>	<b>217,151</b>	<b>223,355</b>	<b>245,215</b>	<b>240,318</b>	<b>244,416</b>
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
<b>Total liabilities</b>	<b>70,915</b>	<b>69,756</b>	<b>74,972</b>	<b>81,069</b>	<b>83,520</b>	<b>95,321</b>	<b>117,636</b>	<b>128,367</b>	<b>164,328</b>	<b>180,538</b>	<b>174,405</b>
Minority interests	94	139	215	293	369	382	447	402	308	432	1,940
<b>Net worth attributable to the Crown</b>	<b>27,918</b>	<b>39,456</b>	<b>54,025</b>	<b>83,678</b>	<b>96,458</b>	<b>105,132</b>	<b>99,068</b>	<b>94,586</b>	<b>80,579</b>	<b>59,348</b>	<b>68,071</b>
<b>Debt Indicators</b>											
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

## 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
<b>Nominal GDP (revised)</b>	135,673	146,350	155,381	163,291	173,288	185,729	185,476	191,745	200,294	208,394	212,701
<b>Statement of financial performance</b>											
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%
<b>Total Crown revenue</b>	<b>41.7%</b>	<b>40.5%</b>	<b>42.1%</b>	<b>43.7%</b>	<b>43.0%</b>	<b>43.9%</b>	<b>42.9%</b>	<b>39.0%</b>	<b>40.7%</b>	<b>40.1%</b>	<b>40.7%</b>
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%
<b>Core Crown expenses</b>	<b>29.4%</b>	<b>28.6%</b>	<b>28.9%</b>	<b>30.2%</b>	<b>31.2%</b>	<b>30.7%</b>	<b>34.5%</b>	<b>33.4%</b>	<b>35.2%</b>	<b>33.1%</b>	<b>33.1%</b>
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%
<b>Total Crown expenses</b>	<b>38.5%</b>	<b>36.7%</b>	<b>37.5%</b>	<b>39.4%</b>	<b>39.7%</b>	<b>40.8%</b>	<b>45.0%</b>	<b>42.3%</b>	<b>49.9%</b>	<b>44.5%</b>	<b>42.8%</b>
<b>OBEGAL</b>	<b>3.2%</b>	<b>3.8%</b>	<b>4.6%</b>	<b>4.3%</b>	<b>3.4%</b>	<b>3.0%</b>	<b>-2.1%</b>	<b>-3.3%</b>	<b>-9.2%</b>	<b>-4.4%</b>	<b>-2.1%</b>
Gains/(losses)	-2.0%	1.2%	-0.7%	1.5%	1.2%	-1.8%	-3.6%	0.9%	2.5%	-2.7%	5.3%
<b>Operating balance</b>	<b>1.2%</b>	<b>5.0%</b>	<b>3.8%</b>	<b>5.8%</b>	<b>4.6%</b>	<b>1.3%</b>	<b>-5.7%</b>	<b>-2.4%</b>	<b>-6.7%</b>	<b>-7.1%</b>	<b>3.3%</b>
<b>Statement of financial position</b>											
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%
<b>Total assets</b>	<b>72.9%</b>	<b>74.7%</b>	<b>83.2%</b>	<b>101.1%</b>	<b>104.1%</b>	<b>108.1%</b>	<b>117.1%</b>	<b>116.5%</b>	<b>122.4%</b>	<b>115.3%</b>	<b>114.9%</b>
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%
<b>Total liabilities</b>	<b>52.3%</b>	<b>47.7%</b>	<b>48.3%</b>	<b>49.6%</b>	<b>48.2%</b>	<b>51.3%</b>	<b>63.4%</b>	<b>66.9%</b>	<b>82.0%</b>	<b>86.6%</b>	<b>82.0%</b>
Minority interests	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.9%
<b>Net worth attributable to the Crown</b>	<b>20.6%</b>	<b>27.0%</b>	<b>34.8%</b>	<b>51.2%</b>	<b>55.7%</b>	<b>56.6%</b>	<b>53.4%</b>	<b>49.3%</b>	<b>40.2%</b>	<b>28.5%</b>	<b>32.0%</b>
<b>Debt Indicators</b>											
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



## 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.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost  
Controller and Auditor-General  
Wellington, New Zealand





# AUDITED FINANCIAL STATEMENTS

## Statement of Financial Performance

for the year ended 30 June 2013

Forecast 30 June 2013			Actual		
Budget 12	Budget 13		30 June 2013	30 June 2012	
\$m	\$m	Note	\$m	\$m	
<b>Revenue</b>					
57,663	57,839	Taxation revenue	2	58,134	54,665
5,446	5,126	Other sovereign revenue	2	5,172	5,130
<b>63,109</b>	<b>62,965</b>	<b>Total sovereign revenue</b>		<b>63,306</b>	<b>59,795</b>
16,337	16,809	Sales of goods and services	3	16,713	16,785
3,376	3,051	Interest revenue and dividends	4	2,939	2,763
3,481	3,638	Other revenue	5	3,697	4,140
<b>23,194</b>	<b>23,498</b>	<b>Total revenue earned through operations</b>		<b>23,349</b>	<b>23,688</b>
<b>86,303</b>	<b>86,463</b>	<b>Total revenue (excluding gains)</b>		<b>86,655</b>	<b>83,483</b>
<b>Expenses</b>					
23,218	22,918	Transfer payments and subsidies	6	22,708	22,354
19,676	20,156	Personnel expenses	7	19,935	19,475
4,687	4,858	Depreciation and amortisation	8	4,812	6,350
38,929	37,628	Other operating expenses	9	36,163	35,678
4,663	4,301	Interest expenses	10	4,358	4,290
3,289	3,165	Insurance expenses	11	3,031	4,576
348	42	Forecast new operating spending		-	-
(700)	(330)	Top-down expense adjustment		-	-
<b>94,110</b>	<b>92,738</b>	<b>Total expenses (excluding losses)</b>		<b>91,007</b>	<b>92,723</b>
(90)	(10)	Minority interests share of operating balance before gains/losses	28	(62)	-
<b>(7,897)</b>	<b>(6,285)</b>	<b>Operating balance before gains/(losses)</b>		<b>(4,414)</b>	<b>(9,240)</b>
1,735	5,859	Net gains/(losses) on financial instruments	12	7,270	692
201	2,088	Net gains/(losses) on non-financial instruments	13	3,706	(6,526)
<b>1,936</b>	<b>7,947</b>	<b>Total gains/(losses)</b>		<b>10,976</b>	<b>(5,834)</b>
262	256	Net surplus from associates and joint ventures		395	233
-	-	Minority interests share of net gains/losses	28	(32)	(56)
<b>(5,699)</b>	<b>1,918</b>	<b>Operating balance (excluding minority interest)</b>		<b>6,925</b>	<b>(14,897)</b>
<b>Consisting of:</b>					
(5,609)	1,928	Operating balance (including minority interest)		7,019	(14,841)
90	10	Minority interests share of operating balance		94	56
<b>(5,699)</b>	<b>1,918</b>	<b>Operating balance (excluding minority interest)</b>		<b>6,925</b>	<b>(14,897)</b>

The accompanying notes (including accounting policies) are an integral part of these statements.

## Analysis of Expenses by Functional Classification

for the year ended 30 June 2013

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
		<b>Total Crown expenses</b>		
26,912	26,439	Social security and welfare	26,268	25,457
340	287	GSF pension expenses	286	197
14,013	13,978	Health	13,856	13,650
13,158	13,112	Education	13,366	12,401
6,233	5,300	Core government services	3,960	5,057
3,779	3,732	Law and order	3,670	3,592
1,973	1,780	Defence	1,766	1,693
8,723	9,123	Transport and communications	9,052	10,237
8,321	8,647	Economic and industrial services	8,375	10,441
2,315	2,475	Heritage, culture and recreation	2,351	2,412
1,738	1,641	Primary services	1,579	1,479
1,090	1,037	Housing and community development	989	608
713	517	Environmental Protection	528	784
491	657	Other	603	425
4,663	4,301	Finance costs	4,358	4,290
348	42	Forecast new operating spending	-	-
(700)	(330)	Top-down expense adjustment	-	-
<b>94,110</b>	<b>92,738</b>	<b>Total Crown expenses (excluding losses)</b>	<b>91,007</b>	<b>92,723</b>

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and State-owned enterprises.

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
		<b>Core Crown expenses</b>		
23,239	22,893	Social security and welfare	22,741	22,028
329	278	GSF pension expenses	278	192
14,745	14,526	Health	14,498	14,160
12,387	12,355	Education	12,504	11,654
6,537	5,572	Core government services	4,294	5,428
3,558	3,511	Law and order	3,456	3,403
2,016	1,822	Defence	1,804	1,736
2,174	2,352	Transport and communications	2,255	2,232
2,134	2,052	Economic and industrial services	1,978	2,157
883	842	Heritage, culture and recreation	804	901
819	684	Primary services	659	635
304	317	Housing and community development <sup>1</sup>	283	(149)
702	519	Environmental Protection	530	763
491	657	Other	603	425
3,766	3,557	Finance costs	3,619	3,511
348	42	Forecast new operating spending	-	-
(700)	(330)	Top-down expense adjustment	-	-
<b>73,732</b>	<b>71,649</b>	<b>Total core Crown expenses (excluding losses)</b>	<b>70,306</b>	<b>69,076</b>

1. Housing and community development expenses for the year ended 30 June 2012 include a reversal of \$408 million in relation to the weathertight services financial assistance package.

The accompanying notes (including accounting policies) are an integral part of these statements.

## Statement of Comprehensive Income

*for the year ended 30 June 2013*

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
(5,609)	1,928	Operating balance (including minority interest)	7,019	(14,841)
		<b>Other comprehensive income</b>		
-	(29)	Revaluation of physical assets	1,367	(6,461)
-	-	Share of associates revaluation of physical assets	-	-
(3)	74	Net change in hedging instruments entered into for cash flow hedges	280	143
55	4	Foreign currency translation differences for foreign operations	-	(2)
10	5	Valuation gains/(losses) on investments available for sale taken to reserves	36	13
2	(19)	Other movements	7	1
<u>64</u>	<u>35</u>	<b>Total other comprehensive income</b>	<u>1,690</u>	<u>(6,306)</u>
<u>(5,545)</u>	<u>1,963</u>	<b>Total comprehensive income</b>	<u>8,709</u>	<u>(21,147)</u>
		<b>Attributable to:</b>		
90	10	- minority interests	153	84
<u>(5,635)</u>	<u>1,953</u>	- the Crown	<u>8,556</u>	<u>(21,231)</u>
<u>(5,545)</u>	<u>1,963</u>	<b>Total comprehensive income</b>	<u>8,709</u>	<u>(21,147)</u>

*The accompanying notes (including accounting policies) are an integral part of these statements.*

## Statement of Cash Flows

for the year ended 30 June 2013

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June	30 June
\$m	\$m	Note	2013	2012
			\$m	\$m
<b>Cash Flows From Operations</b>				
<b>Cash was provided from</b>				
56,856	56,738		56,413	53,582
4,729	4,758	2	4,806	4,890
16,369	16,926		16,651	16,812
3,106	2,821		2,694	2,603
7,172	5,773		5,933	4,395
<b>88,232</b>	<b>87,016</b>		<b>86,497</b>	<b>82,282</b>
<b>Cash was disbursed to</b>				
23,284	22,937		22,780	22,840
62,535	60,608		58,450	59,107
4,797	4,366		4,369	3,954
348	42		-	-
(700)	(330)		-	-
<b>90,264</b>	<b>87,623</b>		<b>85,599</b>	<b>85,901</b>
<b>(2,032)</b>	<b>(607)</b>		<b>898</b>	<b>(3,619)</b>
<b>Cash Flows From Investing Activities</b>				
<b>Cash was provided from</b>				
649	426		525	596
83,088	82,157		75,722	61,477
-	4		7	1
1,341	1,496		1,603	1,845
1,500	1,500	35	1,547	-
33	241		287	181
<b>86,611</b>	<b>85,824</b>		<b>79,691</b>	<b>64,100</b>
<b>Cash was disbursed to</b>				
7,688	6,349		5,694	6,362
75,608	73,176		69,380	61,053
515	548		588	568
3,181	2,701		3,008	3,129
23	17		7	296
194	2		-	-
(100)	(280)		-	-
<b>87,109</b>	<b>82,513</b>		<b>78,677</b>	<b>71,408</b>
<b>(498)</b>	<b>3,311</b>		<b>1,014</b>	<b>(7,308)</b>
<b>(2,530)</b>	<b>2,704</b>		<b>1,912</b>	<b>(10,927)</b>

The accompanying notes (including accounting policies) are an integral part of these statements.

## Statement of Cash Flows (continued)

for the year ended 30 June 2013

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
(2,530)	2,704	Net cash flows from operating and investing activities	1,912	(10,927)
<b>Cash Flows From Financing Activities</b>				
<b>Cash was provided from</b>				
144	264	Issue of circulating currency	234	203
14,122	15,554	Issue of Government bonds	15,458	15,155
182	547	Issue of foreign currency borrowings	447	1,004
5,691	9,074	Issue of other New Zealand dollar borrowings	10,278	14,196
<b>20,139</b>	<b>25,439</b>	<b>Total cash provided from financing activities</b>	<b>26,417</b>	<b>30,558</b>
<b>Cash was disbursed to</b>				
10,201	9,982	Repayment of Government bonds	9,982	7,601
805	2,874	Repayment of foreign currency borrowings	3,373	7,426
7,125	9,337	Repayment of other New Zealand dollar borrowings	10,912	3,843
50	-	Dividends paid to minority interests	20	7
<b>18,181</b>	<b>22,193</b>	<b>Total cash disbursed to financing activities</b>	<b>24,287</b>	<b>18,877</b>
<b>1,958</b>	<b>3,246</b>	<b>Net cash flows from financing activities</b>	<b>2,130</b>	<b>11,681</b>
(572)	5,950	Net movement in cash	4,042	754
14,899	10,686	Opening cash balance	10,686	9,801
-	(144)	Foreign-exchange gains/(losses) on opening cash	196	131
<b>14,327</b>	<b>16,492</b>	<b>Closing cash balance</b>	<b>14,924</b>	<b>10,686</b>

The accompanying notes (including accounting policies) are an integral part of these statements.

## Statement of Cash Flows (continued)

for the year ended 30 June 2013

Forecast		Actual	
30 June 2013		30 June	30 June
Budget 12	Budget 13	2013	2012
\$m	\$m	\$m	\$m
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>			
(2,032)	(607)	898	(3,619)
<b>Net Cash Flows from Operations</b>			
<i>Items included in the operating balance but not in net cash flows from operations</i>			
<b>Gains/(losses)</b>			
1,735	5,859	7,270	692
201	2,088	3,706	(6,526)
<b>1,936</b>	<b>7,947</b>	<b>10,976</b>	<b>(5,834)</b>
<b>Total gains/(losses)</b>			
<b>Other Non-cash Items in Operating Balance</b>			
(4,687)	(4,858)	(4,812)	(6,350)
(748)	(751)	(684)	(850)
181	15	(497)	248
405	395	385	512
2,985	1,222	1,106	1,070
262	258	299	232
<b>(1,602)</b>	<b>(3,719)</b>	<b>(4,203)</b>	<b>(5,138)</b>
<b>Total other non-cash items in operating balance</b>			
<b>Movements in Working Capital</b>			
(3,767)	(1,381)	(1,302)	(242)
404	295	257	(175)
59	14	(94)	(74)
(44)	64	32	32
32	132	(2)	(38)
(685)	(827)	363	191
<b>(4,001)</b>	<b>(1,703)</b>	<b>(746)</b>	<b>(306)</b>
<b>Total movements in working capital</b>			
<b>(5,699)</b>	<b>1,918</b>	<b>6,925</b>	<b>(14,897)</b>
<b>Operating balance</b>			

The accompanying notes (including accounting policies) are an integral part of these statements.

## Statement of Changes in Net Worth

for the year ended 30 June 2013

Forecast Total Net Worth Budget 12 Budget 13			Actual			
\$m	\$m		Taxpayer funds	Reserves	Minority interest	Total net worth \$m
		Note	\$m	\$m	\$m	\$m
80,887	80,887		18,188	62,391	308	80,887
(10,642)	(14,841)		(14,897)	-	56	(14,841)
(47)	(6,461)		-	(6,461)	-	(6,461)
58	80		228	(148)	-	80
	83		-	55	28	83
47	(8)		1	(9)	-	(8)
<b>(10,584)</b>	<b>(21,147)</b>		<b>(14,668)</b>	<b>(6,563)</b>	<b>84</b>	<b>(21,147)</b>
-	40		-	-	40	40
<b>70,303</b>	<b>59,780</b>		<b>3,520</b>	<b>55,828</b>	<b>432</b>	<b>59,780</b>
(5,609)	1,928		6,925	-	94	7,019
-	(29)		-	1,335	32	1,367
(1)	55		250	(17)	27	260
-	(4)		-	(10)	-	(10)
65	13		-	73	-	73
<b>(5,545)</b>	<b>1,963</b>		<b>7,175</b>	<b>1,381</b>	<b>153</b>	<b>8,709</b>
200	175		167	-	-	167
1,300	1,325		-	-	1,371	1,371
(50)	27		-	-	(16)	(16)
<b>66,208</b>	<b>63,270</b>	28	<b>10,862</b>	<b>57,209</b>	<b>1,940</b>	<b>70,011</b>

The accompanying notes (including accounting policies) are an integral part of these statements.



## Statement of Financial Position

as at 30 June 2013

Forecast 30 June 2013				Actual	
Budget 12	Budget 13		Note	30 June 2013	30 June 2012
\$m	\$m			\$m	\$m
<b>Assets</b>					
14,327	16,492	Cash and cash equivalents		14,924	10,686
16,799	19,189	Receivables	14	19,883	20,956
36,197	40,392	Marketable securities, deposits and derivatives in gain	15	44,000	48,385
15,853	16,616	Share investments	16	17,359	14,385
23,895	23,432	Advances	17	22,613	21,766
1,360	1,248	Inventory	18	1,140	1,234
2,051	2,064	Other assets	19	2,295	2,134
121,335	109,334	Property, plant & equipment	20	109,833	108,584
9,967	9,509	Equity accounted investments	21	9,593	9,483
2,571	2,687	Intangible assets and goodwill	22	2,776	2,705
282	2	Forecast for new capital spending		-	-
(350)	(280)	Top-down capital adjustment		-	-
<b>244,287</b>	<b>240,685</b>	<b>Total assets</b>		<b>244,416</b>	<b>240,318</b>
<b>Liabilities</b>					
4,704	4,756	Issued currency		4,691	4,457
13,503	11,822	Payables	23	11,160	11,604
1,399	1,579	Deferred revenue		1,714	1,712
103,207	100,780	Borrowings	24	100,087	100,534
36,919	38,917	Insurance liabilities	25	37,712	41,186
11,481	12,227	Retirement plan liabilities	26	11,903	13,539
6,866	7,334	Provisions	27	7,138	7,506
<b>178,079</b>	<b>177,415</b>	<b>Total liabilities</b>		<b>174,405</b>	<b>180,538</b>
<b>66,208</b>	<b>63,270</b>	<b>Total assets less total liabilities</b>		<b>70,011</b>	<b>59,780</b>
<b>Net Worth</b>					
2,144	5,601	Taxpayer funds		10,862	3,520
62,550	55,965	Property, plant and equipment revaluation reserve		57,068	56,001
(134)	(90)	Other reserves		141	(173)
<b>64,560</b>	<b>61,476</b>	<b>Total net worth attributable to the Crown</b>		<b>68,071</b>	<b>59,348</b>
1,648	1,794	Net worth attributable to minority interests		1,940	432
<b>66,208</b>	<b>63,270</b>	<b>Total net worth</b>	28	<b>70,011</b>	<b>59,780</b>

The accompanying notes (including accounting policies) are an integral part of these statements.

# Statement of Segments

	Current Year Actual vs Estimated Actuals																																																																																																																																																																																																																																																																																																								
	Core Crown			Crown entities			State-owned enterprises			Inter-segment eliminations			Total Crown																																																																																																																																																																																																																																																																																												
	Actual 2013 \$m	Estimated Actuals 2013 \$m	Actual 2013 \$m	Estimated Actuals 2013 \$m	Actual 2013 \$m	Estimated Actuals 2013 \$m	Actual 2013 \$m	Estimated Actuals 2013 \$m	Actual 2013 \$m	Estimated Actuals 2013 \$m	Actual 2013 \$m	Estimated Actuals 2013 \$m																																																																																																																																																																																																																																																																																													
<b>Revenue</b>																																																																																																																																																																																																																																																																																																									
Taxation revenue	58,651	58,286	-	-	-	-	-	(517)	(447)	58,134	57,839																																																																																																																																																																																																																																																																																														
Other sovereign revenue	1,133	1,085	5,295	5,307	-	-	(1,256)	(1,266)	5,172	5,126																																																																																																																																																																																																																																																																																															
Revenue from core Crown funding	-	-	24,096	24,341	-	-	(24,096)	(24,341)	-	-																																																																																																																																																																																																																																																																																															
Sales of goods and services	1,461	1,456	1,856	1,873	14,102	14,170	(706)	(690)	16,713	16,809																																																																																																																																																																																																																																																																																															
Interest revenue and dividends	2,104	2,196	1,270	1,204	856	822	(1,291)	(1,171)	2,939	3,051																																																																																																																																																																																																																																																																																															
Other revenue	800	786	2,547	2,146	978	1,135	(628)	(429)	3,697	3,638	<b>Total Revenue (excluding gains)</b>	<b>64,149</b>	<b>63,809</b>	<b>35,064</b>	<b>34,871</b>	<b>15,936</b>	<b>16,127</b>	<b>(28,494)</b>	<b>(28,344)</b>	<b>86,655</b>	<b>86,463</b>	<b>Expenses</b>															Transfer payments and subsidies	22,709	22,917	-	-	-	-	(1)	1	22,708	22,918	Personnel expenses	6,037	6,071	10,966	11,148	2,949	2,947	(17)	(10)	19,935	20,156	Other operating expenses	37,940	39,392	21,660	21,806	11,555	11,674	(27,149)	(27,221)	44,006	45,651	Interest expenses	3,620	3,557	235	236	1,248	1,152	(745)	(644)	4,358	4,301	Forecast new operating spending and top down adjustment	-	(288)	-	-	-	-	-	-	-	(288)	<b>Total Expenses (excluding losses)</b>	<b>70,306</b>	<b>71,649</b>	<b>32,861</b>	<b>33,190</b>	<b>15,752</b>	<b>15,773</b>	<b>(27,912)</b>	<b>(27,874)</b>	<b>91,007</b>	<b>92,738</b>	Operating balance before gains/(losses) attributable to minority interests	-	-	10	-	(75)	(10)	3	-	(62)	(10)	<b>Operating Balance before gains/(losses)</b>	<b>(6,157)</b>	<b>(7,840)</b>	<b>2,213</b>	<b>1,681</b>	<b>109</b>	<b>344</b>	<b>(579)</b>	<b>(470)</b>	<b>(4,414)</b>	<b>(6,285)</b>	Gains/(losses) and other items	6,528	5,140	3,664	2,626	505	112	642	325	11,339	8,203	<b>Operating Balance</b>	<b>371</b>	<b>(2,700)</b>	<b>5,877</b>	<b>4,307</b>	<b>614</b>	<b>456</b>	<b>63</b>	<b>(145)</b>	<b>6,925</b>	<b>1,918</b>	<b>Assets</b>															Financial assets	75,111	71,616	41,297	42,107	20,058	20,685	(17,687)	(18,287)	118,779	116,121	Property, plant and equipment	29,507	29,561	51,823	50,714	28,503	29,058	-	-	109,833	109,334	Investments in associates, CEs and SOEs	32,611	32,635	8,151	8,134	187	216	(31,356)	(31,476)	9,593	9,509	Other assets	2,646	2,627	1,133	913	2,463	2,499	(31)	(40)	6,211	5,999	Forecast adjustments	-	(278)	-	-	-	-	-	-	-	(278)	<b>Total Assets</b>	<b>139,875</b>	<b>136,161</b>	<b>102,404</b>	<b>101,868</b>	<b>51,211</b>	<b>52,458</b>	<b>(49,074)</b>	<b>(49,803)</b>	<b>244,416</b>	<b>240,685</b>	<b>Liabilities</b>															Borrowings	84,870	85,309	5,251	5,156	24,839	25,884	(14,873)	(15,569)	100,087	100,780	Other liabilities	29,392	28,882	45,261	47,351	7,226	7,556	(7,561)	(7,154)	74,318	76,635	<b>Total Liabilities</b>	<b>114,262</b>	<b>114,191</b>	<b>50,512</b>	<b>52,507</b>	<b>32,065</b>	<b>33,440</b>	<b>(22,434)</b>	<b>(22,723)</b>	<b>174,405</b>	<b>177,415</b>	<b>Net Worth</b>	<b>25,613</b>	<b>21,970</b>	<b>51,892</b>	<b>49,361</b>	<b>19,146</b>	<b>19,018</b>	<b>(26,640)</b>	<b>(27,080)</b>	<b>70,011</b>	<b>63,270</b>	<b>Cost of Acquisition of Physical Assets</b>	<b>1,112</b>	<b>1,560</b>	<b>2,314</b>	<b>2,328</b>	<b>2,281</b>	<b>2,462</b>	<b>(13)</b>	<b>(1)</b>	<b>5,694</b>	<b>6,349</b>
<b>Total Revenue (excluding gains)</b>	<b>64,149</b>	<b>63,809</b>	<b>35,064</b>	<b>34,871</b>	<b>15,936</b>	<b>16,127</b>	<b>(28,494)</b>	<b>(28,344)</b>	<b>86,655</b>	<b>86,463</b>																																																																																																																																																																																																																																																																																															
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Other operating expenses	37,940	39,392	21,660	21,806	11,555	11,674	(27,149)	(27,221)	44,006	45,651																																																																																																																																																																																																																																																																																															
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Property, plant and equipment	29,507	29,561	51,823	50,714	28,503	29,058	-	-	109,833	109,334																																																																																																																																																																																																																																																																																															
Investments in associates, CEs and SOEs	32,611	32,635	8,151	8,134	187	216	(31,356)	(31,476)	9,593	9,509																																																																																																																																																																																																																																																																																															
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<b>Net Worth</b>	<b>25,613</b>	<b>21,970</b>	<b>51,892</b>	<b>49,361</b>	<b>19,146</b>	<b>19,018</b>	<b>(26,640)</b>	<b>(27,080)</b>	<b>70,011</b>	<b>63,270</b>																																																																																																																																																																																																																																																																																															
<b>Cost of Acquisition of Physical Assets</b>	<b>1,112</b>	<b>1,560</b>	<b>2,314</b>	<b>2,328</b>	<b>2,281</b>	<b>2,462</b>	<b>(13)</b>	<b>(1)</b>	<b>5,694</b>	<b>6,349</b>																																																																																																																																																																																																																																																																																															

## Statement of Segments (continued)

	Current Year Actual vs Prior Year Actual													
	Core Crown			Crown entities			State-owned enterprises			Inter-segment eliminations			Total Crown	
	Actual 2013 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2012 \$m	Actual 2013 \$m	
<b>Revenue</b>														
Taxation revenue	58,651	55,081	-	-	-	-	-	-	-	(517)	(416)	58,134	54,665	
Other sovereign revenue	1,133	935	5,295	5,384	-	-	-	-	-	(1,256)	(1,189)	5,172	5,130	
Revenue from core Crown funding	-	-	24,096	23,590	-	-	-	-	-	(24,096)	(23,590)	-	-	
Sales of goods and services	1,461	1,448	1,856	1,817	14,102	14,230	14,102	14,230	14,102	(706)	(710)	16,713	16,785	
Interest revenue and dividends	2,104	1,795	1,270	1,181	856	858	856	858	856	(1,291)	(1,071)	2,939	2,763	
Other revenue	800	1,306	2,547	2,499	978	943	978	943	978	(628)	(608)	3,697	4,140	
<b>Total Revenue (excluding gains)</b>	<b>64,149</b>	<b>60,565</b>	<b>35,064</b>	<b>34,471</b>	<b>15,936</b>	<b>16,031</b>	<b>15,936</b>	<b>16,031</b>	<b>15,936</b>	<b>(28,494)</b>	<b>(27,584)</b>	<b>86,655</b>	<b>83,483</b>	
<b>Expenses</b>														
Transfer payments and subsidies	22,709	22,367	-	-	-	-	-	-	-	(1)	(13)	22,708	22,354	
Personnel expenses	6,037	5,915	10,966	10,754	2,949	2,819	2,949	2,819	2,949	(17)	(13)	19,935	19,475	
Other operating expenses	37,940	37,283	21,660	22,220	11,555	13,537	11,555	13,537	11,555	(27,149)	(26,436)	44,006	46,604	
Interest expenses	3,620	3,511	235	246	1,248	1,268	1,248	1,268	1,248	(745)	(735)	4,358	4,290	
<b>Total Expenses (excluding losses)</b>	<b>70,306</b>	<b>69,076</b>	<b>32,861</b>	<b>33,220</b>	<b>15,752</b>	<b>17,624</b>	<b>15,752</b>	<b>17,624</b>	<b>15,752</b>	<b>(27,912)</b>	<b>(27,197)</b>	<b>91,007</b>	<b>92,723</b>	
Operating balance before gains/(losses) attributable to minority interests	-	-	10	-	(75)	-	(75)	-	-	3	-	(62)	-	
<b>Operating Balance before gains/(losses)</b>	<b>(6,157)</b>	<b>(8,511)</b>	<b>2,213</b>	<b>1,251</b>	<b>109</b>	<b>(1,593)</b>	<b>109</b>	<b>(1,593)</b>	<b>109</b>	<b>(579)</b>	<b>(387)</b>	<b>(4,414)</b>	<b>(9,240)</b>	
Gains/(losses) and other items	6,528	(3,160)	3,664	(1,892)	505	170	505	170	505	642	(775)	11,339	(5,657)	
<b>Operating Balance</b>	<b>371</b>	<b>(11,671)</b>	<b>5,877</b>	<b>(641)</b>	<b>614</b>	<b>(1,423)</b>	<b>614</b>	<b>(1,423)</b>	<b>614</b>	<b>63</b>	<b>(1,162)</b>	<b>6,925</b>	<b>(14,897)</b>	
<b>Assets</b>														
Financial assets	75,111	74,981	41,297	40,075	20,058	19,186	20,058	19,186	20,058	(17,687)	(18,064)	118,779	116,178	
Property, plant and equipment	29,507	29,377	51,823	49,939	28,503	29,268	28,503	29,268	28,503	-	-	109,833	108,584	
Investments in associates, CEs and SOEs	32,611	31,308	8,151	7,982	187	340	187	340	187	(31,356)	(30,147)	9,593	9,483	
Other assets	2,646	2,743	1,133	905	2,463	2,463	2,463	2,463	2,463	(31)	(38)	6,211	6,073	
<b>Total Assets</b>	<b>139,875</b>	<b>138,409</b>	<b>102,404</b>	<b>98,901</b>	<b>51,211</b>	<b>51,257</b>	<b>51,211</b>	<b>51,257</b>	<b>51,211</b>	<b>(49,074)</b>	<b>(48,249)</b>	<b>244,416</b>	<b>240,318</b>	
<b>Liabilities</b>														
Borrowings	84,870	84,510	5,251	5,325	24,839	25,374	24,839	25,374	24,839	(14,873)	(14,675)	100,087	100,534	
Other liabilities	29,392	30,528	45,261	49,357	7,226	7,281	7,226	7,281	7,226	(7,561)	(7,162)	74,318	80,004	
<b>Total Liabilities</b>	<b>114,262</b>	<b>115,038</b>	<b>50,512</b>	<b>54,682</b>	<b>32,065</b>	<b>32,655</b>	<b>32,065</b>	<b>32,655</b>	<b>32,065</b>	<b>(22,434)</b>	<b>(21,837)</b>	<b>174,405</b>	<b>180,538</b>	
<b>Net Worth</b>	<b>25,613</b>	<b>23,371</b>	<b>51,892</b>	<b>44,219</b>	<b>19,146</b>	<b>18,602</b>	<b>19,146</b>	<b>18,602</b>	<b>19,146</b>	<b>(26,640)</b>	<b>(26,412)</b>	<b>70,011</b>	<b>59,780</b>	
<b>Cost of Acquisition of Physical Assets</b>	<b>1,112</b>	<b>1,219</b>	<b>2,314</b>	<b>2,136</b>	<b>2,281</b>	<b>3,007</b>	<b>2,281</b>	<b>3,007</b>	<b>2,281</b>	<b>(13)</b>	<b>-</b>	<b>5,694</b>	<b>6,362</b>	

## Notes to the Financial Statements

### Note 1: Summary of Accounting Policies

These financial statements are prepared in accordance with the Public Finance Act 1989 and with New Zealand generally accepted accounting practice (NZ GAAP). For this purpose, the Government reporting entity is designated as a public benefit entity. These financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for public benefit entities.

These financial statements were authorised for issue by the Minister of Finance on 30 September 2013.

#### Reporting Entity

The consolidated financial statements for the Government reporting entity (financial statements of the Government of New Zealand), as defined in section 2(1) of the Public Finance Act 1989, means:

- the Sovereign in right of New Zealand, and
- the legislative, executive, and judicial branches of the Government of New Zealand.

The description “consolidated financial statements for the Government reporting entity” and the description “financial statements of the Government” have the same meaning and can be used interchangeably.

#### Basis of Preparation

The financial statements have been prepared on the basis of historic cost, modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

The financial statements are presented in New Zealand dollars rounded to the nearest million, unless separately identified.

#### Judgements and Estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. A second area of uncertainty relates to the estimation of the claims and provisions arising from the Canterbury earthquakes.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

#### Early Adoption Standards and Interpretations

From 1 July 2011 no NZ IFRS or amendments to existing NZ IFRS applicable to public benefit entities have been issued as a consequence of recent decisions on the new Accounting Standards Framework. The Government has adopted all NZ IFRSs and Interpretations applicable to public benefit entities issued prior to that date, with the exception of *NZ IFRS 9: Financial Instruments*, approved in 2010.

*NZ IFRS 9* becomes effective for annual reporting periods commencing on or after 1 January 2015. Under the proposed new accounting framework for public sector entities, the proposed accounting standard for recognition

and measurement of financial instruments is based on *IPSAS 29: Financial Instruments: Recognition and Disclosure*. The Crown has not early adopted *NZ IFRS 9* to reduce the risk of unnecessary accounting changes through this period.

The New Zealand Accounting Standards Board has issued a new suite of accounting standards (called Public Sector PBE Accounting Standards) that will apply to the Financial Statements of Government for the financial year beginning 1 July 2014. At the broad level the impact of moving from NZ IFRS to PBE Standards is not expected to be significant as there is a strong degree of convergence between IFRS and IPSAS, and therefore between the current NZ IFRS and the proposed Public Sector PBE Accounting Standards.

## Significant Accounting Policies

### Reporting and Forecast Period

The reporting and forecast period for the financial statements of the Government of New Zealand is the financial year from 1 July to 30 June.

Where necessary the financial information for State-owned enterprises and Crown entities that have a balance date other than 30 June has been adjusted for any transactions or events that have occurred since their most recent balance date and that are significant for the Government's financial statements. Such entities are primarily in the education sector.

### Basis of Combination

These financial statements combine the following entities using the acquisition method of combination:

#### Core Crown entities

- Ministers of the Crown
- Government departments
- Offices of Parliament
- the Reserve Bank of New Zealand
- New Zealand Superannuation Fund

#### Other entities

- State-owned enterprises
- Crown entities (excluding Tertiary Education Institutions)
- Air New Zealand Limited
- Organisations listed in Schedule 4 of the Public Finance Act 1989
- Companies listed in Schedule 5 of the Public Finance Act 1989

Corresponding assets, liabilities, income and expenses, are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Government reporting entity.

Tertiary education institutions are equity accounted for the reasons explained in the notes to the financial statements. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

The basis of combination for joint ventures depends on the form of the joint venture.

- **Jointly controlled operations:** The Government reporting entity recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the jointly controlled operations' income.
- **Jointly controlled assets:** The Government reporting entity recognises its share of the jointly controlled assets, its share of any liabilities and expenses incurred jointly, any other liabilities and expenses it has incurred in respect of the jointly controlled asset, and income from the sale or use of its share of the output of the jointly controlled asset.
- **Jointly controlled entities:** Jointly controlled entities are equity accounted, whereby the Government reporting entity initially recognises its share of interest in these entities' net assets at cost and subsequently adjusts the cost for changes in net assets. The Government reporting entity's share of the jointly controlled entities' surpluses and deficits are recognised in the statement of financial performance.

## Income

### *Taxation revenue levied through the Crown's sovereign power*

The Government provides many services and benefits that do not give rise to revenue. Further, payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits, since there is no relationship between paying tax and receiving Crown services and transfers. Such revenue is received through the exercise of the sovereign power of the Crown in Parliament.

Tax revenue is recognised when a taxable event has occurred and the tax revenue can be reliably measured. The taxable event is defined as follows:

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax (RWT)	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Provisional tax	When assessed income is earned during the taxation period
Terminal tax	Assessment filed date
Goods and services tax (GST)	When the purchase or sale of taxable goods and services occurs during the taxation period
Customs and excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment of the fee or charge is made
Stamp, cheque and credit card duties	When the liability to the Crown is incurred
Exhaustible resources levy	When the resource is extracted
Other indirect taxes	When the debt to the Crown arises
Levies (eg, ACC levies)	When the obligation to pay the levy is incurred

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. Inland Revenue has implemented systems and controls (eg, performing audits of taxpayer records) in order to detect and correct situations where taxpayers are not complying with the various acts it administers.

### *Revenue earned through operations*

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period of the services unless an alternative method better represents the stage of completion of the transaction.

### *Interest income*

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

***Dividend income***

Dividend income from investments is recognised when the Government's rights as a shareholder to receive payment have been established.

***Rental income***

Rental income is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

***Donated or subsidised assets***

Where an asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income in the statement of financial performance.

**Expenses*****General***

Expenses are recognised in the period to which they relate.

***Welfare benefits and entitlements***

Welfare benefits and entitlements, including New Zealand Superannuation, are recognised in the period when an application for a benefit has been received and the eligibility criteria met.

***Grants and subsidies***

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

***Interest expense***

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

**Foreign Currency**

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance, except when recognised in the statement of comprehensive income when hedge accounting is applied.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into New Zealand dollars at the exchange rate applicable at the fair value date. The associated foreign exchange gains or losses follow the fair value gains or losses to either the statement of financial performance or the statement of comprehensive income.

Foreign exchange gains and losses arising from translating monetary items that form part of the net investment in a foreign operation are reported in a translation reserve in net worth and recognised in the statement of comprehensive income.

## Sovereign Receivables and Taxes Repayable

Receivables from taxes, levies and fines (and any penalties associated with these activities) as well as social benefit receivables which do not arise out of a contract are collectively referred to as sovereign receivables.

Sovereign receivables are initially assessed at nominal amount or face value; that is, the receivable reflects the amount of tax owed, levy, fine charged, or social benefit debt payable. These receivables are subsequently adjusted for penalties and interest as they are charged, and tested for impairment. Interest and penalties charged on tax receivables are presented as tax revenue in the statement of financial performance.

Taxes repayable represent refunds due to taxpayers and are recognised at their nominal value. They are subsequently adjusted for interest once account and refund reviews are complete.

## Financial Instruments

### *Financial assets*

Financial assets are designated into the following categories: loans and receivables, financial assets available-for-sale, financial assets held-for-trading, and financial assets designated as fair value through profit or loss. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

The maximum loss due to default on any financial asset is the carrying value reported in the statement of financial position.

Major financial asset type	Designation
Trade and other receivables	All designated as loans and receivables
Student loans	All designated as loans and receivables
Kiwibank mortgages	All designated as loans and receivables
Other advances	Generally designated as loans and receivables
IMF financial assets	All designated as loans and receivables
Share investments	Generally designated as fair value through profit or loss
Marketable securities	Generally designated as fair value through profit or loss
Long-term deposits	Generally designated as loans and receivables

Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer interest expense policy). Loans and receivables issued with duration less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Financial assets held-for-trading and financial assets designated as fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance.

A financial asset is designated as fair value through profit or loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with related liabilities or is part of a group of financial assets that is managed and evaluated on a fair value basis, such as with the NZ Superannuation Fund. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.



Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised in the statement of comprehensive income with some exceptions. Those exceptions are for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses resulting from translation differences due to changes in amortised cost of the asset. These latter items are recognised in the statement of financial performance. For non-monetary available-for-sale financial assets (eg, some unlisted equity instruments) the fair value movements recognised in the statement of comprehensive income include any related foreign exchange component. At derecognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive income, is recognised in the statement of financial performance.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Fair values of quoted investments are based on current bid prices. Regular way purchases and sales of all financial assets are accounted for at trade date. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques, as set out in the notes to the financial statements. At each balance date an assessment is made whether there is objective evidence that a financial asset or group of financial assets is impaired.

### *Financial liabilities*

Major financial liability type	Designation
Accounts payable	All designated at amortised cost
Government bonds	Generally designated at amortised cost
Treasury bills	Generally designated at amortised cost
Government retail stock	All designated at amortised cost
Settlement deposits with Reserve Bank	All designated at amortised cost
Issued currency	Not designated: Recognised at face value

Financial liabilities held for trading and financial liabilities designated as fair value through profit and loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. A financial liability is designated as fair value through profit or loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either eliminates or significantly reduces an accounting mismatch with related assets or is part of a group of financial liabilities that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.

Currency issued for circulation, including demonetised currency after 1 July 2004, is recognised at face value. Currency issued represents a liability in favour of the holder.

### *Derivatives*

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively. Recognition of the movements in the value of derivatives depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged (see Hedging section below).

Derivatives that are not designated for hedge accounting are classified as held-for-trading financial instruments with fair value gains or losses recognised in the statement of financial performance. Such derivatives may be entered into for risk management purposes, although not formally designated for hedge accounting, or for tactical trading.

### *Hedging*

Individual entities consolidated within the Government reporting entity apply hedge accounting after considering the costs and benefits of adoption, including:

- whether an economic hedge exists and the effectiveness of that hedge
- whether the hedge accounting qualifications could be met, and
- the extent to which it would improve the relevance of reported results.

Transactions between entities within the Government reporting entity do not qualify for hedge accounting in the financial statements of the Government (although they may qualify for hedge accounting in the separate financial statements of the individual entities). Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, the effects of the hedge relationship are automatically reflected in the statement of financial performance so hedge accounting is not necessary.

#### *(a) Cash flow hedge*

Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective portion of any gain or loss on the derivative is recognised in the statement of comprehensive income and the ineffective portion is recognised in the statement of financial performance. Where the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability (eg, where the hedge relates to the purchase of an asset in a foreign currency), the amount recognised in the statement of comprehensive income is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive income transfer to the statement of financial performance in the same period as when the hedged item affects the statement of financial performance (eg, when the forecast sale occurs). Effective portions of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in net worth at that time remains in net worth and is recognised when the forecast transaction is ultimately recognised in the statement of financial performance. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the statement of comprehensive income is transferred to the statement of financial performance.

#### *(b) Fair value hedge*

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in the statement of financial performance together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

### **Inventories**

Inventories are recorded at the lower of cost (calculated using a weighted average method) and net realisable value. Inventories held for distribution for public benefit purposes are recorded at cost, adjusted where applicable for any loss of service potential. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the current replacement cost at the date of acquisition.

Inventories include unissued currency and harvested agricultural produce (eg, logs and wool). The cost of harvested agricultural produce is measured at fair value less estimated costs to sell at the point of harvest.

## Property, Plant and Equipment (PPE)

Items of PPE are initially recorded at cost. Cost may include transfers from net worth of any gains or losses on qualifying cash flow hedges of foreign currency purchases of PPE. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, and as income in the statement of financial performance.

Revaluations are carried out for a number of classes of PPE to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset, with changes reported by class of asset.

Subsequent to initial recognition, classes of PPE are accounted for as set out below.

Class of PPE	Accounting policy
Land and buildings	<p>Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued.</p> <p>Land associated with the rail network and state highways is valued using an opportunity cost based on adjacent use, as an approximation to fair value.</p> <p>Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where available.</p> <p>Otherwise, valuations conducted in accordance with the Rating Valuation Act 1998, may be used if they have been confirmed as appropriate by an independent valuer.</p> <p>When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out.</p>
Specialist military equipment	<p>Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.</p> <p>Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by an independent valuer.</p>
State highways	<p>State highways are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.</p>
Rail network	<p>Rail infrastructure used for freight services (freight only and dual use lines required for freight operations) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.</p> <p>Rail infrastructure not required for freight operations and used for metro services are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.</p>
Aircraft	<p>Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.</p>
Electricity distribution network	<p>Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.</p>
Electricity generation assets	<p>Electricity generation assets are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.</p>
Specified cultural and heritage assets	<p>Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value less subsequent accumulated depreciation.</p> <p>Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and when they do not generate cash flows and where no market exists to provide a valuation.</p>
Other plant and equipment	<p>Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.</p>

Classes of PPE that are revalued, are revalued at least every five years or whenever the carrying amount differs materially to fair value.

Items of PPE are revalued to fair value for the highest and best use of the item on the basis of the market value of the item, or on the basis of market evidence, such as discounted cash flow calculations. If no market evidence of fair value exists, an optimised depreciated replacement cost approach is used as the best proxy for fair value. Where an item of PPE is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of PPE by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of PPE is recorded at its optimised depreciated replacement cost, the cost does not include any borrowing costs.

Unrealised gains and losses arising from changes in the value of PPE are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the statement of financial performance for the asset class, the gain is credited to the statement of financial performance. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. To the extent that there is a balance in the asset revaluation reserve for the asset class any loss is debited to the reserve. Otherwise, losses are reported in the statement of financial performance.

Realised gains and losses arising from disposal of PPE are recognised in the statement of financial performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to taxpayer funds.

Generally, government borrowings are not directly attributable to individual assets. Therefore, any borrowing costs incurred during the period required to complete and prepare assets for their intended use are expensed rather than capitalised. The major exception relates to service concession assets resulting from public private partnership arrangements where the liability incurred, and therefore the associated interest costs, are directly attributable to the service concession asset.

Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. The main reason for holding some assets (for example, electricity generation assets) is to generate cash. For these assets the recoverable amount is the higher of the amount that could be recovered by sale (after deducting the costs of sale) or the amount that will be generated by using the asset through its useful life. Some assets do not generate cash (for example, state highways) and for those assets, depreciated replacement cost is used. Losses resulting from impairment are reported in the statement of financial performance, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of PPE, less any estimated residual value, over its remaining useful life.

Typically, the estimated useful lives of different classes of PPE are as follows:

Class of PPE	Estimated useful lives
Buildings	25 to 60 years
Specialist military equipment (SME)	5 to 55 years
State highways:	
Pavement (surfacing)	7 years
Pavement (other)	50 years
Bridges	70 to 105 years
Rail Network:	
Track and ballast	25 to 40 years
Tunnels and bridges	60 to 100 years
Overhead traction and signalling	10 to 40 years
Aircraft (excluding SME)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 100 years
Other plant and equipment	3 to 30 years

Specified heritage and cultural assets are generally not depreciated.

### Equity Accounted Investments

The applicable financial reporting standards that determine the basis of combination of entities that make up the Government reporting entity are NZ IAS 27: *Consolidated and Separate Financial Statements* and NZ IAS 28: *Investments in Associates*. NZ IAS 27 refers to guidance provided in IPSAS 6: *Consolidated and Separate Financial Statements* and FRS 37: *Consolidating Investments in Subsidiaries* which shall be used by public benefit entities in determining whether they control another entity.

These standards are, however, not clear about how the definitions of control and significant influence should be applied in some circumstances in the public sector, particularly where legislation provides public sector entities with statutory autonomy and independence, in particular with Tertiary Education Institutions. Treasury's view is that because the Government cannot determine its operating and financing policies, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates.

### Biological Assets

Biological assets (eg, trees and sheep) managed for harvesting into agricultural produce (eg, logs and wool) or for transforming into additional biological assets are measured at fair value less estimated costs to sell, with any realised and unrealised gains or losses reported in the statement of financial performance. Where fair value cannot be reliably determined, the asset is recorded at cost less accumulated depreciation and impairment losses. For commercial forests, fair value takes into account age, quality of timber and the forest management plan.

Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as property, plant and equipment in accordance with the policies for property, plant and equipment.

### Intangible Assets

Intangible assets are initially recorded at cost. Where an intangible asset is created for nil or nominal consideration it is also initially carried at cost, which by definition is nil/nominal.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably

measured. Research is “original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding”. Expenditure incurred on the research phase of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when incurred.

The Government’s holdings of assigned amount units arising from the Kyoto protocol are reported at fair value. Other intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful life of computer software is three to five years.

Intangible assets with indefinite useful lives are not amortised, but are tested at least annually for impairment.

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance in the period in which the transaction occurs.

Intangible assets with finite lives are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset’s recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance.

Goodwill is tested for impairment annually.

### **Non-current Assets Held for Sale and Discontinued Operations**

Non-current assets held for sale, or disposal groups, are separately classified where their carrying amount will be recovered through a sale transaction rather than continuing use; that is, where such assets are available for immediate sale and where sale is highly probable. Non-current assets held for sale, or disposal groups, are recorded at the lower of their carrying amount and fair value less costs to sell.

### **Investment Property**

Investment property is property held primarily to earn rentals or for capital appreciation or both. It does not include property held primarily for strategic purposes or to provide a social service (eg, affordable housing) even though such property may earn rentals or appreciate in value – such property is reported as PPE.

Investment properties are measured at fair value. Gains or losses arising from fair value changes are included in the statement of financial performance. Valuations are undertaken in accordance with standards issued by the New Zealand Property Institute.

### **Employee Benefits**

#### *Pension liabilities*

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial value of the Crown liability. All movements in these liabilities, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

#### *Other employee entitlements*

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liabilities for long-term employee entitlements (those over 12 months) are reported as the present value of the estimated future cash outflows.

***Termination benefits***

Termination benefits are recognised in the statement of financial performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

**Insurance Contracts**

The future cost of outstanding insurance claims liabilities are valued annually based on the latest actuarial information. The estimate includes estimated payments associated with claims reported and accepted, claims incurred but not reported, claims that may be re-opened, and the costs of managing these claims. Movements of the claims liabilities are reflected in the statement of financial performance. Financial assets backing these liabilities are designated at fair value through profit or loss.

***Reinsurance***

Premiums paid to reinsurers are recognised as reinsurance expenses in the statement of financial performance. Premiums are measured from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the statement of financial position.

***Reinsurance and other recoveries receivable***

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, and unexpired risk liabilities are recognised as income in the statement of financial performance.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are measured as the present value of the expected future receipts.

***Deferred acquisition costs***

Accident compensation and earthquake commission levies are imposed through regulation and do not attract acquisition costs. Costs incurred in obtaining other insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Risks under general insurance contracts cover a period of up to 12 months, therefore, are amortised within one year.

**Leases**

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases are those where the lessor substantially retains the risks and rewards of ownership. Expenditure incurred in relation to these leases is recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

## Other Liabilities and Provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at the present value of their estimated future cash outflows.

## Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

## Commitments

Commitments are future expenses to be incurred on contracts that have been entered into at balance date. The minimum future payments committed at balance date is disclosed in the notes to the financial statements.

Commitments are classified as

- capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date, and
- lease commitments: non-cancellable operating leases with a lease term exceeding one year.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising the option to cancel are reported at the value of that penalty or exit cost (ie, the minimum future payments).

Interest commitments on debts, commitments for funding, and commitments relating to employment contracts are not disclosed.

## Comparatives

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

Last year accounting policies were changed to align with NZ GAAP requirements, and therefore exclude "other" operating commitments (including non-lease executor contracts (eg, cleaning) and funding commitments) from disclosure. Some operating commitments continued to be included in lease commitments and therefore comparatives have been restated accordingly.

There is a new functional classification for Environmental Protection expenditure included in this year's financial statements to better align with international comparisons for this expense categorisation. As a result, comparatives were restated.

Comparatives referred to as Budget 12 were forecasts published in the *2012 Budget Economic and Fiscal Update* while Budget 13 were forecasts published in the *2013 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.



## Segment Analysis

The Government reporting entity is not required to provide segment reporting as it is a public benefit entity. Nevertheless, information is presented for material institutional components and major economic activities within or undertaken by the Government reporting entity. The three major institutional components of the Crown are:

- Core Crown: This group, which includes Ministers, Departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes.
- State-owned enterprises: This group includes entities governed by the State-owned Enterprises Act 1986, Public Finance Act 1989 schedule 5 companies and for the purposes of these statements also includes Air New Zealand Limited. This group represents entities that undertake commercial activity.
- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

Functional analysis is also provided of a number of financial statement items. This functional analysis is drawn from the *Classification of the Functions of Government* as developed by the Organisation for Economic Co-operation and Development (OECD).

## Related Parties

Related parties of the Government include key management personnel, and their close family members. Key management personnel are Ministers of the Crown, and their close family members are their spouses, children and dependants. Transactions between these related parties and a Government entity are disclosed in these financial statements only if they have taken place within a Minister's portfolio and they are not transactions entered into in the same capacity as an ordinary citizen.

Tertiary Education Institutions, joint ventures and the Government Superannuation Fund are also related parties of the Government due to the Government's influence over these entities. Transactions between these entities and Government entities are separately disclosed where material.

There are no other related parties as no other parties control the Government, and no other parties are controlled by the Government, other than those that are consolidated into the Government's financial statements.

The Government comprises a large number of commonly controlled entities. Transactions between these entities are eliminated in these financial statements and therefore not separately disclosed.

Transactions where the financial results may have been affected by the existence of a related party relationship are disclosed in the financial statements.

## Note 2: Sovereign Revenue (Accrual)

Forecast				Actual	
30 June 2013				30 June	30 June
Budget 12	Budget 13			2013	2012
\$m	\$m			\$m	\$m
		<b>Direct Income Tax Revenue (accrual)</b>			
		<b>Individuals</b>			
22,563	22,387	Source deductions		22,330	21,237
4,386	5,026	Other persons		5,210	4,232
(1,567)	(1,473)	Refunds		(1,644)	(1,736)
458	460	Fringe benefit tax		480	462
<b>25,840</b>	<b>26,400</b>	<b>Total individuals</b>		<b>26,376</b>	<b>24,195</b>
		<b>Corporate Tax</b>			
8,301	8,372	Gross companies tax		8,747	8,310
(279)	(197)	Refunds		(151)	(202)
455	448	Non-resident withholding tax		420	500
-	-	Foreign-source dividend withholding payments		2	4
<b>8,477</b>	<b>8,623</b>	<b>Total corporate tax</b>		<b>9,018</b>	<b>8,612</b>
		<b>Other Direct Income Tax</b>			
1,673	1,602	Resident withholding tax on interest income		1,631	1,679
375	394	Resident withholding tax on dividend income		516	292
<b>2,048</b>	<b>1,996</b>	<b>Total other direct income tax</b>		<b>2,147</b>	<b>1,971</b>
<b>36,365</b>	<b>37,019</b>	<b>Total direct income tax</b>		<b>37,541</b>	<b>34,778</b>
		<b>Indirect Income Tax Revenue (accrual)</b>			
		<b>Goods and Services Tax</b>			
26,795	25,490	Gross goods and services tax		25,125	25,199
(11,052)	(10,085)	Refunds		(9,920)	(10,627)
<b>15,743</b>	<b>15,405</b>	<b>Total goods and services tax</b>		<b>15,205</b>	<b>14,572</b>
		<b>Other Indirect Taxation</b>			
1,152	1,062	Road user charges		1,066	1,045
939	878	Petroleum fuels excise - domestic production		855	847
698	656	Alcohol excise - domestic production		663	656
223	288	Tobacco excise - domestic production		281	244
626	611	Petroleum fuels excise - imports <sup>1</sup>		674	631
249	258	Alcohol excise - imports <sup>1</sup>		250	241
983	986	Tobacco excise - imports <sup>1</sup>		954	993
179	182	Other customs duty		178	173
231	225	Gaming duties		214	216
170	178	Motor vehicle fees		174	175
69	55	Approved issuer levy and cheque duty		45	58
36	36	Energy resources levies		34	36
<b>5,555</b>	<b>5,415</b>	<b>Total other indirect taxation</b>		<b>5,388</b>	<b>5,315</b>
<b>21,298</b>	<b>20,820</b>	<b>Total indirect taxation</b>		<b>20,593</b>	<b>19,887</b>
<b>57,663</b>	<b>57,839</b>	<b>Total taxation revenue</b>		<b>58,134</b>	<b>54,665</b>
		<b>Other Sovereign Revenue (accrual)</b>			
3,395	3,409	ACC levies		3,437	3,695
313	333	Fire service levies		331	326
240	240	EQC levies		242	107
660	647	Child support		590	311
178	173	Court fines		168	176
660	324	Other miscellaneous items		404	515
<b>5,446</b>	<b>5,126</b>	<b>Total other sovereign revenue</b>		<b>5,172</b>	<b>5,130</b>
<b>63,109</b>	<b>62,965</b>	<b>Total sovereign revenue</b>		<b>63,306</b>	<b>59,795</b>

1. Customs excise-equivalent duty.

## Note 2: Sovereign Receipts (Cash)

Forecast				Actual	
30 June 2013				30 June	30 June
Budget 12	Budget 13			2013	2012
\$m	\$m			\$m	\$m
<b>Direct Income Tax Receipts (cash)</b>					
<b>Individuals</b>					
22,450	22,240	Source deductions		22,188	21,010
5,062	5,278	Other persons		5,194	4,720
(2,493)	(2,252)	Refunds		(2,251)	(2,468)
457	458	Fringe benefit tax		465	458
<b>25,476</b>	<b>25,724</b>	<b>Total individuals</b>		<b>25,596</b>	<b>23,720</b>
<b>Corporate Tax</b>					
8,737	8,754	Gross companies tax		8,665	8,792
(756)	(667)	Refunds		(597)	(814)
454	448	Non-resident withholding tax		451	434
-	-	Foreign-source dividend withholding payments		1	4
<b>8,435</b>	<b>8,535</b>	<b>Total corporate tax</b>		<b>8,520</b>	<b>8,416</b>
<b>Other Direct Income Tax</b>					
1,672	1,601	Resident withholding tax on interest income		1,635	1,699
375	394	Resident withholding tax on dividend income		516	290
<b>2,047</b>	<b>1,995</b>	<b>Total direct other income tax</b>		<b>2,151</b>	<b>1,989</b>
<b>35,958</b>	<b>36,254</b>	<b>Total direct income tax</b>		<b>36,267</b>	<b>34,125</b>
<b>Indirect Tax Receipts (cash)</b>					
<b>Goods and Services Tax</b>					
25,895	24,855	Gross goods and services tax		24,539	24,574
(10,552)	(9,785)	Refunds		(9,783)	(10,435)
<b>15,343</b>	<b>15,070</b>	<b>Total goods and services tax</b>		<b>14,756</b>	<b>14,139</b>
<b>Other Indirect Taxation</b>					
1,152	1,062	Road user charges		1,064	1,048
939	878	Petroleum fuels excise - domestic production		865	845
698	656	Alcohol excise - domestic production		666	654
223	288	Tobacco excise - domestic production		287	238
2,037	2,037	Customs duty		2,035	2,057
231	224	Gaming duties		216	216
170	178	Motor vehicle fees		179	169
69	55	Approved issuer levy and cheque duty		44	55
36	36	Energy resources levies		34	36
<b>5,555</b>	<b>5,414</b>	<b>Total other indirect taxation</b>		<b>5,390</b>	<b>5,318</b>
<b>20,898</b>	<b>20,484</b>	<b>Total indirect taxation</b>		<b>20,146</b>	<b>19,457</b>
<b>56,856</b>	<b>56,738</b>	<b>Total tax receipts collected</b>		<b>56,413</b>	<b>53,582</b>
<b>Other Sovereign Receipts (cash)</b>					
3,413	3,427	ACC levies		3,524	3,693
313	333	Fire service levies		331	326
270	276	EQC levies		274	134
225	241	Child support		230	243
144	161	Court fines		159	157
364	320	Other miscellaneous items		288	337
<b>4,729</b>	<b>4,758</b>	<b>Total other sovereign receipts</b>		<b>4,806</b>	<b>4,890</b>
<b>61,585</b>	<b>61,496</b>	<b>Total sovereign receipts</b>		<b>61,219</b>	<b>58,472</b>

## Note 3: Sales of Goods and Services

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
		<i>By type</i>		
8,847	8,866	Sales of goods	8,536	9,110
7,461	7,914	Rendering of services	8,148	7,604
29	29	Deposit guarantee schemes - guarantee fees	29	71
<b>16,337</b>	<b>16,809</b>	<b>Total sales of goods and services</b>	<b>16,713</b>	<b>16,785</b>
		<i>By source</i>		
1,379	1,456	Core Crown	1,461	1,448
14,553	15,111	Crown entities	15,102	14,657
13,857	14,170	State-owned enterprises	14,102	14,230
(13,452)	(13,928)	Inter-segment eliminations	(13,952)	(13,550)
<b>16,337</b>	<b>16,809</b>	<b>Total sales of goods and services</b>	<b>16,713</b>	<b>16,785</b>

## Note 4: Interest Revenue and Dividends

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
		<i>By type</i>		
601	581	Student loans (interest unwind)	590	526
		Other financial assets classified as amortised cost or available for sale	1,073	994
1,083	1,028	Financial assets classified as held for trading	48	36
15	30	Financial assets classified as fair value through profit and loss	671	737
1,186	878			
<b>2,885</b>	<b>2,517</b>	<b>Total interest revenue</b>	<b>2,382</b>	<b>2,293</b>
491	534	Dividends	557	470
<b>3,376</b>	<b>3,051</b>	<b>Total interest revenue and dividends</b>	<b>2,939</b>	<b>2,763</b>
		<i>By source</i>		
2,397	2,196	Core Crown	2,104	1,795
1,123	1,204	Crown entities	1,270	1,181
905	822	State-owned enterprises	856	858
(1,049)	(1,171)	Inter-segment eliminations	(1,291)	(1,071)
<b>3,376</b>	<b>3,051</b>	<b>Total interest revenue and dividends</b>	<b>2,939</b>	<b>2,763</b>
		<b>Included in total interest revenue above is interest on impaired financial assets of:</b>		
		Impaired student loans	590	526
		Impaired other financial assets classified as amortised cost or available for sale	1	1
		<b>Total interest revenue on impaired financial assets</b>	<b>591</b>	<b>527</b>

## Note 5: Other Revenue

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
1,171	1,186	Rental income	1,175	1,129
383	386	Sale of royalties	421	379
64	57	EQC insurance claim on reinsurers	(127)	391
1,863	2,009	Other revenue	2,228	2,241
<b>3,481</b>	<b>3,638</b>	<b>Total other revenue</b>	<b>3,697</b>	<b>4,140</b>

EQC anticipates that a significant proportion of the cost of damage relating to the Canterbury earthquake sequence will be recovered from reinsurers (which is recorded as reinsurance receivables). At 30 June 2013, actuarial valuation of the reinsurance recoverable was reduced resulting in a reversal of income in the current year. Further information on insurance expenses and underwriting results can be found in note 11.

## Note 6: Transfer Payments and Subsidies

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
<b>Social Assistance Grants</b>				
10,243	10,235	New Zealand superannuation	10,235	9,584
2,113	2,047	Family tax credit	2,018	2,082
1,820	1,738	Domestic purposes benefit	1,738	1,811
1,321	1,329	Invalids benefit	1,330	1,325
1,243	1,178	Accommodation assistance	1,177	1,195
881	806	Unemployment benefit	812	883
781	782	Sickness benefit	782	775
595	572	Other working for families tax credits	544	567
602	592	Student allowances	596	644
626	637	Income related rents	611	580
366	385	Disability allowances	384	401
1,440	1,377	Other social assistance benefits	1,321	1,309
<b>22,031</b>	<b>21,678</b>	<b>Total social assistance grants</b>	<b>21,548</b>	<b>21,156</b>
<b>Subsidies</b>				
688	738	KiwiSaver subsidies	723	688
<b>Other transfer payments</b>				
499	502	Official development assistance	437	510
<b>23,218</b>	<b>22,918</b>	<b>Total transfer payments and subsidies</b>	<b>22,708</b>	<b>22,354</b>

## Note 7: Personnel Expenses

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
<i>By type</i>				
18,423	18,925	Salaries and wages	18,921	18,330
337	300	Costs incurred on GSF and other defined benefit plans	290	198
309	282	Costs incurred on defined contribution plans (e.g. Kiwisaver)	386	452
607	649	Other personnel expenses	338	495
<b>19,676</b>	<b>20,156</b>	<b>Total personnel expenses</b>	<b>19,935</b>	<b>19,475</b>
<i>By source</i>				
6,003	6,071	Core Crown	6,037	5,915
10,897	11,148	Crown entities	10,966	10,754
2,786	2,947	State-owned enterprises	2,949	2,819
(10)	(10)	Inter-segment eliminations	(17)	(13)
<b>19,676</b>	<b>20,156</b>	<b>Total personnel expenses</b>	<b>19,935</b>	<b>19,475</b>
<i>Key management personnel compensation</i>				
		Salaries and other short-term employee benefits	9	8
		Post-employment benefits	-	1
		Other long-term benefits	-	-
		Termination benefits	-	-
			<b>9</b>	<b>9</b>

Key management personnel are the 28 Ministers of the Crown who are members of the Executive Council (including the Prime Minister).

The Remuneration Authority sets remuneration levels for members of the Executive. The Authority takes into account other benefits available to members of the Executive as set out in the Executive Travel, Accommodation, Attendance, and Communication Services Determination (No 2) 2009 (the "Determination"). The Determination was determined by the Minister Responsible for Ministerial Services. Members of Parliament, including Members of the Executive, have access to other non-cash entitlements as determined by the Speaker of the House of Representatives. Details of these entitlements (e.g. travel discounts) can be found on the New Zealand Parliament website ([www.parliament.nz](http://www.parliament.nz)).

## Note 8: Depreciation and Amortisation

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
<b>Depreciation expense</b>				
1,178	1,155	Buildings	1,150	1,174
413	412	State highways	449	432
413	488	Electricity generation assets	431	388
197	176	Electricity distribution network	152	137
306	278	Specialist military equipment	272	237
227	213	Aircraft (excluding military)	213	153
221	198	Rail network	14	223
19	19	Specified cultural and heritage assets	24	27
1,096	1,322	Other plant and equipment	992	1,032
<b>4,070</b>	<b>4,261</b>	<b>Total depreciation expense</b>	<b>3,697</b>	<b>3,803</b>
617	595	Amortisation and impairment of non-financial assets <sup>1</sup>	1,115	2,547
<b>4,687</b>	<b>4,858</b>	<b>Total depreciation and amortisation</b>	<b>4,812</b>	<b>6,350</b>

1. The previous year comparator includes an impairment expense of \$1.4 billion in relation to the Rail Network (refer note 20).

## Note 9: Other Operating Expenses

Forecast				Actual	
30 June 2013				30 June	30 June
Budget 12	Budget 13			2013	2012
\$m	\$m			\$m	\$m
<i>By type</i>					
4,540	4,532	Donations and ex-gratia payments		4,451	3,682
1,125	1,124	Rental and leasing costs		1,117	1,109
1,883	1,766	Impairment of financial assets		1,755	1,004
748	751	Write-down on initial recognition of financial assets		684	850
488	516	Lottery prize payments		515	529
227	227	Inventory expenses		565	474
-	-	Impairment of inventory		12	24
-	40	Bonus share offer expense (refer to note 35)		25	-
6	5	Fees paid to audit firms (refer below)		1	5
29,912	28,667	Other operating expenses		27,038	28,001
<b>38,929</b>	<b>37,628</b>	<b>Total other operating expenses</b>		<b>36,163</b>	<b>35,678</b>
<i>By source</i>					
39,542	37,972	Core Crown		36,565	35,876
16,442	17,067	Crown entities		17,065	16,321
9,605	9,784	State-owned enterprises		9,689	9,802
(26,660)	(27,195)	Inter-segment eliminations		(27,156)	(26,321)
<b>38,929</b>	<b>37,628</b>	<b>Total other operating expenses</b>		<b>36,163</b>	<b>35,678</b>

Operating expenses relate to those expenses incurred in the course of undertaking the functions and activities of entities included in the financial statements of the Government, excluding those expenses separately identified in the statement of financial performance and other notes.

Other operating expenses is the large residual item. Most of these costs represent payments made for services provided by third parties (road maintenance for example) or for raw materials (fuel, medicines or inventory for example). They also include other day-to-day operating costs.

		Actual	
		30 June	30 June
		2013	2012
		\$m	\$m
<b>Audit and related expenses</b>			
Auditor-General fees for the audit of financial statements <sup>1</sup>		38	35
Auditor-General fees for assurance and related services		1	1
Fees for other services		-	-
		39	36
Inter-segment eliminations		(39)	(36)
<b>Total audit and related expenses</b>		-	-
<i>Fees for other work<sup>2</sup></i>			
Fees for assurance and related services		1	2
Fees for tax services		-	1
Fees for other services		-	2
<b>Fees paid to audit firms</b>		<b>1</b>	<b>5</b>

1. The audit of financial statements are those of the Government reporting entity and its sub-entities. Audit fees are eliminated because the Office of the Auditor-General is consolidated into these financial statements.

2. External auditing firms carry out other work for entities that they audit on behalf of the Auditor-General.

## Note 10: Interest Expenses

Forecast				Actual	
30 June 2013		30 June	30 June	2013	2012
Budget 12	Budget 13	2013	2012	\$m	\$m
\$m	\$m	\$m	\$m		
<i>By type</i>					
3,423	3,829			4,014	3,785
6	6			5	34
1,181	420			293	404
53	46			46	67
<b>4,663</b>	<b>4,301</b>			<b>4,358</b>	<b>4,290</b>
<i>By source</i>					
3,766	3,557			3,620	3,511
247	236			235	246
1,254	1,152			1,248	1,268
(604)	(644)			(745)	(735)
<b>4,663</b>	<b>4,301</b>			<b>4,358</b>	<b>4,290</b>

## Note 11: Insurance Expenses

Forecast				Actual	
30 June 2013		30 June	30 June	2013	2012
Budget 12	Budget 13	2013	2012	\$m	\$m
\$m	\$m	\$m	\$m		
<i>By entity</i>					
3,300	3,136			3,133	3,010
71	74			(103)	1,073
(93)	(58)			(22)	586
11	37			19	20
-	(24)			4	(113)
<b>3,289</b>	<b>3,165</b>			<b>3,031</b>	<b>4,576</b>
<i>By type</i>					
				(227)	1,612
				3,133	3,010
				125	(46)
				<b>3,031</b>	<b>4,576</b>

Insurance expenses include costs associated with insurance claims arising from the Canterbury earthquakes.

Note 30 contains further discussion on total costs of the earthquakes to the Crown.

At 30 June 2013 the total amount paid or payable for damage incurred in relation to Canterbury earthquakes was reassessed and is now expected to be lower than previously expected. This reduction is recognised as a credit in the claims expense. The discount on prior year claims payable was also recalculated to take into account changes in interest rates, payment patterns, and the reduced period to settlement.

The remainder of the note provides additional information on the insurance expenses for ACC, EQC, and Southern Response.

An analysis of the insurance liabilities is provided in note 25.



## Note 11: Insurance Expenses (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Analysis of ACC insurance expense</b>		
<i>By type</i>		
Claims expense	1,122	6,186
Movement in unexpired risk liability	(27)	68
Other underwriting expenses	86	99
<b>Total ACC claims and other expenses</b>	<b>1,181</b>	<b>6,353</b>
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss)	2,369	(2,942)
Operating costs relating to claims	(417)	(401)
<b>Total ACC insurance expenses (excluding gains/(losses) and operations)</b>	<b>3,133</b>	<b>3,010</b>

Given the uncertainty over insurance claims, it is likely that the final cost will be different from the original liability established. Net claims incurred in the table below refers to the adjustment in the liability arising from claims incurred in the current financial year and reassessment of claims incurred in previous years. This reassessment results from new information on these claims (including new claims relating to incidents incurred in previous years) and changes in assumptions.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>ACC Claims Incurred</b>		
<i>Current year net ACC claims incurred</i>		
Gross claims incurred and related expenses – undiscounted	7,071	7,130
Discount and discount movement	(4,149)	(4,144)
<b>Total current year net claims incurred</b>	<b>2,922</b>	<b>2,986</b>
<i>Previous years' net ACC claims incurred</i>		
Reassessment of gross claims and expenses – undiscounted	(2,817)	(6,789)
Discount and discount movement	1,017	9,989
<b>Total previous years' net claims incurred</b>	<b>(1,800)</b>	<b>3,200</b>
<b>ACC claims expense</b>	<b>1,122</b>	<b>6,186</b>

The underwriting surplus/(deficit) represents the net effect on the statement of financial performance from claims incurred prior to reporting date. It includes actuarial gains/(losses).

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Net ACC Underwriting Result</b>		
Premium revenue (refer to note 2)	3,437	3,695
Recoveries revenue (including reinsurance recovery)	-	-
<b>ACC underwriting revenue</b>	<b>3,437</b>	<b>3,695</b>
Less claims and other expenses	(1,181)	(6,353)
<b>Net ACC underwriting surplus/(deficit)</b>	<b>2,256</b>	<b>(2,658)</b>
<b>ACC operating cash flows associated with the underwriting result are:</b>		
Cash receipts	3,524	3,693
Cash payments	(3,072)	(3,059)
<b>Net ACC operating cash flows</b>	<b>452</b>	<b>634</b>

## Note 11: Insurance Expenses (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Analysis of EQC insurance expense</b>		
<i>By type</i>		
Claims expense	(167)	1,193
Movement in unexpired risk liability	(68)	(192)
Other underwriting expenses	132	72
<b>Total EQC claims and other expenses</b>	<b>(103)</b>	<b>1,073</b>
<b>Net EQC Underwriting Result</b>		
Premium revenue	242	107
Recoveries revenue (including reinsurance recovery)	(127)	391
<b>EQC underwriting revenue</b>	<b>115</b>	<b>498</b>
Less claims and other expenses	(103)	1,073
<b>Net EQC underwriting surplus/(deficit)</b>	<b>218</b>	<b>(575)</b>
<b>EQC operating cash flows associated with the underwriting result are:</b>		
Cash receipts	274	134
Cash payments	(1,923)	(2,890)
<b>Net EQC operating cash flows</b>	<b>(1,649)</b>	<b>(2,756)</b>
<b>EQC Claims Incurred</b>		
<i>Current year net EQC claims incurred</i>		
Gross claims incurred and related expenses – undiscounted	37	719
Discount and discount movement	-	(17)
<b>Total current year net claims incurred</b>	<b>37</b>	<b>702</b>
<i>Previous years' net EQC claims incurred</i>		
Reassessment of gross claims and expenses – undiscounted	(349)	(147)
Discount and discount movement	145	638
<b>Total previous years' net claims incurred</b>	<b>(204)</b>	<b>491</b>
<b>EQC claims expense</b>	<b>(167)</b>	<b>1,193</b>

## Note 11: Insurance Expenses (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Analysis of Southern Response insurance expense</b>		
<i>By type</i>		
Claims expense	2	609
Movement in unexpired risk liability	-	-
<b>Total Southern Response claims and other expenses</b>	<b>2</b>	<b>609</b>
less operating costs relating to claims	(24)	(23)
<b>Total Southern Response insurance expenses (excluding operations)</b>	<b>(22)</b>	<b>586</b>
<b>Net Southern Response Underwriting Result</b>		
Premium revenue	-	248
Recoveries revenue (including reinsurance recovery)	27	-
<b>Southern Response underwriting revenue</b>	<b>27</b>	<b>248</b>
Less claims and other expenses	2	609
<b>Net Southern Response underwriting surplus/(deficit)</b>	<b>25</b>	<b>(361)</b>
<b>Southern Response operating cash flows associated with the underwriting result are:</b>		
Cash receipts	452	526
Cash payments	(294)	(540)
<b>Net Southern Response operating cash flows</b>	<b>158</b>	<b>(14)</b>

Southern Response Earthquake Services ("Southern Response") manages claims related to the Canterbury earthquakes incurred by AMI Insurance.

## Note 12: Gains and Losses on Financial Instruments

Forecast				Actual	
30 June 2013				30 June	30 June
Budget 12	Budget 13			2013	2012
\$m	\$m			\$m	\$m
<i>By type</i>					
-	11	Foreign exchange gains on financial assets measured at amortised cost		448	40
(15)	(12)	Foreign exchange losses on financial assets measured at amortised cost		(13)	(86)
7	1	Change in fair value of financial assets classified as held for trading		38	(6)
-	(3)	Gain/(loss) on disposal of financial assets measured at amortised cost		224	79
735	1,129	Change in fair value of financial assets classified as fair value through profit and loss		2,651	469
<b>727</b>	<b>1,126</b>	<b>Net gains/(losses) on financial assets</b>		<b>3,348</b>	<b>496</b>
7	-	Foreign exchange gain on financial liabilities measured at amortised cost		8	1
(4)	58	Foreign exchange loss on financial liabilities measured at amortised cost		(14)	(55)
-	-	Change in fair value of financial liabilities classified as held for trading		-	-
(5)	(5)	Gain/(loss) on disposal of financial liabilities measured at amortised cost		55	(4)
80	164	Change in fair value of financial liabilities classified as fair value through profit and loss		175	(362)
<b>78</b>	<b>217</b>	<b>Net gains/(losses) on financial liabilities</b>		<b>224</b>	<b>(420)</b>
930	4,516	Net gain/(loss) on derivatives		3,698	616
<b>1,735</b>	<b>5,859</b>	<b>Net gains/(losses) on financial instruments</b>		<b>7,270</b>	<b>692</b>
<i>By source</i>					
1,685	3,944	Core Crown		5,081	526
288	1,529	Crown entities		1,192	930
(46)	61	State-owned enterprises		354	9
(192)	325	Inter-segment eliminations		643	(773)
<b>1,735</b>	<b>5,859</b>	<b>Net gains/(losses) on financial instruments</b>		<b>7,270</b>	<b>692</b>

## Note 13: Gains and Losses on Non-Financial Instruments

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
		<i>By type</i>		
-	1,047	Actuarial gains/(losses) on ACC outstanding claims	2,369	(2,942)
-	918	Actuarial gains/(losses) on GSF liability	1,251	(3,896)
-	212	Foreign exchange gains/(losses)	101	329
8	-	Other gains/(losses) on non-financial liabilities	1	(124)
(12)	(74)	Gains/(losses) on disposal or revaluation of property, plant and equipment	(24)	(77)
206	(10)	Gains/(losses) on agricultural assets	(46)	120
-	(2)	Gains/(losses) on intangible assets	(2)	(26)
(1)	(3)	Other gains/(losses) on non-financial assets	56	90
<b>201</b>	<b>2,088</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>3,706</b>	<b>(6,526)</b>
		<i>By source</i>		
7	1,121	Core Crown	1,298	(3,790)
(11)	967	Crown entities	2,309	(2,955)
205	(1)	State-owned enterprises	100	220
-	1	Inter-segment eliminations	(1)	(1)
<b>201</b>	<b>2,088</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>3,706</b>	<b>(6,526)</b>

The GSF and ACC liabilities are valued by an independent actuary (refer notes 25 and 26). Actuarial gains/(losses) represent differences between actual results and what the actuary had assumed when originally calculating the liability (experience adjustments) and the effect of changes in actuarial assumptions.

## Note 14: Receivables

Forecast				Actual	
30 June 2013		30 June	30 June	2013	2012
Budget 12	Budget 13	2013	2012	\$m	\$m
\$m	\$m	\$m	\$m		
<i>By type</i>					
6,974	7,323	Tax receivables	8,184	7,257	
3,290	3,874	Levies, fines and penalty receivables	3,183	3,267	
456	502	Social benefit receivables	515	502	
10,720	11,699	<b>Sovereign receivables</b>	11,882	11,026	
29	29	Recoverable from Deposit Guarantee Scheme receiverships	39	270	
6,050	7,461	Trade and other receivables	7,962	9,660	
<b>16,799</b>	<b>19,189</b>	<b>Total receivables</b>	<b>19,883</b>	<b>20,956</b>	
<i>By maturity</i>					
13,951	15,029	Expected to be realised within one year	15,742	15,173	
2,848	4,160	Expected to be outstanding for more than one year	4,141	5,783	
<b>16,799</b>	<b>19,189</b>	<b>Total receivables</b>	<b>19,883</b>	<b>20,956</b>	
<i>By source</i>					
9,357	10,360	Core Crown	11,924	10,974	
6,146	8,664	Crown entities	8,369	10,011	
2,791	2,311	State-owned enterprises	2,037	2,154	
(1,495)	(2,146)	Inter-segment eliminations	(2,447)	(2,183)	
<b>16,799</b>	<b>19,189</b>	<b>Total receivables</b>	<b>19,883</b>	<b>20,956</b>	

In determining the recoverability of a tax or other sovereign receivables, the Government uses information about the extent to which the tax or levy payer is contesting the assessment and experience of the outcomes of such disputes, from lateness of payment, and other information obtained from credit collection actions taken. Due to the size of the tax base, the concentration of credit risk is limited and this is not a risk that is managed.

The Government does not hold any collateral or any other credit enhancements over receivables which are past due.

All sovereign receivables are denominated in New Zealand dollars.

		Actual	
		30 June	30 June
		2013	2012
		\$m	\$m
<b>Tax Receivables</b>			
Gross tax receivable		12,565	11,666
Impairment of tax receivables		(4,381)	(4,409)
<b>Total tax receivables</b>		<b>8,184</b>	<b>7,257</b>
<b>Gross Tax Receivable</b>			
Current		7,223	6,262
Past due		5,342	5,404
<b>Total gross tax receivable</b>		<b>12,565</b>	<b>11,666</b>
<b>% past due</b>		<b>43%</b>	<b>46%</b>
<b>Impairment of Tax Receivables</b>			
Opening balance		4,409	4,144
Impairment losses recognised during the year		897	1,114
Amounts written off as uncollectible		(925)	(849)
<b>Closing balance</b>		<b>4,381</b>	<b>4,409</b>

## Note 14: Receivables (continued)

The Inland Revenue Department (IRD) administers the majority of the tax receivable portfolio. The recoverable amount of the portfolio is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current market rate.

If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
The estimated recoverable amount of this portfolio and key assumptions underpinning the valuation are:		
Net recoverable amount of tax receivables (current)	7,185	6,242
Net recoverable amount of tax receivables (past due)	999	1,015
Discount rate	5.10%	5.60%
Impact on recoverable amount of a 2% increase in discount rate	(20)	(18)
Impact on recoverable amount of a 2% decrease in discount rate	21	20

Tax receivables are classified as past due when any outstanding tax is not paid by the taxpayer's due date. Due dates will vary depending on the type of tax outstanding (e.g. GST, income tax, PAYE) and the taxpayer's balance date. Past due debt includes debt collected under instalment, debt under dispute, default assessments and debts of taxpayers who are bankrupt, in receivership or in liquidation. IRD has debt management policies and procedures to actively manage the collection of past due debt.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Ageing of Tax Receivables Past Due (Gross)</b>		
Less than six months	904	884
Between six months and one year	363	453
Between one year and two years	788	899
Greater than two years	3,287	3,168
<b>Tax receivables past due</b>	<b>5,342</b>	<b>5,404</b>

The carrying amount of tax receivables provides a reasonable approximation of their fair value.

## Note 14: Receivables (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Levies, Fines and Penalty Receivables</b>		
Gross ACC levy receivables	3,027	3,072
Gross other levies, fines and penalty receivables	2,515	2,286
<b>Total gross levies, fines and penalty receivables</b>	<b>5,542</b>	<b>5,358</b>
Impairment of ACC levy receivables	(118)	(122)
Impairment of other levies, fines and penalty receivables	(2,241)	(1,969)
<b>Total impairment of receivables</b>	<b>(2,359)</b>	<b>(2,091)</b>
<b>Total levies, fines and penalty receivables</b>	<b>3,183</b>	<b>3,267</b>
<b>Impairment of ACC Levy Receivables</b>		
Opening balance	122	79
Impairment losses recognised during the year	(2)	14
Amounts written off as uncollectible	(2)	-
Impairment losses reversed	-	29
<b>Closing balance</b>	<b>118</b>	<b>122</b>
Collective impairment allowance	118	122
Individual impairment allowance	-	-
<b>Impairment of ACC Levy Receivables</b>	<b>118</b>	<b>122</b>
<b>Impairment of other Levies, Fines and Penalty Receivables</b>		
Opening balance	1,969	1,937
Impairment losses recognised during the year	363	145
Amounts written off as uncollectible	-	-
Impairment losses reversed	(91)	(113)
<b>Closing balance</b>	<b>2,241</b>	<b>1,969</b>
Collective impairment allowance	2,241	1,969
Individual impairment allowance	-	-
<b>Impairment of other Levies, Fines and Penalty Receivables</b>	<b>2,241</b>	<b>1,969</b>
<b>Ageing of Levies, Fines and Penalty Receivables Past Due But Not Impaired</b>		
Less than six months	-	-
Between six months and one year	-	-
Greater than one year	-	-
<b>Total levies, fines and penalty receivables past due but not impaired</b>	<b>-</b>	<b>-</b>

The ACC levy receivables are short term, so their carrying amount provides a reasonable approximation of their fair value. Of the other levies, fines and penalties receivables, the majority is in the debtor portfolio administered by the Ministry of Justice (i.e. court fines, associated court fees and enforcement fees) with a net book value of \$175 million (2012: \$213 million). Their carrying amount provides a reasonable approximation of their fair value. The recoverable amount of these Justice receivables is calculated using discounted cash flows (net of estimated service costs).



## Note 14: Receivables (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Social Benefit Receivables</b>		
Gross social benefit receivables	1,178	1,130
Impairment of social benefit receivables	(663)	(628)
<b>Total social benefit receivables</b>	<b>515</b>	<b>502</b>
<b>Impairment of Social Benefit Receivables</b>		
Opening balance	628	570
Impairment losses recognised during the year	79	69
Amounts written off as uncollectible	(44)	(11)
<b>Closing balance</b>	<b>663</b>	<b>628</b>
Collective impairment allowance	663	628
Individual impairment allowance	-	-
<b>Impairment of Social Benefit Receivables</b>	<b>663</b>	<b>628</b>
<b>Ageing of Social Benefit Receivables Past Due But Not Impaired</b>		
Less than six months	30	70
Between six months and one year	67	28
Greater than one year	-	-
<b>Total social benefit receivables past due but not impaired</b>	<b>97</b>	<b>98</b>

Social benefit receivables comprise benefit overpayments, advances on benefits and recoverable special needs grants primarily administered by the Ministry of Social Development with a carrying value of \$502 million (2012: \$490 million). The recoverable amount of social benefit receivables is determined by discounting the expected future cash flows (net of estimated service costs). Their carrying amount provides a reasonable approximation of their fair value.

	30 June 2013 \$m	30 June 2012 \$m
	<b>Recoverable from Deposit Guarantee Scheme receiverships</b>	
Opening balance of recoveries expected from receiverships	270	739
Recoveries expected from entities defaulting during the year	-	-
Revision of expected recoveries	8	90
Transfer of assets from receiverships into Crown Asset Management Limited	(38)	(92)
Revaluation gains on assets transferred	14	-
Payments received from receivers	(215)	(467)
<b>Closing balance</b>	<b>39</b>	<b>270</b>
Total payments to depositors under the Guarantee scheme	-	34

As a consequence of payments made to depositors of failed finance companies under the deposit guarantee scheme, the Crown has inherited the beneficial interest in the proceeds that can be recovered from the secured assets of the receiverships. The reported receivables represent the receivers' best estimates of likely recoveries from the receiverships. However, the eventual return to the Crown is dependent upon the value that can be realised from these entities' assets and the timing of receipts. A range of outcomes for eventual recoveries is possible.

In addition to Retail Deposit Guarantee Scheme, the Government operated an opt-in wholesale scheme from November 2008 to April 2010. As at 30 June 2013, 13 guarantee certificates remained in place (value of \$3.47 billion). No provision is made for losses under this scheme as the probability of loss is considered remote.

## Note 14: Receivables (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Trade and Other Receivables</b>		
Gross trade and other receivables	8,050	9,753
Impairment of trade and other receivables	(88)	(93)
<b>Total trade and other receivables</b>	<b>7,962</b>	<b>9,660</b>
<b>Impairment of Trade and Other Receivables</b>		
Opening balance	93	82
Impairment losses recognised during the year	7	20
Amounts written off as uncollectible	(14)	(14)
Impairment losses reversed	2	5
<b>Closing balance</b>	<b>88</b>	<b>93</b>
Collective impairment allowance	64	69
Individual impairment allowance	24	24
<b>Impairment of Trade and Other Receivables</b>	<b>88</b>	<b>93</b>
<b>Ageing of Trade and Other Receivables Past Due But Not Impaired</b>		
Less than six months	180	248
Between six months and one year	17	5
Greater than one year	2	2
<b>Total trade and other receivables past due but not impaired</b>	<b>199</b>	<b>255</b>

Trade and other receivables include \$3,135 million relating to reinsurance receivables in Southern Response and EQC (2012: \$5,003 million). The rest of the trade and other receivables are short term, with \$2,214 million (2012: \$4,273 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Reinsurance receivable</b>		
Opening balance	5,003	5,381
Reinsurance recognised/reassessed during the year	(100)	407
Reinsurance acquired through business combination	-	-
Reinsurance received during the year	(1,768)	(785)
<b>Closing balance</b>	<b>3,135</b>	<b>5,003</b>

Credit risk associated with reinsurance receivables is managed by ensuring the risk is spread across a number of different reinsurers with appropriate credit ratings.

## Note 15: Marketable securities, deposits and derivatives in gain

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
<i>By type</i>				
28,027	31,391	Marketable securities	34,346	38,682
1,697	2,013	Long term deposits	3,588	2,422
4,028	4,797	Derivatives in gain	3,775	5,032
2,445	2,191	IMF financial assets	2,291	2,249
<b>36,197</b>	<b>40,392</b>	<b>Total marketable securities, deposits and derivatives in gain</b>	<b>44,000</b>	<b>48,385</b>
<i>By maturity</i>				
21,583	27,037	Expected to be realised within one year	26,833	34,451
14,614	13,355	Expected to be held for more than one year	17,167	13,934
<b>36,197</b>	<b>40,392</b>	<b>Total marketable securities, deposits and derivatives in gain</b>	<b>44,000</b>	<b>48,385</b>
<i>By source</i>				
24,378	29,091	Core Crown	31,056	37,330
19,197	19,580	Crown entities	20,045	18,713
2,633	2,916	State-owned enterprises	2,586	2,607
(10,011)	(11,195)	Inter-segment eliminations	(9,687)	(10,265)
<b>36,197</b>	<b>40,392</b>	<b>Total marketable securities, deposits and derivatives in gain</b>	<b>44,000</b>	<b>48,385</b>

Marketable securities comprise bonds, commercial paper, debentures and similar tradable financial assets held by the Government for the purposes of realising capital gains or interest revenue. Marketable securities and derivatives in gain are reported at their fair value. Fair value is either based on quoted market price or using a valuation model if there is no active market. The valuation models used generally calculate the expected cash flows under the terms of each specific contract and then discount these values back to present value.

Long-term deposits are instruments with maturities greater than three months that are not traded in an active market. Long-term deposits are measured at amortised cost. Their carrying amount provides a reasonable approximation of their fair value.

Further information on the management of risks associated with these financial assets is provided in note 33.

## Note 16: Share Investments

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
<i>By maturity</i>				
7,375	6,701	Expected to be realised within one year	7,651	6,388
8,478	9,915	Expected to be held for more than one year	9,708	7,997
<b>15,853</b>	<b>16,616</b>	<b>Total share investments</b>	<b>17,359</b>	<b>14,385</b>
<i>By source</i>				
7,370	6,650	Core Crown	7,665	6,341
8,461	9,671	Crown entities	9,496	7,806
57	322	State-owned enterprises	342	264
(35)	(27)	Inter-segment eliminations	(144)	(26)
<b>15,853</b>	<b>16,616</b>	<b>Total share investments</b>	<b>17,359</b>	<b>14,385</b>

Share investments are reported at fair value. The fair value of listed share investments is based on quoted market prices. The fair value of unlisted share investments is determined from the initial cost of the investment and adjusted for performance of the business and changes in equity market conditions since purchase.

Further information on the management of risks associated with these financial assets is provided in note 33.

## Note 17: Advances

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
<b>By type</b>				
8,781	8,528	Student loans	8,288	8,291
13,830	13,261	Kiwibank mortgages	13,202	12,445
1,284	1,643	Other advances	1,123	1,030
<b>23,895</b>	<b>23,432</b>	<b>Total advances</b>	<b>22,613</b>	<b>21,766</b>
<b>By source</b>				
14,211	13,704	Core Crown	13,419	13,580
280	131	Crown entities	248	325
14,273	14,203	State-owned enterprises	13,499	12,765
(4,869)	(4,606)	Inter-segment eliminations	(4,553)	(4,904)
<b>23,895</b>	<b>23,432</b>	<b>Total advances</b>	<b>22,613</b>	<b>21,766</b>

Further information on the management of risks associated with these financial assets is provided in note 33.

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
<b>Student Loans</b>				
13,840	13,512	Nominal value	13,562	12,969
(5,059)	(4,984)	Write-down on initial recognition and impairment	(5,274)	(4,678)
<b>8,781</b>	<b>8,528</b>	<b>Total student loans</b>	<b>8,288</b>	<b>8,291</b>
Gross carrying value			9,723	9,242
Impairment of student loans			(1,435)	(951)
<b>Total student loans</b>			<b>8,288</b>	<b>8,291</b>
<b>By maturity</b>				
Expected to be repaid within one year			1,049	930
Expected to be outstanding for more than one year			7,239	7,361
<b>Total student loans</b>			<b>8,288</b>	<b>8,291</b>
<b>Movement During the Year</b>				
8,238	8,291	Opening balance	8,291	7,460
1,644	1,553	New lending (excluding fees)	1,470	1,586
12	12	New lending - establishment fee	11	11
(651)	(528)	Initial write-down to fair value	(536)	(701)
(953)	(1,149)	Repayments made during the year	(1,054)	(877)
601	581	Interest unwind	590	526
(110)	(232)	Impairment losses (recognised)/reversed during the year	(484)	286
-	-	Other movements	-	-
<b>8,781</b>	<b>8,528</b>	<b>Closing balance student loans</b>	<b>8,288</b>	<b>8,291</b>
<b>Impairment of Student Loans</b>				
Opening balance			951	1,237
Impairment losses recognised during the year			484	-
Amounts written off as uncollectible			-	-
Impairment losses reversed			-	(286)
<b>Closing balance</b>			<b>1,435</b>	<b>951</b>

## Note 17: Advances (continued)

Student loans are recognised initially by writing the amount lent down to fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest rate method, less any impairment loss. Fair value on initial recognition of student loans is determined by projecting forward expected repayments required under the scheme and discounting them back at an appropriate discount rate. The difference between the amount lent and the fair value on initial recognition is expensed on initial recognition. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the Crown's interest income across the life of the loan and determines the loan's carrying value at each reporting date.

	Actual	
	30 June 2013	30 June 2012
Significant assumptions behind the carrying value are:		
Effective interest rate - weighted average	7.1%	7.2%
Interest rate applied to loans for overseas borrowers	5.1%-6.2%	4.6%-6.7%
CPI	1.4%-2.5%	1.8%-2.5%
Future salary inflation	2.2%-3.5%	3.2%-3.5%

In contrast with the amortised cost approach described above, fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2013. It is determined by discounting the cash flows at an appropriate discount rate.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
Fair value of the student loan portfolio	8,298	8,527
Impact on fair value of a 1% increase in discount rate	(423)	(396)
Impact on fair value of a 1% decrease in discount rate	471	432

The fair value differs from the carrying value due to changes in market interest rates at reporting date. The carrying value is not adjusted for such changes as it is valued using the effective interest rate determined when the loan was initially drawn. However, the fair value was calculated on a discount rate that was current at 30 June 2013. At that date the fair value was calculated on a discount rate of 7.1% (2012: 6.6%) whereas a weighted average effective interest rate of 7.1% (2012: 7.2%) was used for the carrying value.

Through the everyday operations of the student loan scheme the Government is exposed to the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid. The student loan scheme does not require borrowers to provide any collateral or security to support their borrowings. As the total sum advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk. The credit risk is reduced by collection of repayments through the tax system.

The Student Loan Scheme Annual Report contains more information on the student loan scheme.

## Note 17: Advances (continued)

Forecast		Actual	
30 June 2013		30 June	30 June
Budget 12	Budget 13	2013	2012
\$m	\$m	\$m	\$m
<b>Kiwibank Mortgages</b>			
<i>By maturity</i>			
1,245	1,103	1,071	1,036
12,585	12,158	12,131	11,409
<b>13,830</b>	<b>13,261</b>	<b>13,202</b>	<b>12,445</b>
<b>Impairment of Kiwibank Mortgages</b>			
Opening balance		91	87
Impairment losses recognised on mortgages		18	45
Amounts written off as uncollectible		(26)	(31)
Impairment losses reversed		(11)	(10)
<b>Closing balance</b>		<b>72</b>	<b>91</b>
Collective impairment allowance		44	50
Individual impairment allowance		28	41
<b>Impairment of Kiwibank Mortgages</b>		<b>72</b>	<b>91</b>
<b>Ageing of Kiwibank Mortgages Past Due But Not Impaired</b>			
Less than six months		183	202
Between six months and one year		-	-
Greater than one year		-	-
<b>Total Kiwibank mortgages past due but not impaired</b>		<b>183</b>	<b>202</b>

Kiwibank mortgages are measured at amortised cost. This amortisation is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses. The fair value of Kiwibank mortgages is \$13,210 million (2012: \$12,497 million).

The maximum loss due to default on Kiwibank mortgages is the carrying value reported in the statement of financial position. Collateral is obtained to mitigate any risk of loss, which in the case of Kiwibank mortgages are primarily in the form of properties. The fair value of the collateral provided is sufficient to ensure that the Crown will recover the entire amount owing over the life of the mortgage and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

## Note 17: Advances (continued)

Forecast		Actual	
30 June 2013		30 June	30 June
Budget 12	Budget 13	2013	2012
\$m	\$m	\$m	\$m
<b>Other Advances</b>			
<i>By maturity</i>			
550	567	391	480
734	1,076	732	550
<b>1,284</b>	<b>1,643</b>	<b>1,123</b>	<b>1,030</b>
<b>Impairment of Other Advances</b>			
Opening balance		148	190
Impairment losses recognised during the year		10	39
Amounts written off as uncollectible		(6)	(80)
Impairment losses reversed		(2)	(1)
<b>Closing balance</b>		<b>150</b>	<b>148</b>
Collective impairment allowance		146	140
Individual impairment allowance		4	8
<b>Impairment of Other Advances</b>		<b>150</b>	<b>148</b>
<b>Ageing of Other Advances Past Due But Not Impaired</b>			
Less than six months		9	7
Between six months and one year		-	-
Greater than one year		2	-
<b>Total other advances past due but not impaired</b>		<b>11</b>	<b>7</b>
<b>Measurement Basis for Other Advances</b>			
923	612	791	790
361	1,031	332	240
<b>1,284</b>	<b>1,643</b>	<b>1,123</b>	<b>1,030</b>

The NZS Fund, NZDMO, Public Trust and a number of SOEs manage the majority of these advances.

Other advances measured at fair value are those that are managed and performance is evaluated on a fair value basis. As they are designated at fair value through profit and loss, the value of these instruments will be affected by changes in interest rates. Changes to interest rates may arise from features specific to these assets (i.e. changes to credit risk on these assets) and broader market sentiment changes.

In addition to these advances, the Government has entered into commitments to provide advances through two facilities. The Crown has agreed to make available to the Auckland Council, a loan facility to enable the Council to develop the Auckland metro rail network. The loan facility amount is \$500 million of which \$330 million is undrawn as at 30 June 2013.

The Crown has also agreed to make available to the New Zealand Local Government Funding Agency (NZLGFA) a New Zealand dollar revolving credit facility for 10 years (to February 2022). This facility is only to be utilised to meet exceptional and temporary liquidity shortfalls affecting the NZLGFA. The facility is for \$400 million with the possibility for this to be increased to \$1 billion by February 2015. As at 30 June 2013 the facility had not been utilised.

## Note 18: Inventory

Forecast				Actual	
30 June 2013		30 June	30 June	2013	2012
Budget 12	Budget 13	2013	2012	\$m	\$m
\$m	\$m	\$m	\$m		
<i>By type</i>					
		Inventories held for sale		105	102
		Military inventories		311	293
		Other consumables		724	839
<b>1,360</b>	<b>1,248</b>	<b>Total inventory</b>		<b>1,140</b>	<b>1,234</b>
<i>By maturity</i>					
1,071	1,011	Expected to be sold or consumed within one year		783	952
289	237	Expected to be sold or consumed after one year		357	282
<b>1,360</b>	<b>1,248</b>	<b>Total inventory</b>		<b>1,140</b>	<b>1,234</b>
<i>By source</i>					
441	378	Core Crown		382	399
163	166	Crown entities		165	183
756	704	State-owned enterprises		593	652
-	-	Inter-segment eliminations		-	-
<b>1,360</b>	<b>1,248</b>	<b>Total inventory</b>		<b>1,140</b>	<b>1,234</b>

## Note 19: Other Assets

Forecast				Actual	
30 June 2013		30 June	30 June	2013	2012
Budget 12	Budget 13	2013	2012	\$m	\$m
\$m	\$m	\$m	\$m		
<i>By type</i>					
449	563	Prepayments		531	499
55	73	Investment property		201	58
780	638	Biological assets		583	640
368	361	Investment in supranational organisations		368	367
399	429	Other		612	570
<b>2,051</b>	<b>2,064</b>	<b>Total other assets</b>		<b>2,295</b>	<b>2,134</b>
<i>By maturity</i>					
886	1,069	Expected to be realised within one year		1,188	1,086
1,165	995	Expected to be held for more than one year		1,107	1,048
<b>2,051</b>	<b>2,064</b>	<b>Total other assets</b>		<b>2,295</b>	<b>2,134</b>
<i>By source</i>					
1,265	1,171	Core Crown		1,222	1,233
164	244	Crown entities		394	228
660	682	State-owned enterprises		708	713
(38)	(33)	Inter-segment eliminations		(29)	(40)
<b>2,051</b>	<b>2,064</b>	<b>Total other assets</b>		<b>2,295</b>	<b>2,134</b>



## Note 20: Property, Plant and Equipment

Forecast				Actual	
30 June 2013				30 June	30 June
Budget 12	Budget 13			2013	2012
\$m	\$m			\$m	\$m
<b>Net Carrying Value</b>					
<i>By class of asset</i>					
35,551	34,021	Land		34,453	33,626
25,528	25,015	Buildings		25,784	25,046
19,120	17,989	State highways		17,930	17,546
15,348	13,911	Electricity generation assets		13,555	14,400
3,835	3,989	Electricity distribution network		3,865	3,476
3,346	3,196	Specialist military equipment		3,094	3,220
2,506	2,481	Specified cultural and heritage assets		2,617	2,592
2,222	2,240	Aircraft (excluding military)		2,296	2,250
7,614	866	Rail network <sup>1</sup>		1,035	856
6,265	5,626	Other plant and equipment		5,204	5,572
<b>121,335</b>	<b>109,334</b>	<b>Total property, plant and equipment</b>		<b>109,833</b>	<b>108,584</b>
<i>By source</i>					
30,140	29,561	Core Crown		29,507	29,377
51,182	50,715	Crown entities		51,823	49,939
40,013	29,058	State-owned enterprises		28,503	29,268
-	-	Inter-segment eliminations		-	-
<b>121,335</b>	<b>109,334</b>	<b>Total property, plant and equipment</b>		<b>109,833</b>	<b>108,584</b>
<i>By holding</i>					
1,610	1,828	Leasehold		1,858	1,833
119,725	107,506	Freehold		107,975	106,751
<b>121,335</b>	<b>109,334</b>	<b>Total property, plant and equipment</b>		<b>109,833</b>	<b>108,584</b>
<b>Property, plant and equipment pledged to secure borrowing</b>				<b>1,743</b>	1,680

Property, plant and equipment pledged to secure borrowing is owned by State-owned enterprises. Under Section 55 of the Public Finance Act 1989, borrowing by the Crown is a charge on the revenue of the Crown equally and rateably. Therefore, no property, plant and equipment owned by the core Crown has been pledged as security for liabilities. Government-owned property, plant and equipment is, however, subject to a significant number of legislative and policy restrictions with respect to its use and disposal.

These carrying values critically depend on judgements of useful lives to determine depreciation and the assumptions used in revaluations. Depreciation rates are affirmed to be appropriate each year by those responsible for managing the assets, whereas assurance on the assumptions used in valuations is provided by the use of independent valuers as noted below.

The value of the land underneath state highways and the rail network, as well as land set aside for cultural and heritage purposes (i.e. national parks, forest parks, conservation areas and recreational facilities) is included in the Land category.

As a consequence of the financial difficulties experienced with the deterioration in its market conditions, the assets of Solid Energy, primarily its mining assets and plant and equipment have been impaired by \$190 million during the year to 30 June 2013.

1. In the previous financial year (2011/12) the valuation methodology for the rail network (excluding metro only assets) changed from optimised depreciated replacement cost to fair value based on recoverable amount resulting in a significant impairment.

## Note 20: Property, Plant and Equipment (continued)

	Total \$m	Land \$m	Buildings \$m	State highways \$m	Electricity		Specialist military equipment \$m	Specified		Rail network \$m	Other plant and equipment \$m
					generation assets \$m	distribution network \$m		cultural and heritage assets \$m	Aircraft (excluding military) \$m		
<b>For the year ended 30 June 2013</b>											
<b>Gross carrying amount</b>											
Opening balance 1 July 2012	121,717	33,626	27,551	17,546	14,714	4,453	4,153	3,036	2,266	860	13,512
Additions	5,779	465	1,220	1,010	609	657	201	128	175	434	880
Disposals	(1,471)	(420)	(228)	-	(17)	(180)	(20)	(9)	(20)	(1)	(576)
Net revaluations	(2,047)	942	(204)	(626)	(893)	-	(1,241)	43	(72)	-	4
Other <sup>1</sup>	(1,182)	(160)	(62)	-	(802)	-	1	(125)	(37)	(18)	21
<b>Total gross carrying amount</b>	<b>122,796</b>	<b>34,453</b>	<b>28,277</b>	<b>17,930</b>	<b>13,611</b>	<b>4,930</b>	<b>3,094</b>	<b>3,073</b>	<b>2,312</b>	<b>1,275</b>	<b>13,841</b>
<b>Accumulated Depreciation and Impairment</b>											
Opening balance 1 July 2012	13,133	-	2,505	-	314	977	933	398	16	4	7,986
Eliminated on disposal	(659)	-	(101)	-	(3)	(48)	(30)	(6)	(14)	-	(457)
Eliminated on revaluation	(3,587)	-	(1,125)	(449)	(650)	-	(1,203)	9	(169)	-	-
Impairment losses charged to operating balance	473	-	-	-	19	-	-	-	-	222	232
Depreciation expense	3,697	-	1,150	449	431	152	272	24	213	14	992
Other	(94)	-	64	-	(55)	(16)	28	31	(30)	-	(116)
<b>Total accumulated depreciation</b>	<b>12,963</b>	<b>-</b>	<b>2,493</b>	<b>-</b>	<b>56</b>	<b>1,065</b>	<b>-</b>	<b>456</b>	<b>16</b>	<b>240</b>	<b>8,637</b>
<b>Carrying value as at 30 June 2013</b>	<b>109,833</b>	<b>34,453</b>	<b>25,784</b>	<b>17,930</b>	<b>13,555</b>	<b>3,865</b>	<b>3,094</b>	<b>2,617</b>	<b>2,296</b>	<b>1,035</b>	<b>5,204</b>
<b>By holding</b>											
Leasehold	1,858	-	228	-	2	-	-	-	1,590	-	38
Freehold	107,975	34,453	25,556	17,930	13,553	3,865	3,094	2,617	706	1,035	5,166
	<b>109,833</b>	<b>34,453</b>	<b>25,784</b>	<b>17,930</b>	<b>13,555</b>	<b>3,865</b>	<b>3,094</b>	<b>2,617</b>	<b>2,296</b>	<b>1,035</b>	<b>5,204</b>

<sup>1</sup> "Other" gross carrying movements include a \$623 million reduction in electricity generation assets, relating to costs associated with a wind farm in Macarthur (Australia). The reduction arose from construction costs that were previously capitalised being converted to a finance lease. Subsequently, on 28 June 2013, Meridian disposed of its entire interest in the wind farm.

## Note 20: Property, Plant and Equipment (continued)

	Total \$m	Land \$m	Buildings \$m	State highways \$m	Electricity generation assets \$m	Electricity distribution network \$m	Specialist military equipment \$m	Specified cultural and heritage assets \$m	Aircraft (excluding military) \$m	Rail network \$m	Other plant and equipment \$m
<b>For the year ended 30 June 2012</b>											
<b>Gross carrying amount</b>											
Opening balance 1 July 2011	126,601	36,022	26,652	16,802	14,455	3,547	4,038	2,954	1,821	7,508	12,802
Additions	6,514	152	1,337	1,123	344	927	110	38	611	269	1,603
Disposals	(941)	(209)	(109)	1	(8)	(13)	(8)	(8)	(20)	-	(567)
Net revaluations	(9,793)	(2,168)	(303)	(380)	54	-	(12)	47	(116)	(6,915)	-
Other	(664)	(171)	(26)	-	(131)	(8)	25	5	(30)	(2)	(326)
<b>Total gross carrying amount</b>	<b>121,717</b>	<b>33,626</b>	<b>27,551</b>	<b>17,546</b>	<b>14,714</b>	<b>4,453</b>	<b>4,153</b>	<b>3,036</b>	<b>2,266</b>	<b>860</b>	<b>13,512</b>
<b>Accumulated Depreciation and Impairment</b>											
Opening balance 1 July 2011	11,747	-	2,113	-	16	857	707	420	16	408	7,210
Eliminated on disposal	(634)	-	(28)	-	-	(17)	(6)	(6)	(15)	-	(562)
Eliminated on revaluation	(3,415)	-	(717)	(432)	(116)	-	(1)	2	(120)	(2,031)	-
Impairment losses charged to operating balance	1,884	-	1	-	29	-	-	-	-	1,409	445
Depreciation expense	3,803	-	1,174	432	388	137	237	27	153	223	1,032
Other	(252)	-	(38)	-	(3)	-	(4)	1	(18)	(5)	(185)
<b>Total accumulated depreciation</b>	<b>13,133</b>	<b>-</b>	<b>2,505</b>	<b>-</b>	<b>314</b>	<b>977</b>	<b>933</b>	<b>444</b>	<b>16</b>	<b>4</b>	<b>7,940</b>
<b>Carrying value as at 30 June 2012</b>	<b>108,584</b>	<b>33,626</b>	<b>25,046</b>	<b>17,546</b>	<b>14,400</b>	<b>3,476</b>	<b>3,220</b>	<b>2,592</b>	<b>2,250</b>	<b>856</b>	<b>5,572</b>
<b>By holding</b>											
Leasehold	1,833	-	263	-	-	-	-	-	1,518	-	52
Freehold	106,751	33,626	24,783	17,546	14,400	3,476	3,220	2,592	732	856	5,520
	108,584	33,626	25,046	17,546	14,400	3,476	3,220	2,592	2,250	856	5,572

**Note 20: Property, Plant and Equipment (continued)****Revaluation details**

Revaluations are carried out for a number of classes of property, plant and equipment as detailed in the accounting policies on page 47-48. Information about the significant valuations within each of the revalued classes of assets is provided below.

**Land and buildings**

Independent valuations of the Government's land and buildings have been performed by a number of valuers to determine their fair value. The valuations, which conform to International Valuation Standards, were determined by reference to prices for similar properties and in some cases by reference to discounted cash flows or optimised depreciated replacement cost (ODRC).

Breakdown of land and buildings (total valuation over \$500m)	Land		Buildings		Total	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	\$m	\$m	\$m	\$m	\$m	\$m
Housing stock	9,580	8,744	6,778	6,406	16,358	15,150
School property	2,887	2,726	7,941	7,887	10,828	10,613
State highway corridor land	8,003	8,353	11	12	8,014	8,365
Conservation estate	5,364	5,454	60	46	5,424	5,500
Hospitals	707	616	4,135	3,916	4,842	4,532
Rail network corridor land	3,256	3,260	-	-	3,256	3,260
Defence Force land and buildings	631	674	1,287	1,176	1,918	1,850
Prisons and Department of Corrections office buildings	207	212	1,681	1,769	1,888	1,981
Landcorp farmland and buildings	1,047	1,032	125	120	1,172	1,152
Ministry of Justice land and buildings	418	418	461	463	879	881
Police stations	168	168	537	503	705	671
Other	2,185	1,969	2,768	2,748	4,953	4,717
<b>Land and buildings</b>	<b>34,453</b>	<b>33,626</b>	<b>25,784</b>	<b>25,046</b>	<b>60,237</b>	<b>58,672</b>

Description	Valuer/Reviewer	Approach	Timing
Housing stock	Quotable Value NZ Limited	Valuations based on market evidence or adjusted current rating valuations.	Annual valuation with the latest completed as at 30 June 2013
School property	Quotable Value Limited or experienced staff (reviewed by Quotable Value Limited)	Valuations based on market evidence where possible, or ODRC.	Annual valuation with the latest completed as at 30 June 2013
State highway corridor land and held properties	Opus International Consultants Limited	Valued using opportunity cost based on adjacent use as an approximation to fair value.	A full valuation is completed on a rolling regional basis, with each region fully valued at least once every 3 – 5 years. The latest valuation completed as at 30 June 2013.
Conservation estate (national parks, forest parks, conservation areas, reserves)	Property IQ rateable valuations reviewed by Logan Stone Limited	Valued based on rateable valuations where possible. Land not matched to a rateable valuation was assessed using a conservancy average per hectare rate.	Annual valuation with the latest completed as at 30 June 2013

**Note 20: Property, Plant and Equipment (continued)**

Description	Valuer/Reviewer	Approach	Timing
Hospitals	Each District Health Board uses an independent valuer	Land values were based on market evidence while buildings were valued at ODRC. The largest DHB is Auckland DHB, which had its land and buildings valued at \$799 million (2012: \$761 million) by Telfer Young.	Three to five year cycle with varying valuation dates depending on each DHB
New Zealand Rail Corporation rail corridor land	Darroch Limited	Land associated with the rail corridor was valued using an opportunity cost based on adjacent use, as an approximation to fair value.	Valuation completed with sufficient regularity to ensure that the carrying amount does not differ materially from fair value with the latest full valuation completed as at 30 June 2012.
NZ Defence Force Land and Buildings	Beca Valuations Limited	Valued using a market based approach unless reliable market evidence was unavailable, in which case ODRC was used to calculate fair value.	Valuations completed at least once every five years with the latest being as at 30 June 2013
Prisons and Department of Corrections office buildings	Darroch Limited	Valued based on market evidence, except for prison buildings, which were valued at ODRC.	Three-year valuation cycle with the latest full valuation completed as at 30 June 2011
Landcorp farmland and associated buildings	Darroch Limited	The valuations take into account general factors that influence farm land prices and recent farm sales in the relevant regions and specific encumbrances over the land.	Annual valuation with the latest completed as at 30 June 2013
Ministry of Justice locations (including courtrooms)	Beca Valuations Limited	Based on market evidence where possible, or ODRC.	The valuations are performed on a rolling basis over three years. The full valuation cycle was completed on 30 June 2013
Police stations and national headquarters	Reviewed by Beca Valuations Limited	The internal valuation performed by experienced staff was based on market evidence where possible, or ODRC.	Three-year cycle with the latest full valuation completed as at 30 June 2013

**Note 20: Property, Plant and Equipment (continued)***Specified cultural and heritage assets*

There are difficulties associated with obtaining an objective valuation for the specified cultural and heritage assets of the Government. Details of the valuations of the most significant assets within this class are discussed in the following table:

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
National Library	849	846
Te Papa	830	824
National Archives	449	446
Conservation	442	350
Parliamentary Library	28	28
Other	19	98
	<b>2,617</b>	<b>2,592</b>

Description	Valuer/Reviewer	Approach	Timing
National Library collections	Internal valuation	Valued by experienced staff in accordance with guidelines released by the New Zealand Library Association.	Three-year valuation cycle with the latest full valuation completed as at 30 June 2011
Te Papa collections	Archaeozoological: <i>Foss Leach</i> Taonga Maori International & Pacific Collections: <i>Webbs Auckland</i>	All collections are valued based on market value by independent valuers.	Valuations completed at least once every three years with the latest valuations for all collections completed as at 30 June 2013
National archives	Dunbar Sloane	The collection was divided into categories by format and age to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature.	Three year cycle with the latest full valuation completed as at 30 June 2011
Conservation estate assets including visitor buildings, tracks, roads, fences and infrastructure	Internal valuations reviewed by Logan Stone Limited	Revaluations use the movement in the appropriate capital goods index as supplied by Statistics New Zealand to estimate the change in asset values.	Valued at least once every five years and more often if the change since last revaluation is deemed material
Parliament Library collection	Internal valuation	Valued by experienced staff in accordance with guidelines released by the New Zealand Library Association. ODRC was used to value current use collections while permanently retained collections were valued at estimated market value using sources such as auction records and book dealers' catalogues.	Annual valuation with the latest completed as at 30 June 2013

**Note 20: Property, Plant and Equipment (continued)***Other asset classes subject to revaluation*

The details of valuations for each class of property, plant and equipment are in the table below:

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
	State highways <sup>1</sup>	17,930
Electricity generation assets	13,555	14,400
Specialist military equipment	3,094	3,220
Aircraft (excluding military)	2,296	2,250
Rail network	1,035	856
	<b>37,910</b>	<b>38,272</b>

Description	Valuer/Reviewer	Approach	Timing
<b>State highways<sup>7</sup></b> Roads, bridges, culverts, tunnels, underpasses including the formation works, road structure, drainage works and traffic facilities.	Opus International Consultants Limited	State Highways are valued using the ODRC of the existing asset database. (See below for further comments).	A full valuation is completed on a rolling regional basis, with each region fully valued at least once every 3 – 5 years. The latest valuation was completed as at 30 June 2013
<b>Electricity generation assets<sup>8</sup></b>			
Meridian Energy: Hydro stations, wind and solar farms	Pricewaterhouse Coopers (PwC)	Based on both the capitalisation of earnings methodology, applied to Meridian as a whole, and the discounted cash flow methodology.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2013
Mighty River Power: Hydro and Geothermal stations and gas-fired generation plants	PwC	Based on net present value of future earnings of the assets on an existing use basis excluding disposal and restoration costs.	Annual valuation with the latest completed as at 30 June 2013
Genesis Power: Thermal and Hydro stations and Wind farms	Internal valuation independently reviewed by PwC	Based on the net present value of future cash flows associated with the assets on an existing use basis excluding disposal and restoration costs.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2013

<sup>7</sup> Additional information regarding state highways assets is provided on page 85.

<sup>8</sup> Additional information regarding electricity generation assets is provided on page 85.

**Note 20: Property, Plant and Equipment (continued)**

Description	Valuer/Reviewer	Approach	Timing
<b>Specialist military equipment</b>	Internal valuations by subject matter experts	Valuations use a market based approach unless reliable market evidence is not available, in which case ODRC is used to calculate fair value.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2013
<b>Aircraft</b> Aircraft and spare engines and flight simulators	The Aircraft Value Analysis Company	An external valuation is obtained to ascertain indicative market values of each aircraft on a stand-alone basis.	Annual valuation with the latest completed as at 30 June 2013
<b>Rail network<sup>9</sup></b> Buildings, bridges, tunnels, tracks, level crossings signals and electrification. All these assets are held on freehold basis.	Buildings – Darroch Limited  Other Rail Network Assets – Ernst and Young	Non-specialised building assets not on the rail corridor were valued based on market evidence using comparable sales. Specialised building assets and buildings on rail corridor land were valued using ODRC.  Railway infrastructure used for freight services (freight only and dual use lines required for freight operations) has been valued using the recoverable amount, being scrap value less costs to sell.  Railway infrastructure not required for freight operations and used for metro has been valued using ODRC reflecting the public benefit nature of these assets.	Valuation completed with sufficient regularity to ensure that the carrying amount does not differ materially from fair value with the latest full valuation completed as at 30 June 2012

<sup>9</sup> Additional information regarding the rail network assets is provided on page 86.



**Note 20: Property, Plant and Equipment (continued)*****Additional information regarding state highways asset valuation***

There are some uncertainties about the values assigned to different components (land, formation, bridges, etc) of the state highway network. These uncertainties include whether the New Zealand Transport Agency's (NZTA's) databases have accurate quantities of remaining life and complete capture for some cost components. Some uncertainties are inherent, but those for both the quantity and costs of components can be reduced by improvements in the accuracy of the underlying databases.

The NZTA has identified a few instances where some of the quantities have been understated and some actual costs have not been included in the underlying databases, which have been relied upon by the valuer.

Additional costs associated with urban development are assessed as being the most significant part of the potential undervaluation with the remaining due to incomplete records. The additional costs associated with urban development are not currently able to be reliably measured.

NZTA has a plan to improve the accuracy of the asset databases and identify all costs able to be capitalised, which will serve to reduce the understatement of the value of the state highway network.

Any adjustments affect the Statement of Financial Position only. There is no impact on the operating balance.

***Additional information regarding electricity generation assets***

There are a number of key assumptions used to value electricity generation assets. These assumptions relate to future revenue streams and expenses, as well as the discount rate used to calculate the present value of those revenues and expenses.

The following table outlines the sensitivity of the fair value of these assets to changes in two key assumptions, keeping all other valuation inputs constant.

Sensitivity of assumptions	Change	Impact on valuation
		30 June 2013 \$m
Future wholesale electricity price	+10%	1,810
	-10%	(1,810)
Discount rate	+1%	(2,322)
	-1%	3,861

Assumptions in relation to generation output also impact the valuation of the assets, but they are generally linked to the future wholesale electricity price and therefore have similar sensitivities to changes in price assumptions.

As this is the first year of disclosure for these sensitivities, no prior year comparatives have been provided.

For further information on the valuation of electricity generation assets, refer to the individual annual reports of the State-owned electricity generation companies (Genesis Energy, Meridian Energy and Mighty River Power).

**Note 20: Property, Plant and Equipment (continued)***Additional information regarding rail network*

	Recoverable amount \$m	ODRC \$m	30 June 2013 Carrying value \$m
Network required for freight	118	4,151	118
Network not required for freight (including metro)	14	654	654
<b>Total rail infrastructure</b>	<b>132</b>	<b>4,805</b>	<b>772</b>
Buildings			115
Capital work in progress			148
<b>Rail network</b>			<b>1,035</b>

	Recoverable amount \$m	ODRC \$m	30 June 2012 Carrying value \$m
Network required for freight	154	5,035	154
Network not required for freight (including metro)	10	499	499
<b>Total rail infrastructure</b>	<b>164</b>	<b>5,534</b>	<b>653</b>
Buildings			142
Capital work in progress			61
<b>Rail network</b>			<b>856</b>

The rail network comprises around 4,000 kilometres of track and is used primarily for freight transport. In addition to freight, the network is used by KiwiRail for long distance passenger transport and access is provided to two regional authorities, Greater Wellington Regional Council and Auckland Transport for metro passenger services. Some tracks are dual purpose (ie, used for both freight and metro), however there are a number of tracks which serve metro transport only (eg, the Johnsonville line). The rail infrastructure earns revenue from freight and long distance passenger charges. In addition, network access charges are collected from the two regional authorities in relation to the metro services.

The rail network infrastructure used for freight services (including dual use assets required for freight operations) is measured at fair value, reflecting the amount that could be expected to be received from a third party in an orderly transaction. Dual use assets not required for freight operations and metro only assets are reported in these financial statements at an optimised depreciated replacement cost basis, as the community benefits enabled by this investment do not provide a return at the whole-of-Government level.

Prior to the restructuring of KiwiRail as a profit-oriented entity, the total rail network infrastructure was measured on an optimised depreciated replacement cost basis reflecting the previous focus on it as a non-cash generating asset. If the value of the rail network was still measured using that approach, then a notional depreciation amount of \$194 million (2012: \$223 million) could be calculated, representing an estimate of the amount of "wear-and-tear" or consumption of the network asset over the year. This estimated "wear-and-tear" compares to the total maintenance and renewal expenditure of \$213 million (2012: \$240 million) on the rail network during the year.

All valuations have been undertaken in accordance with the standards issued by the New Zealand Property Institute.

## Note 21: Equity Accounted Investments

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
8,301	8,048	Tertiary Education Institutions	8,060	7,915
1,666	1,461	Other	1,533	1,568
<b>9,967</b>	<b>9,509</b>	<b>Total equity accounted investments</b>	<b>9,593</b>	<b>9,483</b>

## Tertiary Education Institutions (TEIs)

TEIs are Crown entities, and the Government has a number of legislative powers with respect to them in the interests of public accountability and has some significant reserve controls in the event of an institution facing financial risk. However, the Government does not determine the operating and financing policies of TEIs, if they are not at financial risk, but rather is committed to safeguarding their academic freedom and autonomy. By so doing, the Government obtains the benefits of an effective tertiary education sector. Their relationship to the Crown is managed by a plan agreed between them and the Tertiary Education Commission.

The applicability of the test for consolidation in accounting standards as it applies to TEIs and the Government is unclear, and is still under consideration by the relevant accounting authorities. In the interim the TEIs have been included in the accounts as a 100% equity accounted investment.

The financial year of TEIs is the academic year ending 31 December. Half-year information is used to incorporate TEI information into the financial statements. All other associates have a 30 June balance date.

Summarised financial information in respect of TEIs is set out below:

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
<b>Operating Results</b>				
2,205	2,193	Revenue from Crown	2,221	2,203
2,221	2,311	Other revenue	2,388	2,316
(4,257)	(4,371)	Expenses	(4,440)	(4,386)
<b>169</b>	<b>133</b>	<b>Net surplus</b>	<b>169</b>	<b>133</b>
<b>Net worth</b>				
<b>Assets</b>				
1,450	1,355	Financial assets	1,392	1,355
8,199	8,157	Property, plant and equipment	8,102	8,024
323	307	Other assets	343	307
<b>9,972</b>	<b>9,819</b>	<b>Total assets</b>	<b>9,837</b>	<b>9,686</b>
<b>Liabilities</b>				
228	238	Borrowings	193	238
1,443	1,533	Other liabilities	1,584	1,533
<b>1,671</b>	<b>1,771</b>	<b>Total liabilities</b>	<b>1,777</b>	<b>1,771</b>
<b>8,301</b>	<b>8,048</b>	<b>Net worth</b>	<b>8,060</b>	<b>7,915</b>

## New Zealand Local Government Funding Agency (NZLGFA)

The Government holds \$5 million of the \$25 million paid-up capital of NZLGFA. The investment has been classified as an equity accounted investment as, although the Government does not have direct representation on the NZLGFA Board of Directors, it may solely appoint, remove and replace one member of the Shareholders' Council, which, in turn makes recommendations to Shareholders as to the appointment, removal, re-election, replacement and remuneration of Directors. The investment value has therefore been adjusted to reflect the Crown's share of any changes in the net assets of the NZLGFA. The Government is not a guarantor of the NZLGFA and has no share of any contingent liabilities of the NZLGFA.

For the year ended 30 June 2013, NZLGFA recognised revenue of \$5.7 million (2012: \$10.9 million) and a surplus of \$1.3 million (2012: \$4.2 million deficit). NZLGFA's assets and liabilities were \$2,688.2 million (2012: \$943.0 million) and \$2,664.8 million (2012: \$922.3 million) respectively. The Crown's share of the net assets is \$4.7 million (2012: \$4.1 million).

## Note 22: Intangible Assets and Goodwill

Forecast				Actual	
30 June 2013				30 June	30 June
Budget 12	Budget 13			2013	2012
\$m	\$m			\$m	\$m
<i>By type</i>					
				1,517	1,375
				53	202
				655	746
				551	382
<b>2,571</b>	<b>2,687</b>	<b>Total intangible assets and goodwill</b>		<b>2,776</b>	<b>2,705</b>
<i>By maturity</i>					
				406	412
				2,370	2,293
			<b>Total intangible assets and goodwill</b>	<b>2,776</b>	<b>2,705</b>
<i>By source</i>					
1,294	1,071		Core Crown	1,041	1,112
472	504		Crown entities	573	494
805	1,112		State-owned enterprises	1,162	1,099
-	-		Inter-segment eliminations	-	-
<b>2,571</b>	<b>2,687</b>	<b>Total intangible assets and goodwill</b>		<b>2,776</b>	<b>2,705</b>

## Note 22: Intangible Assets and Goodwill (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Computer Software</b>		
<b>Internally-Generated Computer Software</b>		
<b>Cost</b>		
Opening balance	2,558	2,332
Additions	387	345
Disposals	(148)	(87)
Other movements	23	(32)
<b>Total cost</b>	<b>2,820</b>	<b>2,558</b>
<b>Accumulated Amortisation</b>		
Opening balance	1,696	1,551
Eliminated on disposal	(100)	(64)
Impairment losses charged to operating balance	22	28
Amortisation	229	244
Other movements	(31)	(63)
<b>Total accumulated amortisation</b>	<b>1,816</b>	<b>1,696</b>
<b>Carrying value of internally-generated computer software</b>	<b>1,004</b>	<b>862</b>
<b>Purchased Computer Software</b>		
<b>Cost</b>		
Opening balance	1,645	1,503
Additions	223	196
Disposals	(50)	(65)
Other movements	(11)	11
<b>Total cost</b>	<b>1,807</b>	<b>1,645</b>
<b>Accumulated Amortisation</b>		
Opening balance	1,132	1,018
Eliminated on disposal	(41)	(50)
Impairment losses charged to operating balance	-	7
Amortisation	177	168
Other movements	26	(11)
<b>Total accumulated amortisation</b>	<b>1,294</b>	<b>1,132</b>
<b>Carrying value of purchased computer software</b>	<b>513</b>	<b>513</b>
<b>Total computer software</b>	<b>1,517</b>	<b>1,375</b>

## Note 22: Intangible Assets and Goodwill (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Net Kyoto Position</b>		
Opening net asset	202	291
Change in the price of carbon and foreign exchange rate	(132)	(177)
Change in net projected emission units	(17)	88
<b>Closing net asset</b>	<b>53</b>	<b>202</b>
	30 June 2013 Emission Units million tonnes (Mt)	30 June 2012 Emission Units million tonnes (Mt)
<b>Net Kyoto Position</b>		
Kyoto target (assigned amount units)	309.6	309.6
Less AAUs allocated to emission reducing projects	4.5	4.5
<b>Total commitment target</b>	<b>305.1</b>	<b>305.1</b>
<b>Projected emission units</b>		
Agriculture	170.2	170.5
Energy (incl. transport) and industrial processes	183.1	184.9
Waste	10.1	10.0
Solvent and other product use	0.1	0.2
<b>Total projected emission units</b>	<b>363.5</b>	<b>365.6</b>
Removals via forest	91.5	92.2
Deforestation emissions	(14.3)	(6.4)
Less net removals via forests	77.2	85.8
<b>Net projected emission units</b>	<b>286.3</b>	<b>279.8</b>
Less net transfers of AAUs	3.1	2.2
Add Kyoto compliant units surrendered under ETS	48.3	12.3
<b>Surplus units</b>	<b>64.0</b>	<b>35.4</b>

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases over 2008-2012 (the first commitment period of the Kyoto Protocol or CP1) is reduced to 1990 gross emissions levels or to take responsibility for the difference.

New Zealand's Kyoto Protocol compliance over the first commitment period will not be finalised until 2015 when the annual submission covering the period 2008 to 2012 is submitted and internationally reviewed. These financial statements report on the New Zealand Government's obligations for the first commitment period, but not for future commitment periods as the New Zealand Government has no specific fiscal obligation beyond the first commitment period.

The carbon price of €0.49 per unit has been used which in New Zealand dollars equates to \$NZ0.82 (2012: €3.60 or \$NZ5.70). The carbon price has been determined by the Ministry for the Environment based on the Secondary Certified Emission Reduction (sCER) unit price as published by Point Carbon.

The projected balance of Kyoto Protocol units (the net position) is compiled by the Ministry for the Environment using sectoral projection reports from across government.

## Note 22: Intangible Assets and Goodwill (continued)

## Net Kyoto Position (continued)

Within New Zealand, the Emissions Trading Scheme (ETS) will transfer a price of carbon through the economy. The outstanding balance of units allocated under the ETS is reported as a provision in note 27. The ETS provision includes the free allocation of units to foresters who have opted-in to the scheme. When the forests are harvested, the foresters may use the units to meet their carbon obligations. During the first commitment period, the Ministry for the Environment estimate that 91.5 million tonnes of credits will be generated by carbon removals via forests (2012: 92.2 million tonnes). Of this amount, 48.9 million tonnes has been allocated to foresters through the ETS as at 30 June 2013 (2012: 30.9 million tonnes). To the extent that these forests are harvested (in subsequent commitment periods), and a future international agreement is negotiated, there may be an associated liability generated that will need to be repaid. As the forestry credits have been incorporated when calculating the current position for the first commitment period, the associated obligation of the Crown in respect of future commitment periods has been reported as a separate contingent liability (refer note 32).

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Goodwill</b>		
<b>Cost</b>		
Opening balance	985	707
Additions	7	280
Disposals	(66)	(1)
Other movements	(35)	(1)
<b>Total cost</b>	<b>891</b>	<b>985</b>
<b>Accumulated Impairment</b>		
Opening balance	239	222
Eliminated on disposal	(2)	(1)
Impairment losses charged to operating balance	2	17
Reversals of impairment losses charged to operating balance	-	-
Amortisation charge	-	-
Other movements	(3)	1
<b>Total accumulated impairment</b>	<b>236</b>	<b>239</b>
<b>Carrying value of goodwill</b>	<b>655</b>	<b>746</b>

Goodwill in relation to Air New Zealand of \$258 million (2012: \$258 million) has been tested for impairment at June 2013 based on a value in use discounted cash flow valuation.

A valuation was performed in June 2012 based on a value in use discounted cash flow valuation and this valuation has been relied upon for the year ended 30 June 2013. The cash flow forecasts were prepared for five years using Air New Zealand board reviewed business plans. Key assumptions include exchange rates, jet fuel costs, passenger load factors and route yields. These assumptions have been based on historical data and current market information. The cash flow forecasts are particularly sensitive to fluctuations in fuel prices and exchange rates are extrapolated using an average growth rate of approximately 1.5%. The cash flow projections are discounted using post-tax discount rate scenarios of 10.0-10.5%. The 2012 valuation confirmed that there was no impairment to the goodwill asset required.

## Note 23: Payables

Forecast				Actual	
30 June 2013		30 June	30 June	2013	2012
Budget 12	Budget 13				
\$m	\$m	\$m	\$m		
<i>By type</i>					
10,139	8,456	Accounts payable	7,616	8,255	
3,364	3,366	Taxes repayable	3,544	3,349	
<b>13,503</b>	<b>11,822</b>	<b>Total payables</b>	<b>11,160</b>	<b>11,604</b>	
<i>By maturity</i>					
12,856	11,231	Expected to be settled within one year	10,688	11,309	
647	591	Expected to be outstanding for more than one year	472	295	
<b>13,503</b>	<b>11,822</b>	<b>Total payables</b>	<b>11,160</b>	<b>11,604</b>	
<i>By source</i>					
7,367	6,626	Core Crown	7,873	7,139	
6,501	5,922	Crown entities	4,996	5,642	
5,523	5,435	State-owned enterprises	4,877	4,968	
(5,888)	(6,161)	Inter-segment eliminations	(6,586)	(6,145)	
<b>13,503</b>	<b>11,822</b>	<b>Total payables</b>	<b>11,160</b>	<b>11,604</b>	

Government entities have financial internal control procedures in place to ensure that accounts payable are settled accurately and on a timely basis. The carrying value is a reasonable approximation of the fair value for accounts payable, as they are typically short-term in nature.

Taxes repayable represent refunds due to the taxpayer as a result of assessments being filed. Refunds are issued to taxpayers once account and refund reviews are complete. The carrying value is a reasonable approximation of the fair value for taxes repayable.



## Note 24: Borrowings

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
		<i>By type</i>		
57,296	58,713	Government bonds	57,377	53,850
4,700	3,576	Treasury bills	4,084	8,954
251	204	Government retail stock	199	229
6,244	7,183	Settlement deposits with Reserve Bank	7,575	5,917
2,401	2,035	Derivatives in loss <sup>1</sup>	3,188	2,807
1,471	1,499	Finance lease liabilities	1,454	1,515
30,844	27,570	Other borrowings	26,210	27,262
<b>103,207</b>	<b>100,780</b>	<b>Total borrowings<sup>2</sup></b>	<b>100,087</b>	<b>100,534</b>
		<i>By source</i>		
85,674	85,309	Core Crown	84,870	84,510
5,257	5,156	Crown entities	5,251	5,325
27,636	25,884	State-owned enterprises	24,839	25,374
(15,360)	(15,569)	Inter-segment eliminations	(14,873)	(14,675)
<b>103,207</b>	<b>100,780</b>	<b>Total borrowings</b>	<b>100,087</b>	<b>100,534</b>
		<i>By maturity</i>		
34,345	30,511	Expected to be settled within one year	30,517	43,195
68,862	70,269	Expected to be outstanding for more than one year	69,570	57,339
<b>103,207</b>	<b>100,780</b>	<b>Total borrowings</b>	<b>100,087</b>	<b>100,534</b>
		<i>By guarantee</i>		
76,212	74,924	Sovereign-guaranteed debt <sup>3</sup>	75,684	75,701
26,995	25,856	Non-sovereign debt	24,403	24,833
<b>103,207</b>	<b>100,780</b>	<b>Total borrowings</b>	<b>100,087</b>	<b>100,534</b>

This note constitutes a Statement of Borrowings as required by the Public Finance Act 1989.

All principal, interest and other money payable in relation to money borrowed by the core Crown is a charge on, and payable out of, the revenues of the core Crown equally and rateably with all other general borrowing obligations of the core Crown.

The Government is not liable to contribute towards the payments of debts of Government entities, their subsidiaries or any entity in which the Government has an interest or that is controlled or wholly owned by the Government. Exceptions to this rule only occur for items the Government is liable for under any Act, any guarantee given by the Government, by virtue of an action a creditor has against the Government, or liability the Government has to a creditor of the Reserve Bank.

Further information on the management of risks associated with these financial liabilities is provided in note 33.

1. Derivatives are included in either borrowings or marketable securities depending on their gain or loss position at balance date.

This treatment leads to fluctuations in individual items primarily due to exchange rate movements.

2. Total borrowings are the total borrowings (both sovereign-guaranteed and non-sovereign guaranteed) of the total Crown. This equates to the amount in the total Crown statement of financial position and represents the complete picture of whole-of-Crown debt obligations to external parties.

3. Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by State-owned enterprises and Crown entities are not explicitly guaranteed by the Crown.

**Note 24: Borrowings (continued)****Government Bonds**

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
Government bonds measured at amortised cost	55,005	51,016
Government bonds measured at fair value	2,372	2,834
<b>Total Government bonds</b>	<b>57,377</b>	<b>53,850</b>

Government bonds are measured at amortised cost, unless it is managed and its performance is evaluated on a fair value basis. Where it is evaluated on a fair value basis it is reported at fair value with movements in fair value reported in the statement of financial performance.

The fair value of government bonds measured at amortised cost is \$57,513 million (2012: \$56,489 million). This valuation is based on observable market prices. The reduction in interest rates since the government bonds were issued results in a fair value greater than amortised cost.

The valuation of government bonds reported at fair value is also based on observable market prices. New Zealand's domestic currency bonds are rated Aaa by Moody's and AA+ by S&P and Fitch. In each case, the rating outlook is stable.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Government bonds measured at fair value</b>		
Carrying value	2,372	2,834
Amount payable on maturity	2,113	2,446
Fair value impact from changes in credit risk for the year	-	-
Cumulative fair value impact from changes in credit risk	-	-

**Treasury Bills**

Treasury bills are reported at either amortised cost or fair value, with fair value based on observable market price. As these are short-term sovereign-issued instruments, the carrying value is not materially affected by changes in Sovereign credit risk and the carrying value approximates the amount payable at maturity.

**Note 24: Borrowings (continued)****Settlement Deposits with Reserve Bank**

Settlement deposits with the Reserve Bank represent the level of money deposited with the Reserve Bank by commercial banks. They represent a liquidity mechanism used to settle wholesale obligations amongst the banks and provide the basis for settling most of the retail transactions that occur every working day between corporates and individuals.

Settlement deposits with the Reserve Bank are technically a form of borrowing by the Reserve Bank, where the liability is matched by a corresponding financial asset (reported as an element of marketable securities and deposits – refer note 15). Settlement deposits are now reported at amortised cost (previously at fair value), which is equivalent to the amount payable to depositors given the short term (ie, overnight) nature of these liabilities.

Settlement accounts are administered through the Exchange Settlement Account System (ESAS). ESAS account holders generally receive interest at the Official Cash Rate on their end-of-day balances. The Reserve Bank provides collateralised overnight borrowing facilities for banks, at an interest rate set at a margin over the Official Cash Rate.

**Finance Lease Liabilities**

Forecast 30 June 2013		Actual	
Budget 12	Budget 13	30 June 2013	30 June 2012
\$m	\$m	\$m	\$m
<i>By source</i>			
10	10	12	17
52	50	39	47
1,413	1,442	1,403	1,456
(4)	(3)	-	(5)
<b>1,471</b>	<b>1,499</b>	<b>1,454</b>	<b>1,515</b>
<b>Undiscounted Minimum Lease Payments</b>			
No later than one year		193	199
Later than one year and not later than five years		774	766
Later than five years		643	739
<b>Total undiscounted minimum lease payments</b>		<b>1,610</b>	<b>1,704</b>
<b>Present Value of Minimum Lease Payments</b>			
No later than one year		172	170
Later than one year and not later than five years		691	668
Later than five years		591	678
<b>Total present value of minimum lease payments</b>		<b>1,454</b>	<b>1,516</b>
<b>Future finance charges</b>		<b>156</b>	<b>188</b>

Finance leases are mainly in relation to aircraft. The Government entities entering into finance leases generally have options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Government's obligations under finance leases are secured by the lessors' title to the leased assets.

The fair value of finance lease liabilities is approximately equal to their carrying value.

**Note 24: Borrowings (continued)****Other Borrowings**

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
24,111	19,535	Other borrowings measured at amortised cost	21,534	22,465
6,733	8,035	Other borrowings measured at fair value	4,676	4,797
<b>30,844</b>	<b>27,570</b>	<b>Total other borrowings</b>	<b>26,210</b>	<b>27,262</b>

Other borrowings are reported at fair value with movements in fair value reported in the statement of financial performance when they are held for trading or they are managed and performance is evaluated on a fair value basis.

The fair value of other borrowings measured at amortised cost is \$21,458 million (2012: \$22,344 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets are determined by reference to quoted market prices. Where such prices are not available use is made of estimated discounted cash flows models with reference to market interest rates.

For those other borrowings measured at fair value through profit and loss, the value of these instruments will be affected by changes in interest rates due to credit risk and broader market influences.

Of these borrowings, \$4,115 million (2012: \$6,560 million) is sovereign-issued debt administered by the Reserve Bank and NZDMO.

The remaining borrowings of \$22,095 million (2012: \$20,702 million) comprise non-sovereign-issued debt of Crown entities and State-owned enterprises.

The following table identifies the difference between the carrying amount and amount payable at maturity as well as the extent that fair value movements have resulted from changes in credit risk of the issuing entity. The carrying value can differ to the amount actually payable on maturity where the effect of discounting cash flows is material.

	Actual	
	30 June	30 June
	2013	2012
	\$m	\$m
<b>Other borrowings measured at fair value</b>		
Carrying value	4,676	4,797
Amount payable on maturity	4,196	3,718
Fair value impact from changes in credit risk for the year	(42)	(9)
Cumulative fair value impact from changes in credit risk	165	(146)

## Note 25: Insurance Liabilities

Forecast				Actual	
30 June 2013				30 June	30 June
Budget 12	Budget 13			2013	2012
\$m	\$m			\$m	\$m
		<i>By entity</i>			
30,651	30,767	ACC liability		29,446	30,648
5,210	7,114	EQC property damage liability		6,869	8,877
992	1,439	Southern Response liability		1,744	2,062
66	53	Other insurance liabilities		67	48
-	(456)	Inter-segment eliminations		(414)	(449)
<b>36,919</b>	<b>38,917</b>	<b>Total insurance liabilities</b>		<b>37,712</b>	<b>41,186</b>
		<i>By component</i>			
		Outstanding claims liability		35,225	38,695
		Unearned premium liability		2,384	2,293
		Unearned premium liability deficiency		103	198
		Other		-	-
		<b>Total insurance liabilities</b>		<b>37,712</b>	<b>41,186</b>
		<i>By maturity</i>			
8,887	8,320	Expected to be settled within one year		10,103	8,850
28,032	30,597	Expected to be outstanding for more than one year		27,609	32,336
<b>36,919</b>	<b>38,917</b>	<b>Total insurance liabilities</b>		<b>37,712</b>	<b>41,186</b>
		<b>Assets arising from insurance obligations are:</b>			
		Receivables for premiums		2,917	2,898
		Reinsurance claim recoveries		3,135	5,003

Information on insurance expenses and underwriting results can be found in note 11. Additional information on the risks and uncertainties in relation to the Canterbury earthquakes can be found in note 30.

The objectives, policies and procedures for managing these risks are set out in the governing statutes and policy documents of each entity.

All assets held by the three insurance entities are considered available to back present and future claims obligations. There are no deferred acquisition costs (e.g. marketing costs) in respect of insurance obligations at the reporting date.

#### Analysis of insurance liabilities

The remainder of the note provides a detailed analysis of the ACC, EQC and Southern Response insurance liabilities. Further information on these liabilities may also be found in the annual reports of each of these entities and on their respective websites. The analysis includes a breakdown of the outstanding claims liability, unearned premium liability, and the unearned premium liability deficiency.

The outstanding claims liability is the present value of the central estimate of expected payments for claims incurred plus a risk margin.

The unearned premium liability represents premiums received in advance of the insured period.

The unearned premium liability deficiency is the extent that the unearned premium liability is insufficient to cover expected future claims (ie, payments for future accidents within the period covered by the premiums received).

## Note 25: Insurance Liabilities (continued)

**Analysis of ACC insurance liability**

ACC's insurance obligations arise primarily from the accident compensation scheme provision of no fault personal injury cover for all New Zealand citizens, residents and temporary visitors to New Zealand.

An independent actuarial estimate by PricewaterhouseCoopers, consulting actuaries, has been made of the future expenditure relating to accidents which occurred prior to balance date, whether or not the claims have been reported to, or accepted by, ACC. The PricewaterhouseCoopers actuarial report was signed by Mr Paul Rhodes Fellow of the Institute and Faculty of Actuaries (UK), and Mr Chris Latham, a Fellow of the Institute of Actuaries of Australia. Mr Rhodes and Mr Latham are also Fellows of the New Zealand Society of Actuaries.

The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
The ACC liability comprises:		
ACC outstanding claims liability	27,162	28,396
ACC unearned premium liability	2,242	2,183
ACC unearned premium liability deficiency	42	69
<b>Total ACC liability</b>	<b>29,446</b>	<b>30,648</b>
<b>Analysis of Outstanding ACC Claims Liability</b>		
Undiscounted outstanding claims liability	74,809	73,151
Discount adjustment	(50,754)	(47,997)
Risk margin	3,107	3,242
<b>Total outstanding ACC claims liability</b>	<b>27,162</b>	<b>28,396</b>
Discounted central estimate of future payments for outstanding claims	22,384	23,497
Claims handling expenses	1,671	1,657
Outstanding claims liability before risk margin	24,055	25,154
Risk margin	3,107	3,242
<b>Total outstanding ACC claims liability</b>	<b>27,162</b>	<b>28,396</b>
<b>Movement in Outstanding ACC Claims Liability</b>		
Opening balance	28,396	24,510
Claims incurred for the year	3,421	3,234
Claims paid out in the year	(2,970)	(2,918)
Discount rate unwind	684	727
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	(1,195)	(1,933)
- change in discount rate	(939)	5,084
- change in inflation rate	(235)	(209)
- change in other economic assumptions	-	-
Other movements	-	(99)
<b>Closing outstanding ACC claims liability</b>	<b>27,162</b>	<b>28,396</b>
<b>Movement in ACC Unearned Premium Liability</b>		
Opening balance	2,183	2,429
Earning of premiums previously deferred	(2,183)	(2,429)
Deferral of premiums on current year contracts	2,242	2,183
Other	-	-
<b>Closing ACC unearned premium liability</b>	<b>2,242</b>	<b>2,183</b>

## Note 25: Insurance Liabilities (continued)

## Claims development historical analysis

The following table shows the development of ACC's undiscounted claims cost estimates for the seven most recent accident years.

	2007	2008	2009	2010	2011	2012	2013	30 June 2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Estimate of ultimate claims costs:</b>								
At the end of the								
accident year	4,189	5,847	7,476	7,414	7,917	7,295	7,225	
One year later	5,190	7,061	7,113	7,126	6,697	6,546		
Two years later	6,182	6,821	7,094	6,325	6,301			
Three years later	6,266	6,763	6,426	6,110				
Four years later	6,552	6,088	5,965					
Five years later	6,090	5,837						
Six years later	5,876							
Current estimate of cumulative claim costs	5,876	5,837	5,965	6,110	6,301	6,546	7,225	43,860
Cumulative payments	(2,014)	(2,137)	(2,039)	(1,735)	(1,633)	(1,553)	(1,157)	(12,268)
Outstanding claims undiscounted	<b>3,862</b>	<b>3,700</b>	<b>3,926</b>	<b>4,375</b>	<b>4,668</b>	<b>4,993</b>	<b>6,068</b>	<b>31,592</b>
Discount								(22,450)
Claims handling costs								1,883
2006 and prior claims (net present value)								16,121
Short tail outstanding claims								16
<b>Total outstanding ACC claims liability</b>								<b>27,162</b>

	Actual	
	30 June 2013	30 June 2012
	\$m	\$m
<b>Analysis of ACC unearned premium liability deficiency</b>		
Unearned premium liability	2,242	2,183
Adjusted for unearned premium relating to residual claims and premium liabilities without deficiency	-	(339)
<b>Adjusted ACC unearned premium liability</b>	<b>2,242</b>	<b>1,844</b>
Discounted central estimate of payments for insured future claims	1,997	1,636
Central estimate of discounted future reinsurance recoveries	-	-
Risk margin	287	277
<b>Present value of expected cash flows for future accident claims</b>	<b>2,284</b>	<b>1,913</b>
<b>Total ACC unearned premium liability deficiency</b>	<b>42</b>	<b>69</b>

In 2012, unearned premiums relating to residual claims were excluded from this calculation as they related to accidents that occurred prior to 1999. This approach was changed in 2013 to include these unearned premiums in the calculation as this is considered a better match for the liability, which also includes residual claims.

Note 25: Insurance Liabilities (continued)

**Key Assumptions**

The key assumptions and the methodology applied in the valuation of the outstanding ACC claims obligation are as follows:

*(i) Risk-free discount rates*

The projected cash flows were discounted using a series of forward discount rates at the balance date derived from the yield curve for New Zealand government bonds. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is a short term discount rate of 4.86% (2012: 4.52%) and a long term discount rate of 5.50% beyond 21 years (2012: 6.00% beyond 23 years).

*(ii) Risk margin*

The outstanding claims liability includes a risk margin that relates to the inherent uncertainty in the central estimate of the present value of expected future payments. The overall risk margin is intended to achieve a 75% probability of sufficiency in meeting the actual amount of liability to which it relates.

*(iii) Inflation and indexation*

ACC claims and costs are subject to inflation. Some costs are assumed to increase faster than the general rate of inflation (referred to as superimposed inflation) due to factors such as innovation in medical treatment.

*(iv) Rehabilitation Rate*

Assumptions for rehabilitation rate were set with reference to past observed experience with allowance for expectations of the future that is believed to be reasonable under the circumstances.

*(v) Liability adequacy test*

An unearned premium liability deficiency is recognised when the amount of the present value of expected future claim cash outflows, plus a risk margin, exceeds the unearned premium liability.



## Note 25: Insurance Liabilities (continued)

	30 June 2013	30 June 2013 Beyond Next Year	30 June 2012	30 June 2012 Beyond Next Year
<b>Summary of assumptions</b>				
Average weighted term to settlement from reporting date	15 years 11 months		15 years 10 months	
Weighted average risk margin	12.9%		12.9%	
Probability of adequacy of liability	75.0%		75.0%	
Risk margin for liability adequacy test	18.2%		18.0%	
Probability of adequacy of liability to cover unearned premiums	75.0%		75.0%	
Risk-free discount rate <sup>1</sup>	2.7%	3.1% to 5.5%	2.4%	2.5% to 6.0%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	3.0%	3.3% to 3.5%	3.0%	3.3% to 3.5%
Impairment benefits	1.1%	2.0% to 2.5%	1.1%	2.1% to 2.5%
Social rehabilitation benefits (serious and non serious injury)	2.2%	2.5% to 2.7%	2.2%	2.5% to 2.7%
Hospital rehabilitation benefits	2.2%	2.5% to 2.7%	2.2%	2.5% to 2.7%
Medical costs	2.2%	2.5% to 2.7%	2.2%	2.5% to 2.7%
Superimposed inflation:				
Social rehabilitation benefits (serious injury)	2.1%	2.3% to 5.4%	2.0%	2.3% to 5.3%
Social rehabilitation benefits (non-serious injury)	0.0%	2.0% to 3.8%	3.3%	2.0% to 3.3%
Hospital rehabilitation benefits	5.0%	4.0% to 5.0%	5.0%	4.0% to 5.0%
Medical costs (GP's)	2.0%	3.0% to 4.0%	2.0%	2.0% to 5.0%
Medical costs (Radiology)	4.3%	5.0% to 5.8%	4.3%	4.3% to 6.5%
Medical costs (Physiotherapists)	1.7%	2.0% to 2.3%	1.7%	1.7% to 2.3%
Medical costs others (specialists)	1.8%	2.5% to 3.3%	1.8%	1.8% to 4.0%

1. The risk-free discount rate beyond 21 years is 5.5% (2012: the rate beyond 23 years was 6.0%).

## Note 25: Insurance Liabilities (continued)

**Sensitivity Analysis**

The present value of the ACC claims obligation is sensitive to underlying assumptions such as the discount rate, inflation rates and expected medical costs. These assumptions are closely linked. For example, a change to the discount rate may have implications on the inflation rate used. Therefore, when calculating the present value of claims it is unlikely that an assumption will change in isolation.

If the assumptions described above were to change in isolation, this would impact the measurement of the ACC claims obligation as per the table below:

	Change	Impact on liability	
		Actual 30 June 2013 \$m	Actual 30 June 2012 \$m
<b>Sensitivity of assumptions</b>			
Average weighted term to settlement from reporting date	+1 year	(820)	(855)
	-1 year	846	882
Risk-free discount rate	+1%	(3,628)	(3,792)
	-1%	4,823	5,000
Inflation rates (including superimposed inflation)	+1%	4,966	5,131
	-1%	(3,788)	(3,946)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	1,028	1,055
	-1%	(774)	(800)
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims	+1%	2,564	2,554
	-1%	(1,875)	(1,883)

**Undiscounted outstanding claims liability**

The reported outstanding claims liability (before risk margin) of \$24,055 million (2012: \$25,154 million) represents the net present value of estimated cash flows associated with this obligation. The following table represents the timing of future undiscounted cash flows for claims to 30 June 2013. These estimated cash flows include the effects of assumed future inflation.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
No later than 1 year	1,834	1,793
Later than 1 year and no later than 2 years	1,364	1,366
Later than 2 years and no later than 5 years	3,628	3,629
Later than 5 years and no later than 10 years	5,769	5,745
Later than 10 years and no later than 15 years	5,693	5,648
Later than 15 years and no later than 20 years	5,767	5,695
Later than 20 years and no later than 25 years	5,898	5,807
Later than 25 years and no later than 30 years	5,981	5,893
Later than 30 years and no later than 35 years	5,967	5,871
Later than 35 years and no later than 40 years	5,829	5,738
Later than 40 years and no later than 45 years	5,556	5,464
Later than 45 years and no later than 50 years	5,142	5,042
Later than 50 years	16,381	15,460
<b>Undiscounted outstanding claims liability</b>	<b>74,809</b>	<b>73,151</b>

## Note 25: Insurance Liabilities (continued)

**Analysis of EQC insurance liability**

EQC covers the following types of hazard: earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami, as well as fire caused by any of the above.

The actuarial valuation report for 2013 was prepared by Craig Lough of Melville Jessup Weaver. Craig Lough is a Fellow of the New Zealand Society of Actuaries. Craig Lough considered that overall the information and data supplied to them was adequate and appropriate for the purposes of his valuation.

EQC recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. A risk margin is applied to a central estimate to increase to 85% the likelihood that claims will be settled within this amount.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
The EQC liability comprises:		
EQC outstanding claims liability	6,666	8,638
EQC unearned premium liability	142	110
EQC unearned premium liability deficiency	61	129
<b>Total EQC liability</b>	<b>6,869</b>	<b>8,877</b>
<i>By type</i>		
Property damage claims in relation to Canterbury earthquakes	6,634	8,625
Other insurance liabilities	235	252
<b>Total EQC liability</b>	<b>6,869</b>	<b>8,877</b>
<b>Analysis of Outstanding EQC Insurance Liability</b>		
Undiscounted outstanding claims liability	6,340	8,298
Discount adjustment	(125)	(270)
Risk margin	451	610
<b>Total outstanding EQC insurance liability</b>	<b>6,666</b>	<b>8,638</b>
Discounted central estimate of future payments for outstanding claims	5,754	7,456
Claims handling expenses	461	572
Outstanding claims liability before risk margin	6,215	8,028
Risk margin	451	610
<b>Total outstanding EQC insurance liability</b>	<b>6,666</b>	<b>8,638</b>
<b>Movement in Outstanding EQC Insurance Liability</b>		
Opening balance	8,638	10,204
Net claims incurred/reassessed for the year - Canterbury earthquakes	(205)	1,163
Claims incurred for the year - other	38	30
Claims paid out in the year	(1,787)	(2,807)
Other movements	(18)	48
<b>Closing outstanding EQC insurance liability</b>	<b>6,666</b>	<b>8,638</b>

## Note 25: Insurance Liabilities (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Movement in EQC Unearned Premium Liability</b>		
Opening balance	110	46
Earning of premiums previously deferred	(110)	(46)
Deferral of premiums on current year contracts	142	110
Other	-	-
<b>Closing EQC unearned premium liability</b>	<b>142</b>	<b>110</b>
<b>Analysis of EQC unearned premium liability deficiency</b>		
Unearned premium liability	142	110
Discounted central estimate of payments for insured future claims	221	264
Central estimate of discounted future reinsurance recoveries	(18)	(25)
Risk margin	-	-
<b>Present value of expected cash flows for future claims</b>	<b>203</b>	<b>239</b>
<b>Total EQC unearned premium liability deficiency</b>	<b>61</b>	<b>129</b>

**Key Assumptions**

The key assumptions and the methodology applied in the valuation of the outstanding EQC claims obligation are as follows:

*(i) Weighted average term to settlement*

The weighted average term to settlement varies by valuation groupings having regard to the estimated future patterns of gross claim payments for these groupings.

*(ii) Claims inflation rate*

The claims inflation rates have made some allowance for higher levels of claims inflation for the building and land claims due to a demand surge in the Canterbury construction industry. In addition, the risk margin implicitly allows for somewhat higher levels of claims inflation.

*(iii) Risk-free discount rate*

Where applicable, claims and recoveries have been discounted using a risk-free rate based on New Zealand government bonds and the payment profile of the underlying recovery payments.

*(iv) Risk margin*

The risk margins are derived directly from the claims distributions produced by the net (of reinsurance) incurred claims models. The risk margin is expressed as a percentage of the net (of reinsurance) discounted outstanding claims liability and is intended to achieve a 85% probability of adequacy in meeting the actual amount of liability to which it relates.

*(v) Claims handling expenses ratio*

Claims handling expenses are subdivided into event groups and estimated on a per-claim basis using per-claim assumptions derived from an analysis of expenses. Risk margins are also applied to claims handling expenses. The claims handling expenses ratio is expressed as a percentage of the gross undiscounted outstanding claims liability.

## Note 25: Insurance Liabilities (continued)

	30 June 2013	30 June 2012
<b>Summary of assumptions</b>		
Weighted average term to settlement	0.72 years	1.3 years
Claims inflation rate - base	2.5%	2.5%
Claims inflation rate - demand surge	3.6% to 7.0%	2.9% to 6.9%
Risk-free discount rate	2.7% to 3.6%	2.4% to 3.3%
Weighted average risk margin - net (of reinsurance) claims	11.3%	14.3%
Weighted average risk margin - gross outstanding claims	7.3%	7.6%
Claims handling expense ratio	7.2%	7.7%

**Sensitivity Analysis**

The value of the EQC claims liability is sensitive to underlying assumptions such as the construction inflation, nil claim rate and reinstatement percentage.

If the assumptions described above were to change in isolation, this would impact the measurement of the EQC claims liability as per the table below:

	Change	Impact on liability Actual	
		30 June 2013 \$m	30 June 2012 \$m
<b>Sensitivity of assumptions</b>			
Weighted average term to settlement	+ 0.5 years	30	14
	- 0.5 years	(18)	(35)
Claims inflation rate	+1%	19	75
	-1%	(43)	(75)
Risk-free discount rate	+1%	(33)	(75)
	-1%	33	76
Risk margin	+1%	40	43
	-1%	(40)	(43)
Claims handling expense ratio	+1%	35	67
	-1%	(34)	(78)

## Note 25: Insurance Liabilities (continued)

## Analysis of Southern Response liability

Southern Response Earthquake Services Limited (Southern Response) holds Canterbury earthquake related claims.

Colin Brigstock and Ashish Ahluwalia of Finity Consulting Pty Limited (the Appointed Actuary) have prepared the independent actuarial estimate of the Southern Response claims liability as at 30 June 2013. Mr Brigstock and Mr Ahluwalia are Fellows of the Institute of Actuaries of Australia and the New Zealand Society of Actuaries. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
The Southern Response liability comprises:		
Southern Response outstanding claims liability	1,744	2,062
Southern Response unearned premium liability	-	-
Southern Response unearned premium liability deficiency	-	-
<b>Total Southern Response liability</b>	<b>1,744</b>	<b>2,062</b>
<i>By type</i>		
Property damage claims in relation to Canterbury earthquakes	1,744	2,062
Other insurance liabilities	-	-
<b>Total Southern Response liability</b>	<b>1,744</b>	<b>2,062</b>
<b>Analysis of Outstanding Southern Response Claims Liability</b>		
Undiscounted outstanding claims liability	1,659	1,874
Discount adjustment	(65)	(56)
Risk margin	150	244
<b>Total outstanding Southern Response claims liability</b>	<b>1,744</b>	<b>2,062</b>
Expected future claims payments - central estimate	1,521	1,729
Claims handling expenses	72	89
Outstanding claims liability before risk margin	1,593	1,818
Risk margin	151	244
<b>Total outstanding Southern Response claims liability</b>	<b>1,744</b>	<b>2,062</b>
<b>Movement in Outstanding Southern Response Claims Liability</b>		
Opening balance	2,062	1,985
Claims liability sold through business combination	-	(189)
Net claims incurred/reassessed for the year - Canterbury earthquakes	(22)	449
Claims incurred for the year - other (discontinued operations)	-	143
Claims paid out in the year	(296)	(326)
Other movements	-	-
<b>Closing outstanding Southern Response claims liability</b>	<b>1,744</b>	<b>2,062</b>

## Note 25: Insurance Liabilities (continued)

**Key Assumptions**

The valuation of the outstanding claims liability is based on detailed assumptions about the number of properties damaged, the mix and cost of rebuilds, repairs, and cash settlements, and the amount of damage which will be covered by EQC. In addition, the key assumptions made regarding future economic conditions are as follows:

*(i) Average weighted term to settlement*

Expected payment patterns have been used to determine the outstanding claims liability. The payment patterns adopted have been set based on the Actuary's best estimate of when the payments are likely to be made.

*(ii) Inflation*

The actuarial models adopted allows for any inflationary impact which is likely to affect future claims payments. An 8.6% inflation assumption (2012: 8.0%) has been made relating to building costs in Canterbury.

*(iii) Discount rate*

Where applicable, claims and recoveries have been discounted using a risk-free rate based on New Zealand government bonds and the payment profile of the underlying recovery payments.

*(iv) Risk margin*

The risk margin is expressed as a percentage of the gross (of reinsurance) discounted outstanding claims liability and intended to achieve a 75% probability of adequacy for the outstanding claims. There continues to be uncertainty attaching to many elements of the likely ultimate cost of the Company's earthquake related outstanding claim liabilities. In particular, there remains uncertainty around the ultimate cost of enhanced foundations for properties with damaged land and the level of future escalation on building costs. However, relative to 30 June 2012, for a number of areas the uncertainties have now reduced. In light of this, the risk margin has been reduced to 10.0% (14.2% in 2012).

## Note 25: Insurance Liabilities (continued)

	30 June 2013	30 June 2012
<b>Summary of assumptions</b>		
Average weighted term to settlement from reporting date		
Earthquake related claims	1.8 years	1.8 years
Inflation		
Building costs	8.6%	8.0%
Other cover types	3.0%	3.0%
Risk-free discount rate		2.2% to
	2.9%	3.0%
Weighted average risk margin - gross outstanding claims	10.0%	14.2%
Probability of adequacy of liability	75.0%	75.0%

**Sensitivity Analysis**

The value of the Southern Response claims liability is sensitive to underlying assumptions such as the discount rate, claims handling expense rate, and the risk margin.

If the assumptions described above were to change in isolation, this would impact the measurement of the Southern Response claims liability as per the table below:

	Change	Impact on liability Actual	
		30 June 2013 \$m	30 June 2012 \$m
<b>Sensitivity of assumptions</b>			
Inflation	+1%	29	23
	-1%	(28)	(23)
Risk-free discount rate	+1%	(19)	(19)
	-1%	19	20
Weighted average risk margin	+1%	15	17
	-1%	(15)	(17)



## Note 26: Retirement Plan Liabilities

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
11,478	12,228	Government Superannuation Fund (GSF)	11,908	13,539
3	(1)	Other funds	(5)	-
<b>11,481</b>	<b>12,227</b>	<b>Total retirement plan liabilities</b>	<b>11,903</b>	<b>13,539</b>
<i>By source</i>				
11,479	12,236	Core Crown	11,915	13,548
1	2	Crown entities	1	2
-	(10)	State-owned enterprises	(13)	(10)
1	(1)	Inter-segment eliminations	-	(1)
<b>11,481</b>	<b>12,227</b>	<b>Total retirement plan liabilities</b>	<b>11,903</b>	<b>13,539</b>

The Government operates a defined benefit superannuation plan for qualifying employees who are members of the Government Superannuation Fund (GSF). The members' entitlements are defined in the Government Superannuation Fund Act 1956. Contributing members make regular payments to GSF and in return, on retirement, receive a defined level of income. GSF is closed to employees who were not members at 1 July 1992.

The GSF obligation has been calculated by GSF's actuary as at 30 June 2013. A Projected Unit Credit Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from the GSF in respect of past service to be estimated and then discounted back to the valuation date.

Amounts recognised in the statement of financial position in respect of GSF are as follows:

	Actual	
	30 June 2013	30 June 2012
	\$m	\$m
<b>Net GSF Obligation</b>		
Present value of defined benefit obligation	15,290	16,557
Fair value of plan assets	(3,382)	(3,018)
<b>Present value of unfunded defined benefit obligation</b>	<b>11,908</b>	<b>13,539</b>
<b>Present value of defined benefit obligation</b>		
Opening defined benefit obligation	16,557	13,311
Expected current service cost	112	92
Expected unwind of discount rate	394	367
Actuarial losses/(gains)	(920)	3,686
Benefits paid	(853)	(897)
Other	-	(2)
<b>Closing defined benefit obligation</b>	<b>15,290</b>	<b>16,557</b>
<b>Fair value of plan assets</b>		
Opening fair value of plan assets	3,018	3,159
Expected return on plan assets	162	194
Actuarial gains/(losses)	331	(210)
Funding of benefits paid by Government	658	699
Contributions from other entities	19	23
Contributions from members	47	50
Benefits paid	(853)	(897)
Other	-	-
<b>Closing fair value of plan assets</b>	<b>3,382</b>	<b>3,018</b>

## Note 26: Retirement Plan Liabilities (continued)

Amounts recognised in the statement of financial performance in respect of GSF are as follows:

Forecast 30 June 2013		Actual	
Budget 12	Budget 13	30 June 2013	30 June 2012
\$m	\$m	\$m	\$m
<b>Personnel Expenses</b>			
		112	92
		394	367
		(162)	(194)
		(66)	(73)
		-	-
329	278	278	192
<b>Net (Gains)/Losses on Non-Financial Instruments</b>			
-	(918)	(1,251)	3,896
<b>329</b>	<b>(640)</b>	<b>(973)</b>	<b>4,088</b>

The Government expects to make a contribution of \$750 million to GSF in the year ending 30 June 2014.

In addition to its obligations to past and present employees, because GSF is liable for income tax, the Crown will be required to make additional contributions equivalent to the tax on future investment income.

The principal assumptions used for the purposes of the GSF actuarial valuations are as follows:

Summary of assumptions	Actual	
	30 June 2013 %	30 June 2012 %
<i>For following year</i>		
Discount rate	2.7%	2.4%
Expected return on plan assets	5.5%	6.3%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation	1.9%	2.1%
<i>Beyond next year</i>		
Discount rates between 2 and 22 years	3.1% to 5.5%	2.5% to 5.9%
Discount rate from 23 years onwards	5.5%	6.0%
Expected return on plan assets	5.5%	6.3%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation for 2 years	2.3%	2.4%
Expected rate of inflation from 2 to 4 years	2.4%	2.5%
Expected rate of inflation from 4 years onwards	2.5%	2.5%

The defined benefit obligation decreased in the year to 30 June 2013 by \$1,267 million, mainly due to an increase in the short and medium term discount rates (up to 18 years) partially offset by a reduction in the long-term discount rate from 6% to 5.5%.

## Note 26: Retirement Plan Liabilities (continued)

The major categories of GSF plan assets at 30 June are as follows:

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
Equity instruments	1,944	1,441
Other debt instruments	569	690
Cash and short term investments	215	139
Property	14	137
Other	640	611
<b>Fair value of plan assets</b>	<b>3,382</b>	<b>3,018</b>

The expected rate of return on the plan assets of 5.50% (2012: 6.25%) has been calculated by taking the expected long term returns from each asset class, reduced by tax and investment expenses (using the current rates of tax and investment expenses).

The actual return on plan assets for the year ended 30 June 2013 was 16.71%, or \$493 million (2012: -0.54% or -\$16 million).

#### Sensitivity Analysis

The present value of the GSF obligation is sensitive to underlying assumptions such as the discount rate, inflation rates and expected salary increases. These assumptions are closely linked. For example, a change to the discount rate may have implications on the inflation rate used. Therefore, when calculating the present value of pension payments it is unlikely that an assumption will change in isolation.

If the discount rate was to change in isolation, this would impact the measurement of GSF obligation as per the table below:

	Change	Impact on obligation Actual	
		30 June 2013 \$m	30 June 2012 \$m
<b>Sensitivity of assumptions</b>			
Discount rate	+ 1%	(1,587)	(1,785)
	- 1%	1,927	2,175

The plan's assets are exposed to share price risks arising from its holding of equity instruments. Equity instruments are reported at fair value. Movements in share prices therefore directly translate into movements in the value of the share investment portfolio.

The sensitivity analysis below has been determined based on GSF's exposure to share price risks at the reporting date.

	Impact on operating balance Actual		Impact on net worth Actual	
	30 June 2013 \$m	30 June 2012 \$m	30 June 2013 \$m	30 June 2012 \$m
<b>Change in share prices</b>				
Strengthen/weaken by 10%	194	144	194	144

The plan's sensitivity to share prices has not changed significantly from the previous year.

## Note 26: Retirement Plan Liabilities (continued)

## Historical Analysis

Actual gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred in the year) and the effects of changes in actuarial assumptions on valuation date. The history of the present value of the unfunded defined benefit obligation and experience adjustments is as follows:

	Actual				
	30 June 2013 \$m	30 June 2012 \$m	30 June 2011 \$m	30 June 2010 \$m	30 June 2009 \$m
Present value of defined benefit obligation	15,290	16,557	13,311	12,881	11,792
Fair value of plan assets	(3,382)	(3,018)	(3,159)	(2,945)	(2,804)
<b>Present value of unfunded defined benefit obligation</b>	<b>11,908</b>	<b>13,539</b>	<b>10,152</b>	<b>9,936</b>	<b>8,988</b>
Experience adjustment - increase/(decrease) in plan assets	331	(210)	159	117	(806)
Less experience adjustment - increase/(decrease) in plan liabilities	(90)	28	388	286	79
Total experience adjustments - (losses)/gains	421	(238)	(229)	(169)	(885)
Changes in actuarial assumptions	830	(3,658)	(345)	(1,062)	190
<b>Actuarial (losses)/gains recognised in the year</b>	<b>1,251</b>	<b>(3,896)</b>	<b>(574)</b>	<b>(1,231)</b>	<b>(695)</b>

## Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of \$15,290 million (2012: \$16,557 million) represents the net present value of estimated cash flows associated with this obligation. The following table represents the timing of future undiscounted cash flows for entitlements to 30 June 2013. These estimated cash flows include the effects of assumed future inflation.

	30 June 2013 \$m	30 June 2012 \$m
No later than 1 year	922	913
Later than 1 year and no later than 2 years	915	910
Later than 2 years and no later than 5 years	2,819	2,818
Later than 5 years and no later than 10 years	4,863	4,900
Later than 10 years and no later than 15 years	4,811	4,908
Later than 15 years and no later than 20 years	4,490	4,634
Later than 20 years and no later than 25 years	3,928	4,119
Later than 25 years and no later than 30 years	3,188	3,396
Later than 30 years and no later than 35 years	2,383	2,587
Later than 35 years and no later than 40 years	1,619	1,799
Later than 40 years and no later than 45 years	992	1,132
Later than 45 years and no later than 50 years	534	631
Later than 50 years	349	440
<b>Undiscounted defined benefit obligation</b>	<b>31,813</b>	<b>33,187</b>

## Note 27: Provisions

Forecast 30 June 2013			Actual	
Budget 12	Budget 13		30 June 2013	30 June 2012
\$m	\$m		\$m	\$m
<b>By type</b>				
3,133	3,286	Provision for employee entitlements	3,374	3,253
815	1	Provision for ETS credits	179	375
843	1,033	Provision for National Provident Fund guarantee	977	1,076
-	462	Provision for Canterbury Red Zone support package	222	745
-	1,350	Provision for Infrastructure costs	769	530
306	71	Provision for weathertight services financial assistance package	123	189
1,769	1,131	Other provisions	1,494	1,338
<b>6,866</b>	<b>7,334</b>	<b>Total provisions</b>	<b>7,138</b>	<b>7,506</b>
<b>By source</b>				
4,529	4,903	Core Crown	4,492	4,965
1,814	1,884	Crown entities	1,979	1,899
925	986	State-owned enterprises	1,151	1,103
(402)	(439)	Inter-segment eliminations	(484)	(461)
<b>6,866</b>	<b>7,334</b>	<b>Total provisions</b>	<b>7,138</b>	<b>7,506</b>
<b>By maturity</b>				
3,784	3,088	Expected to be settled within one year	3,355	3,368
3,082	4,246	Expected to be outstanding for more than one year	3,783	4,138
<b>6,866</b>	<b>7,334</b>	<b>Total provisions</b>	<b>7,138</b>	<b>7,506</b>
			<b>Actual</b>	
			<b>30 June 2013</b>	<b>30 June 2012</b>
			<b>\$m</b>	<b>\$m</b>
<b>Provision for employee entitlements</b>				
Opening provision			3,253	3,050
Additional provisions recognised			1,714	1,799
Provision used during the period			(1,469)	(1,518)
Reversal of previous provision			(122)	(71)
Unwind of discount rate			(2)	(7)
<b>Closing provision</b>			<b>3,374</b>	<b>3,253</b>

The provision for employee entitlements represents annual leave, accrued long service leave and retiring leave, and sick leave entitlements accrued by employees. Probability assumptions about continued future service affecting entitlements accrued as at reporting date have been made using previous employment data. For entitlements that vest over a period exceeding one year discount rates rising from 2.0% next year to 5.5% in later years.

## Note 27: Provisions (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Provision for ETS credits</b>		
Opening provision	375	612
New provision recognised during the period (ETS expenses)	55	334
Provision used during the period (ETS revenue)	(16)	(64)
(Gains)/losses on NZ Units	(235)	(507)
<b>Closing provision</b>	<b>179</b>	<b>375</b>

The Emissions Trading Scheme (ETS) was established to encourage a reduction in New Zealand's greenhouse gas emissions. The ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate freely. The allocation of NZ Units creates a provision (and an expense if allocated for free). The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters.

The carbon price used to calculate the ETS provision is \$NZ1.80 (30 June 2012: €3.62 or \$NZ5.73).

The carbon price has been determined by the Ministry for the Environment based on the lower of the quoted NZU spot price at 30 June, and the monthly average NZU spot price as published by Point Carbon.

The price methodology will continue to be reviewed as the market for NZ Units develops.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Provision for National Provident Fund guarantee</b>		
Opening provision	1,076	983
Additional provisions recognised	-	-
Provision used during the period	(73)	(74)
Reversal of previous provision	(16)	(12)
Unwind of discount rate and effect of changes in discount rate	(10)	179
<b>Closing provision</b>	<b>977</b>	<b>1,076</b>

The Government has guaranteed superannuation schemes managed by the National Provident Fund (NPF). Included in the provision is the NPF's DBP Annuitants Scheme unfunded liability position of \$977 million (2012: \$1,076 million), represented by a gross estimated pension obligation of \$1,011 million (2012: \$1,115 million) with net investment assets valued at \$34 million (2012: \$39 million).

## Note 27: Provisions (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Provision for Canterbury Red Zone support package</b>		
Opening provision	745	1,039
Additional provisions recognised	37	614
Provision used during the period	(500)	(816)
Reversal of previous provision	(66)	(98)
Unwind of discount rate and effect of changes in discount rate	6	6
<b>Closing provision</b>	<b>222</b>	<b>745</b>
<b>Net provision</b>		
Provision for Red Zone properties	222	745
Estimated insurance proceeds from Red Zone Properties	(517)	(565)
<b>Net (recoverable)/provision for Red Zone properties</b>	<b>(295)</b>	<b>180</b>

Melville Jessup Weaver has prepared an independent actuarial valuation of both the estimated cost of purchasing the red zone properties and the estimated insurance proceeds from those properties as at 30 June 2013. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine these valuations.

The majority of property owners within the red zone have settled prior to 30 June 2013, so the remaining provision represents:

- the estimated value of settlements that have been agreed but not yet paid; and
- the estimated value where the offer has not been accepted and therefore an estimate is required.

## Note 27: Provisions (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Provision for Water Infrastructure costs</b>		
Opening provision	530	-
Additional provisions recognised	437	554
Provision used during the period	(156)	(24)
Reversal of previous provision	-	-
Unwind of discount rate and effect of changes in discount rate	(42)	-
<b>Closing provision</b>	<b>769</b>	<b>530</b>

The provision represents the Crown's contribution for recovery costs relating to essential three waters infrastructure (waste water, storm water and fresh water) and river management systems. The provision includes recovery costs for Christchurch City Council (CCC), Waimakariri District Council, Selwyn District Council and Environment Canterbury.

The provision has been estimated based on information provided by the Councils. For the Waimakariri District Council, Selwyn District Council and Environment Canterbury the costs are based on estimates of the work programmes provided by these Councils.

In the case of CCC, the Crown has entered into a cost sharing agreement which provides for an active management regime to be implemented and a comprehensive independent assessment (by December 2014) of the work programme to ensure service and rebuild standards are met. This assessment may result in changes to the overall estimate of the cost of the infrastructure rebuild.

The Crown is continuing to work through a process to validate claims and to agree the timing of payments to all councils for these costs. A discount rate of 3.6% has been used to determine the present value of the cash flows over the next three years.

The key risks to the estimate are that the damages to the infrastructure may be more substantial than currently estimated and work scheduling may lead to extended repair timeframes which could result in costs in addition to those covered by the cost sharing agreement.



## Note 27: Provisions (continued)

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Provision for weathertight services financial assistance package</b>		
Opening provision	189	567
Additional provisions recognised	-	30
Provision used during the period	(7)	-
Reversal of previous provision	(60)	(408)
Unwind of discount rate and effect of changes in discount rate	1	-
<b>Closing provision</b>	<b>123</b>	<b>189</b>

This provision represents the Government's obligation to contribute 25% of agreed repair costs to eligible owners of leaky homes under the weathertight services financial assistance package (FAP).

Melville Jessup Weaver has prepared an independent actuarial valuation of the obligation as at 30 June 2013.

The provision assumes that the package will be taken up for 2,619 (2012: 3,544) dwellings.

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Other provisions</b>		
Opening provision	1,338	1,335
Additional provisions recognised	446	307
Provision used during the period	(245)	(286)
Reversal of previous provision	(38)	(42)
Unwind of discount rate and effect of changes in discount rate	(7)	24
<b>Closing provision</b>	<b>1,494</b>	<b>1,338</b>

## Note 28: Net Worth

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m	\$m	\$m	
2,144	5,601	Taxpayer funds	10,862	3,520
62,550	55,965	Property, plant and equipment revaluation reserve	57,068	56,001
79	76	Investment revaluation reserve	107	71
(279)	(121)	Cash flow hedge reserve	58	(195)
66	(45)	Foreign currency translation reserve	(49)	(49)
-	40	Share based payment reserve	25	-
1,648	1,794	Net worth attributable to minority interests	1,940	432
<b>66,208</b>	<b>63,310</b>	<b>Total net worth</b>	<b>70,011</b>	<b>59,780</b>
<b>Taxpayer Funds</b>				
7,573	3,520	Opening taxpayers funds	3,520	18,188
(5,699)	1,918	Operating balance excluding minority interests	6,925	(14,897)
200	175	Gain on Government share offers in SOEs	167	-
69	7	Transfers from/(to) property, plant and equipment revaluation reserve	268	228
1	(19)	Other movements	(18)	1
<b>2,144</b>	<b>5,601</b>	<b>Closing taxpayer funds</b>	<b>10,862</b>	<b>3,520</b>
<b>Property, Plant and Equipment Revaluation Reserve</b>				
62,618	56,001	Opening revaluation reserve	56,001	62,690
-	(29)	Net revaluations	1,335	(6,461)
(68)	(7)	Transfers from/(to) taxpayer funds	(268)	(228)
<b>62,550</b>	<b>55,965</b>	<b>Closing revaluation reserve</b>	<b>57,068</b>	<b>56,001</b>

The property, plant and equipment revaluation reserve arises on the revaluation of physical assets. Where revalued property, plant or equipment is sold, the portion of the property, plant and equipment revaluation reserve that relates to that asset, and is effectively realised, is transferred to taxpayer funds.

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m	\$m	\$m	
<b>Investment Revaluation Reserve</b>				
69	71	Opening investment revaluation reserve	71	58
10	4	Increase arising on revaluation of available-for-sale financial assets	39	12
-	1	Cumulative (gain)/loss transferred to the statement of financial performance on sale of available-for-sale financial assets	(3)	1
<b>79</b>	<b>76</b>	<b>Closing investment revaluation reserve</b>	<b>107</b>	<b>71</b>

The investment revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in the statement of financial performance. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in the statement of financial performance.

## Note 28: Net Worth (continued)

Forecast		Actual	
30 June 2013		30 June	30 June
Budget 12	Budget 13	2013	2012
\$m	\$m	\$m	\$m
<b>Cash Flow Hedge Reserve</b>			
(276)	(195)	(195)	(310)
(3)	74	278	80
-	(5)	(7)	54
-	5	(18)	(19)
<b>(279)</b>	<b>(121)</b>	<b>58</b>	<b>(195)</b>

The cash flow hedge reserve reports gains and losses in the value of derivatives entered into to reduce volatility in future cash flows. These gains and losses will either be used to adjust the cash flows as they occur, impacting either on the statement of financial performance if the cash flows relate to revenue or expenses, or the statement of financial position if the cash flows relate to assets or liabilities.

Forecast		Actual	
30 June 2013		30 June	30 June
Budget 12	Budget 13	2013	2012
\$m	\$m	\$m	\$m
<b>Foreign currency translation reserve</b>			
11	(49)	(49)	(47)
55	4	-	(2)
<b>66</b>	<b>(45)</b>	<b>(49)</b>	<b>(49)</b>

The foreign currency translation reserve holds foreign exchange gains and losses arising from translating monetary items that form part of the net investment in a foreign operation into New Zealand dollars. It also includes foreign exchange gains and losses associated with translating non-monetary assets into New Zealand dollars if revaluations of those assets are reflected in another reserve rather than in the statement of financial performance.

Forecast		Actual	
30 June 2013		30 June	30 June
Budget 12	Budget 13	2013	2012
\$m	\$m	\$m	\$m
<b>Share based payment reserve</b>			
-	-	-	-
-	40	25	-
-	-	-	-
-	-	-	-
<b>-</b>	<b>40</b>	<b>25</b>	<b>-</b>

New Zealand retail investors in the Mighty River Power share offer will receive one loyalty bonus share for every 25 shares they hold for two years from the offer, up to a maximum of 200 bonus shares. Lapses/Forfeitures relate to shareholders who were eligible to receive bonus shares having forfeited this right by selling the shares before the two year period has expired.

## Note 28: Net Worth (continued)

Forecast				Actual	
30 June 2013		30 June	30 June	2013	2012
Budget 12	Budget 13				
\$m	\$m	\$m	\$m	\$m	\$m
<b>Net Worth Attributable to Minority Interests</b>					
308	432		432		308
90	10		94		56
1,300	1,325		1,371		-
(50)	27		(16)		40
-	-		59		-
-	-		-		28
<b>1,648</b>	<b>1,794</b>		<b>1,940</b>		<b>432</b>
<b>Consisting of interests in:</b>					
			1,431		-
			468		399
			41		33
			-		-
			<b>1,940</b>		<b>432</b>
<b>Minority share of OBEGAL:</b>					
			4		-
			67		-
			(9)		-
			-		-
			<b>62</b>		<b>-</b>
<b>Minority share of gains and losses</b>					
			6		-
			26		56
			-		-
			-		-
			<b>32</b>		<b>56</b>
			<b>94</b>		<b>56</b>

Transactions with minority interests include dividend payments and dividend reinvestments.

### Note 29: Capital Objectives and Fiscal Policy

The Government's fiscal policy is pursued in accordance with the principles of responsible fiscal management set out in the Public Finance Act 1989:

- reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year
- once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues
- achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future
- managing prudently the fiscal risks facing the Government, and
- pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

Consistent with these principles, the Government seeks to strengthen its fiscal position to help manage future spending demands, particularly those arising from an ageing population by maintaining debt at prudent levels and accumulating assets through the New Zealand Superannuation Fund.

Further information on the Government's fiscal strategy can be found in the *Fiscal Strategy Report* published with the Government's budget.

Note that the Public Finance (Fiscal Responsibility) Amendment Act 2013 was enacted on 3 September 2013. The amendment Act introduces three new principles of responsible fiscal management:

- when formulating fiscal strategy, having regard to its interaction with the interaction between fiscal policy and monetary policy;
- when formulating fiscal strategy, having regard to its likely impact on present and future generations, and
- ensuring that the Crown's resources are managed effectively and efficiently.

The Act also amends the wording of the current principle relating to the tax system.

These new and amended principles of responsible fiscal management will apply to the Government's fiscal strategy as set out in its 2014 Fiscal Strategy Report.

The Government's fiscal strategy can be expressed through its long term objectives and short term intentions for fiscal policy.

## **Note 29: Capital Objectives and Fiscal Policy (continued)**

### **Long Term Fiscal Intentions - Fiscal Strategy Report 2013<sup>10</sup>**

#### **Debt**

Manage total debt at prudent levels. Over the short to medium term, it is prudent to allow an increase in debt to deal with the current economic and fiscal shocks.

However, we need to ensure that this increase is eventually reversed and that we return to a level of debt that can act as a buffer against future shocks.

We will do this by ensuring that net debt remains consistently below 35 per cent of GDP, and is then brought back to a level no higher than 20 per cent of GDP by 2020. We will work towards achieving this earlier as conditions permit.

#### **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.

#### **Operating expenses**

To meet the operating balance objective, the Government will control the growth in government spending so that, over time, core Crown expenses are reduced to below 30 per cent of GDP.

#### **Operating revenues**

Ensure sufficient operating revenue to meet the operating balance objective.

#### **Net worth**

Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the full fiscal impact of the demographic change expected in the mid-2020s.

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<sup>10</sup> The long-term fiscal intentions are unchanged from those stated in the Fiscal Strategy Report 2012.

## Note 29: Capital Objectives and Fiscal Policy (continued)

Short Term Fiscal Intentions		
Fiscal Strategy Report 2012	Fiscal Strategy Report 2013	Fiscal Position 2013 <sup>11</sup>
<p><b>Debt</b></p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 35.1% of GDP in 2015/16.</p> <p>Core Crown net debt (excluding NZS Fund and advances) is forecast to be 27.7% in 2015/16.</p>	<p><b>Debt</b></p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 38.8 per cent of GDP in 2016/17.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 27.3 per cent of GDP in 2016/17.</p>	<p><b>Debt</b></p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2013 was 39.6% of GDP (2012: 40.4%).</p> <p>Core Crown net debt (excluding NZS Fund and advances) at 30 June 2013 was 26.3% of GDP (2012: 24.3%).</p>
<p><b>Operating balance</b></p> <p>Based on the operating allowance for the 2012 Budget, the operating balance (before gains and losses) is forecast to be -3.6% of GDP in 2012/13. The operating balance (before gains and losses) is forecast to be 0.1% of GDP in 2014/15. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be -2.6% in 2012/13.</p>	<p><b>Operating balance</b></p> <p>Our intention is to return the operating balance (before gains and losses) to surplus as soon as practical and no later than 2014/15, subject to any significant shocks.</p> <p>Based on the operating allowance for the 2013 Budget, the operating balance (before gains and losses) is forecast to be -0.9 per cent of GDP in 2013/14. The operating balance (before gains and losses) is forecast to be 0.0 per cent of GDP in 2014/15. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 0.2 per cent of GDP in 2013/14.</p>	<p><b>Operating balance</b></p> <p>The operating (before gains and losses) deficit for the year ended 30 June 2013 was 2.1% of GDP (2012: 4.4%).</p> <p>The operating surplus for the year ended 30 June 2013 was 3.3% of GDP (deficit 2012: 7.1%).</p>
<p><b>Expenses</b></p> <p>Core Crown expenses are forecast to be 30.2% of GDP in 2015/16.</p> <p>Total Crown expenses are forecast to be 39.6% of GDP in 2015/16.</p> <p>This assumes a new operating allowance of \$800 million for Budget 2013, increasing to \$1.19 billion in Budget 2014 and growing at 2% for Budgets thereafter (GST exclusive).</p>	<p><b>Expenses</b></p> <p>Our intention is to support a return to fiscal surplus by restraining the growth in core Crown expenses – so that they are reduced to around 30 per cent of GDP by 2015/16.</p> <p>Core Crown expenses are forecast to be 30.0 per cent of GDP in 2016/17.</p> <p>Total Crown expenses are forecast to be 39.5 per cent of GDP in 2016/17.</p> <p>This assumes a new operating allowance of \$1 billion in Budget 2014, growing at 2 per cent for Budgets thereafter (GST exclusive).</p>	<p><b>Expenses</b></p> <p>Core Crown expenses for the year ended 30 June 2013 were 33.1% GDP (2012: 33.1%).</p> <p>Total Crown expenses for the year ended 30 June 2013 were 42.8% of GDP (2012: 44.5%).</p>

<sup>11</sup> GDP for the year ended 30 June 2013 was \$212,701 million (2012: \$208,394 million). Comparative GDP percentages have been updated to reflect restated Statistics New Zealand nominal GDP

Fiscal Strategy Report 2012	Fiscal Strategy Report 2013	Fiscal Position 2013 <sup>11</sup>
<p><b>Revenues</b></p> <p>Total Crown revenues are forecast to be 40.5% of GDP in 2015/16.</p> <p>Core Crown revenues are forecast to be 30.5% of GDP in 2015/16.</p> <p>Core Crown tax revenues are forecast to be 27.8% of GDP in 2015/16.</p>	<p><b>Revenues</b></p> <p>Total Crown revenues are forecast to be 40.6 per cent of GDP in 2016/17.</p> <p>Core Crown revenues are forecast to be 30.9 per cent of GDP in 2016/17.</p> <p>Core Crown tax revenues are forecast to be 28.3 per cent of GDP in 2016/17.</p>	<p><b>Revenues</b></p> <p>Total Crown revenues for the year ended 30 June 2013 were 40.7% of GDP (2012: 40.1%).</p> <p>Core Crown revenues for the year ended 30 June 2013 were 30.2% of GDP (2012: 29.1%).</p> <p>Core Crown tax revenues for the year ended 30 June 2013 were 27.6% of GDP (2012: 26.4%).</p>
<p><b>Net worth</b></p> <p>Total Crown net worth is forecast to be 28.6% of GDP in 2015/16.</p> <p>Core Crown net worth is forecast to be 8.8% of GDP in 2015/16.</p>	<p><b>Net worth</b></p> <p>Total net worth attributable to the Crown is forecast to be 28.7 per cent of GDP in 2016/17.</p> <p>Core Crown net worth is forecast to be 12.1 per cent of GDP in 2016/17.</p>	<p><b>Net worth</b></p> <p>Total net worth attributable to the Crown as at 30 June 2013 was 32.0% of GDP (2012: 28.5%).</p> <p>Core Crown net worth as at 30 June 2013 was 12.0% of GDP (2012: 11.2%).</p>



**Note 30: Canterbury Earthquakes**

These consolidated financial statements include both revenue and expenses for the Government as well as the best estimate of the Government's assets and liabilities in relation to the earthquakes and aftershocks that have occurred in the Canterbury region. While there has been another year's experience in earthquake claims development, inherent uncertainties in estimating the amount of earthquake related assets and liabilities remain. Some of these inherent uncertainties are described in this note.

Below is a summary of the Government's significant obligations and the receivables in relation to the Canterbury earthquakes.

	Note	30 June 2013 \$m	30 June 2012 \$m
<b>Canterbury earthquake-related obligations</b>			
EQC property damage liability	25	6,634	8,625
Southern Response property damage liability	25	1,744	2,062
<b>Total insurance liabilities</b>		<b>8,378</b>	<b>10,687</b>
Provision for Canterbury Red Zone support package	27	222	745
Provision for water infrastructure costs	27	769	530
<b>Total provisions</b>		<b>991</b>	<b>1,275</b>
<b>Total Canterbury earthquake-related obligations</b>		<b>9,369</b>	<b>11,962</b>
<b>Canterbury earthquake-related receivables</b>			
EQC reinsurance receivables	14	2,623	4,066
Southern Response reinsurance receivables	14	512	937
<b>Total reinsurance receivables</b>		<b>3,135</b>	<b>5,003</b>
Red Zone insurance recoveries	27	517	565
Other insurance receivables		295	-
<b>Total other insurance receivables</b>		<b>812</b>	<b>565</b>
<b>Total Canterbury earthquake-related receivables</b>		<b>3,947</b>	<b>5,568</b>
<b>Net Canterbury earthquake-related obligations</b>		<b>5,422</b>	<b>6,394</b>

Included within the estimates of the Government's obligations are uncertainties with regard to both the gross liabilities and the estimated insurance recoveries. The largest and most complex valuations have been carried out by independent professional actuaries and represent a best estimate of the costs and income to be settled in the future. Such complex valuations need actuaries and experts to make a number of assessments such as number of outstanding claims, the amount of claims, the time expected to rebuild or repair damage property or infrastructure and making judgements over the escalation of costs due to building inflation in the Canterbury construction industry.

In particular, significant uncertainty exists for EQC land claims where there has been severe land damage, because of a very complex land claims environment and the fact that relatively few land claims have been settled to date. As claims are settled and the reasonableness of assumptions are tested against emerging experience over time, the level of this uncertainty will reduce.

The final costs of the Canterbury earthquakes will not be known for some time and the actual, ultimate costs may differ from these estimates. As a result, information on key assumptions (along with the sensitivity of those assumptions) has been included in the relevant notes to these financial statements (eg, insurance liabilities).

**Note 30: Canterbury Earthquakes (continued)**

Amounts recognised in the statement of financial performance (operating expenditure) as well as capital expenditure incurred to date in respect of the earthquakes were:

	Note	Actual			Total
		30 June 2013 \$m	30 June 2012 \$m	30 June 2011 \$m	
EQC insurance claims	a	(107)	662	7,471	8,026
Local Infrastructure	b	483	729	195	1,407
Land zoning	c	(8)	258	653	903
Southern Response support package	d	(53)	156	355	458
Christchurch central city rebuild	e	115	-	-	115
Other earthquake costs	f	45	108	413	566
<b>Net earthquake costs</b>		<b>475</b>	<b>1,913</b>	<b>9,087</b>	<b>11,475</b>
Gross earthquake expenses		815	2,823	13,601	17,239
Earthquake related revenue (e.g. reinsurance)		(340)	(910)	(4,514)	(5,764)
<b>Net earthquake costs</b>		<b>475</b>	<b>1,913</b>	<b>9,087</b>	<b>11,475</b>
Operating expenses		266	1,900	9,087	11,253
Capital expenditure		209	13	-	222
<b>Net earthquake costs</b>		<b>475</b>	<b>1,913</b>	<b>9,087</b>	<b>11,475</b>

In addition to these net earthquake costs, the Government's assets have suffered damage. In previous years approximately \$375 million was impaired against the asset revaluation reserve. In the current year, there were no significant impairments through the reserve.

These results do not represent the total expense to the Government of the earthquakes as some expenditure is yet to be incurred, or will not be determined until further policy decisions have been made. These decisions are likely to result in fiscal costs being incurred at a future time.

The costs outlined in this note do not include the secondary impact on tax or other revenues as a result of the earthquakes.

**Note a - Earthquake Commission (EQC) Insurance Claims**

EQC covers damage to residential property caused by earthquake, landslip, tsunami, volcanic eruption, hydrothermal activity, storm or flood (land only), and fire following any of these events.

Residential property cover generally consists of dwellings (up to \$100,000 + GST), contents (up to \$20,000 + GST), the land under and immediately around the dwelling, main access-ways, and retaining walls (within certain limits).

EQC's obligation (and reinsurance recoveries) in relation to the earthquakes has been valued by an independent actuary (Melville Jessup Weaver). The key sources of uncertainty in estimating the obligation are:

- the impact of multiple events on the allocation of damage, EQC coverage and EQC's reinsurance coverage
- severe land damage and a very complex land claims environment from both engineering and legal perspectives, and
- the potential for construction cost inflation ("demand surge inflation") to differ from expectations.

Consequently there is a degree of unavoidable uncertainty regarding the future claims costs at this stage. Over time, as further assessments are completed and claims are settled, the reasonableness of the valuation and its assumptions can be tested against the emerging claims experience and the level of uncertainty will reduce.

**Note 30: Canterbury Earthquakes (continued)**

The key areas of estimation risk relate to claims that have been incurred but not reported or claims where the estimates are considered insufficient. The volatility of these claims is partially mitigated by the maximum settlement amounts for dwellings and contents. However, claims in relation to residential land are not subject to a monetary limit and are therefore subject to greater volatility.

These financial statements include a net EQC recovery of \$107 million for the year ended 30 June 2013 relating to the Canterbury earthquakes (2012: \$662 million net cost). This recovery represents a decrease in EQC's expected cost of settling its outstanding Canterbury earthquake claims. This decrease is due to an actuarial reassessment of previous years outstanding claims taking into account enhanced information regarding these claims.

During the year, \$1.8 billion was paid out taking the total to \$5.7 billion for settling approved claims, leaving an outstanding insurance liability estimate of \$6.7 billion, some of which is expected to be offset by reinsurance proceeds.

Details of the calculation of EQC's claims obligation (including discussion on the sensitivity of assumptions) are provided in note 25 of these financial statements.

**Note b – Local Infrastructure**

Under the current government policy settings, as outlined in the National Civil Defence Emergency Management Plan ('the Plan') and Guide to the National Civil Defence Emergency Management Plan ('the Guide'), the Government is committed to a standard financial support package for the four local authorities in Canterbury (Christchurch City Council, Waimakariri District Council, Selwyn District Council and Environment Canterbury) that were adversely affected by the earthquakes. This support package covers certain types of response and recovery costs incurred as a result of the earthquakes.

The Government has recently entered into a cost sharing agreement with the Christchurch City Council (CCC) covering various items including the Crown contribution to three water infrastructure response and rebuild costs and local roading. The agreement sets out that the Government will contribute up to \$1.8 billion to CCC for response costs and the recovery of Christchurch's essential infrastructure (water and roading). As at 30 June 2013, the Government has not entered into agreements with other territorial authorities in Canterbury.

The cost sharing agreement allows for an independent review of CCC's infrastructure recovery costs and programme (to be carried out by December 2014) with any costs of the rebuild work as the basis of any final discussions on horizontal infrastructure cost sharing. The agreement also acknowledges there is the possibility of unforeseen circumstances, so both parties can review the agreement in the future.

**Response Costs**

During the year, net expenses of \$3 million has been recorded for response costs taking the total Canterbury earthquake response costs (primarily temporary repairs to essential infrastructure) to \$226 million.

**Recovery Costs**

As a result of the cost sharing agreement between the Government and CCC, expenses of \$395 million (2012: \$554 million) for the Government's share of water recovery costs have been included in the financial statements for the year ended 30 June 2013. Total costs of water infrastructure of \$949 million have been recognised.

While best available information has been used to provide the estimate of water infrastructure recovery costs, significant uncertainties remain with regard to:

- 1 the amount of damage to infrastructure under the ground, and
- 2 the basis for restoring the infrastructure, whether it is like-for-like, or some other method.

Details of the calculation of the estimate of the water infrastructure costs (including discussion on the sensitivity of assumptions) are provided in note 27 of these financial statements.

### **Note 30: Canterbury Earthquakes (continued)**

In addition, \$85 million has been included in the current year for costs associated with the repair of local roadways taking the total costs of local roading repairs to date to \$232 million. While costs associated with water infrastructure are recognised upfront, the repair of local roadways is recognised in the year of repair.

This spreading of costs reflects that the first call for funding these future expenses will be from dedicated ring-fenced revenue in the form of road user charges, fuel excise duties, and registration fees paid to the National Land Transport Fund. The Government and New Zealand Transport Authority (NZTA) have agreed that up to \$50 million a year will be made available from the National Land Transport Fund for repairs to Canterbury roads. The mechanism for funding the ongoing NZTA contribution above this amount is yet to be confirmed.

#### ***Note c – Land Zoning***

On the 23 June 2011 the Government announced zones of land damage in Christchurch and parts of the Waimakariri district. This land was mapped into four zones, with “Red Zone” land identified as being unlikely to be suitable for continued residential occupation for a prolonged period of time. For this reason, the Government instigated a process for purchasing insured residential land in the Red Zone on a voluntary basis. Since the initial zoning announcement, further zoning announcements and other land zoning policy decisions were made.

Included within the land zoning costs for 30 June are both costs associated with the red zone support package, and expenses in relation to other land zoning related costs. Melville Jessup Weaver (a firm of consulting actuaries) was engaged to revalue the Crown’s obligation and associated insurance recoveries for the red zone support package as at 30 June 2013. The net effect of the re-estimation of the red zone support package was a reversal of expenses of \$25 million in the current year. The actuary has used the best available information, but it is acknowledged that there have been limitations on the quality and quantity of data available from insurers. Details of the calculation of the estimate are provided in note 27 of these financial statements.

The provision for outstanding property settlements excludes any costs associated with the demolition and removal of red zone houses, salvage income, and any future sale or use of land that will be purchased. The impact of these exclusions will depend on future decisions regarding the use of any land acquired.

#### ***Note d – Southern Response Earthquake Services Support Package***

On 7 April 2011 the Government provided a financial support package for AMI to give policyholders certainty and to ensure an orderly rebuild of Christchurch. The financial support to AMI was provided via a Crown Support Deed (CSD) under which the Crown subscribed for \$500 million of convertible preference shares which were called but unpaid. The net loss incurred on the acquisition of AMI was \$335 million and an operating deficit to the end of 30 June 2011 of \$20 million was reported in that year.

On 5 April 2012 IAG purchased the on-going insurance business of AMI. Immediately after completion of the sale, the Crown paid \$100 million of the unpaid balance on the preference shares and took ownership of AMI’s residual earthquake business. The earthquake business was renamed Southern Response Earthquake Services Limited (Southern Response). In the 2012 financial year net costs of \$401 million were recognised and partly offset by a gain realised on the sale of the ongoing business of AMI of \$245 million, resulting in a net cost of \$156 million being recorded for the financial year. During the 2013 financial year \$53m of net revenues were recognised.

While the potential cost of the Crown’s support has been estimated at \$458 million in total including a risk margin, the ultimate cost will be dependent on the financial performance of the company and the underlying emerging experience from the earthquake series such as further late notified claims in relation to the liability (and resulting reinsurance recoveries) arising from the Canterbury earthquakes. The liability has been valued by an independent actuary (Finity Consulting Pty Limited).

The uncertainties regarding Southern Response’s outstanding claims liability are similar to those of EOC (with the exception of risks associated with land claims). The details of the insurance liability at 30 June 2013 (including discussion on the sensitivity of assumptions) are outlined in note 25.

**Note 30: Canterbury Earthquakes (continued)*****Note e – Christchurch Central City Rebuild***

The Government has agreed to contribute to certain Anchor Projects in the Christchurch central business district. During the year ended 30 June 2013, \$115 million has been recognised with regards to the purchase of land and operating costs for these projects.

***Note f – Other Earthquake Costs***

The 2013 net cost includes insurance proceeds of \$320 million for the Canterbury District Health Board. Other costs represent various other initiatives raised in support of Canterbury, including the operating costs of the Canterbury Earthquake Recovery Authority (CERA), welfare support, emergency and temporary housing, state highway repairs and various other operating and capital costs incurred by Crown entities.

## Note 31: Commitments

	Actual	
	30 June 2013 \$m	30 June 2012 \$m
<b>Capital Commitments</b>		
Specialist military equipment	549	239
Land and buildings	717	697
Other property, plant and equipment	5,478	6,001
Other capital commitments	790	501
Tertiary Education Institutions	169	255
<b>Total capital commitments</b>	<b>7,703</b>	<b>7,693</b>
<b>Operating Lease Commitments</b>		
Non-cancellable accommodation leases	2,792	2,719
Other non-cancellable leases	2,735	2,713
Tertiary Education Institutions	466	282
<b>Total operating lease commitments</b>	<b>5,993</b>	<b>5,714</b>
<b>Total commitments</b>	<b>13,696</b>	<b>13,407</b>
<i>By source</i>		
Core Crown	4,226	4,593
Crown entities	5,296	5,463
State-owned enterprises	5,078	5,388
Inter-segment eliminations	(904)	(2,037)
<b>Total commitments</b>	<b>13,696</b>	<b>13,407</b>
<i>By Term</i>		
<b>Capital Commitments</b>		
One year or less	3,689	3,070
From one year to two years	1,764	1,443
From two to five years	2,025	2,724
Over five years	225	456
<b>Total capital commitments</b>	<b>7,703</b>	<b>7,693</b>
<b>Operating Lease Commitments</b>		
One year or less	1,101	1,157
From one year to two years	985	891
From two to five years	1,900	1,810
Over five years	2,007	1,856
<b>Total operating lease commitments</b>	<b>5,993</b>	<b>5,714</b>
<b>Total commitments</b>	<b>13,696</b>	<b>13,407</b>

**Note 32: Contingent Liabilities and Contingent Assets**

Contingent liabilities and contingent assets involving amounts of over \$20 million are separately disclosed. Any quantifiable contingencies less than \$20 million are included in the "other quantifiable" total. Some contingencies of the Crown are not able to be quantified; these unquantifiable contingent liabilities and contingent assets are disclosed as at 30 June 2013 where they are expected to be material but not remote.

Contingent liabilities are:

- costs that the Crown will have to face if a particular event occurs, or
- present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liabilities).

Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation.

In general, if a contingent liability was realised, or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth and increase net core Crown debt. However, in the case of some contingencies (e.g. uncalled capital), the negative impact would be restricted to net core Crown debt.

Contingent assets are possible assets that have arisen from past events but the amount of the asset, or whether it will eventuate, will not be confirmed until a particular event occurs.

**Contingent Liabilities**

	Note	Actual	
		30 June 2013 \$m	30 June 2012 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and indemnities	a	225	430
Uncalled capital	b	6,286	6,327
Legal proceedings and disputes	c	707	411
Other contingent liabilities	d	432	584
<b>Total quantifiable contingent liabilities</b>		<b>7,650</b>	<b>7,752</b>
<b>By source</b>			
Core Crown		7,350	7,622
Crown entities		35	40
State-owned enterprises		265	90
<b>Total quantifiable contingent liabilities</b>		<b>7,650</b>	<b>7,752</b>

**Note 32: Contingent Liabilities and Contingent Assets (continued)****a) Guarantees and Indemnities**

Guarantees are legally binding promises made by the Crown to assume responsibility for a debt, or performance of an obligation of another party, should that party default. Guarantees generally relate to the payment of money but may require the performance of services. Guarantees given under Section 65ZD of the *Public Finance Act 1989* are disclosed in accordance with Section 26Q(3)(b)(i)(B) of the same Act.

Indemnities are legally binding promises where the Crown undertakes to accept the risk of loss or damage that another party may suffer and to hold the other party harmless against loss caused by a specific stated event.

	Note	Actual	
		30 June	30 June
		2013	2012
		\$m	\$m
New Zealand Export Credit Office guarantees	i	76	92
Air New Zealand letters of credit and performance bonds	ii	51	26
Housing New Zealand Crown mortgage portfolio	iii	33	40
Indemnification of touring exhibitions		-	220
Other guarantees and indemnities		65	52
<b>Total guarantees and indemnities</b>		<b>225</b>	<b>430</b>

***i) New Zealand Export Credit Office guarantees***

The New Zealand Export Credit Office (NZECO) provides a range of guarantee products to assist New Zealand exporters manage risk and capitalise on trade opportunities around the globe. The obligations to third parties are guaranteed by the Crown and are intended to extend the capacity of facilities in the private sector.

***ii) Air New Zealand letters of credit and performance bonds***

The letters of credit are primarily given in relation to passenger charges and airport landing charges. Guarantees are also provided in respect of credit card obligations. The performance bonds are primarily given in respect of engineering contracts.

***iii) Housing New Zealand Crown mortgage portfolio***

HNZC sold a significant portion of its Crown mortgage portfolio to Westpac Bank between 1996 and 1999. As a condition of the sale, HNZC (on behalf of the Crown) has agreed to indemnify Westpac against any future losses arising from default. The indemnity applies over the life of the loan and is estimated to continue until 2026, this reflects the maximum exposure and was actuarially assessed.



**Note 32: Contingent Liabilities and Contingent Assets (continued)****b) Uncalled Capital**

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, as a member country of these organisations, contributes capital by subscribing to shares in certain institutions. The capital (when called) is typically used to raise additional funding for loans to member countries, or in the case of the quota contributions to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both "paid-in" capital and "callable capital or promissory notes".

	Note	Actual	
		30 June 2013 \$m	30 June 2012 \$m
Asian Development Bank	i	2,992	2,988
International Monetary Fund - promissory notes	ii	1,163	1,174
International Monetary Fund - arrangements to borrow	iii	1,052	1,081
International Bank for Reconstruction and Development	iv	1,056	1,039
Other uncalled capital		23	45
<b>Total uncalled capital</b>		<b>6,286</b>	<b>6,327</b>

**i) Asian Development Bank (ADB)**

New Zealand was a founding-regional member of the ADB, their aim is to accelerate economic development in developing countries in Asia and the South Pacific. New Zealand is a regional member but as a donor is not entitled to borrow from the Bank. Accordingly, New Zealand is in a similar position to a non-regional member, and contributes to the ADB's resources only as required by ADB.

**ii) IMF Promissory Notes**

New Zealand's subscription to the IMF is partly paid in cash and partly in promissory notes (being uncalled capital). The respective levels of called and uncalled capital change when calls are made by the IMF under the Financial Transactions plan to provide loan packages to borrowing countries. Even though promissory notes are technically "at call", they are treated as contingent liabilities, as there are significant restrictions on the actual ability to call them, and there is no realistic estimate of either the amount or the timeframe of any call.

**iii) IMF arrangements to borrow**

The Crown has agreed to make funds available to the IMF to support international financial systems in the event of a significant crisis. This is a contingent liability as it will depend upon uncertain trigger events occurring and the IMF calling the funds.

**iv) International Bank for Reconstruction and Development (IBRD)**

The IBRD is the main lending organisation of the World Bank Group. New Zealand, along with 188 other countries, is a member country and shareholder in the World Bank Group. The percentage of ownership is determined by the size of the economy and the amount of capital contributed to support the Bank's borrowing activities among international capital markets.

**Note 32: Contingent Liabilities and Contingent Assets (continued)****c) Legal proceedings and disputes**

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases were decided against the Crown. The amount shown is the amount claimed and thus the maximum potential cost; it does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

	Note	Actual	
		30 June 2013 \$m	30 June 2012 \$m
Tax disputes	i	641	365
Healthcare litigation	ii	26	20
Other legal proceedings and disputes		40	26
<b>Total legal proceedings and disputes</b>		<b>707</b>	<b>411</b>

***i) Tax disputes***

When a taxpayer disagrees with an assessment issued following the dispute process, the taxpayer may challenge that decision by filing proceedings with the Taxation Review Authority or the High Court. This contingent liability represents the outstanding debt of tax assessments raised against which an objection has been lodged and legal action is proceeding.

***ii) Healthcare litigation***

Claims have been lodged against the Crown in respect of alleged negligence for issues regarding treatment and care.

**Note 32: Contingent Liabilities and Contingent Assets (continued)****d) Other quantifiable contingent liabilities**

	Note	Actual	
		30 June 2013 \$m	30 June 2012 \$m
Transpower capital expenditure recovery	i	156	15
Unclaimed monies	ii	101	79
Air New Zealand partnership	iii	47	39
Kyoto protocol units	iv	35	349
Other contingent liabilities		93	102
<b>Total other contingent liabilities</b>		<b>432</b>	<b>584</b>

***i) Transpower New Zealand Limited***

Transpower has a contingent liability relating to capital expenditure that was not approved by the regulator. If this expenditure is not subsequently approved it cannot be recovered from customers.

***ii) Unclaimed monies***

Under the Unclaimed Money Act 1971, entities (eg, financial institutions, insurance companies) hand over money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identification.

***iii) Air New Zealand partnership***

The Air New Zealand Group has a partnership agreement in relation to the Christchurch Engineering Centre (CEC), holding a 49% interest. By the nature of the agreement, joint and several liabilities exist between the two parties; the contingent liability represents Air New Zealand's share of CEC's liabilities.

***iv) Kyoto protocol units***

During the first commitment period, it was estimated that 91.5 million tonnes of carbon credits would be generated by carbon removals via forests. To the extent that these forests are harvested in subsequent commitment periods there will be an associated liability generated that will need to be repaid. As at 30 June 2013, approximately 48.9 million tonnes has been transferred to forest owners in the form of New Zealand Units. The Crown's contingent liability is calculated as the remaining credits the Crown is potentially liable for (42.6 million tonnes). Using the carbon price as at 30 June 2013 (0.82 \$NZD), the contingent liability was estimated at \$35 million. This is significantly less than last year owing to a fall in the carbon price from \$5.70 at 30 June 2012.

**Note 32: Contingent Liabilities and Contingent Assets (continued)*****Unquantifiable Contingent Liabilities***

This part of the statement provides details of those contingent liabilities of the Crown which are not quantified, excluding those that are considered remote, reported by the following categories:

- a) Indemnities
- b) Legal disputes
- c) Other contingent liabilities

**a) Indemnities**

Indemnities are legally binding promises where the Crown undertakes to accept the risk of loss or damage that another party may suffer and to hold the other party harmless against loss caused by a specific stated event.

A number of these indemnities are provided to organisations within the Crown's control. If these indemnities were to crystallise, the Crown would compensate the individual entity for the loss and there would likely be an adverse impact on core Crown expenses and core Crown net debt.

<b>Party indemnified</b>	<b>Instrument of indemnification</b>	<b>Actions indemnified</b>
Air New Zealand	Deed of indemnity issued 24 September 2001	Claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US\$1 billion in respect of any one claim.
Airways Corporation of New Zealand	Airways' contract with New Zealand Defence Force	Any claim brought against Airways by third parties arising from military flight operations undertaken by the Royal New Zealand Air Force.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	Any deficiency in EQC's assets to cover the Commission's financial liabilities in the event of a major natural disaster. EQC expects to have the necessary financing to meet its liabilities as they fall due over the next twelve months, hence a call on its Crown guarantee is not expected for the coming year.
Contact Energy Limited	The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei.	The documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Genesis Power Limited	Deed between Genesis Power Limited and the Crown	The agreement sees the Crown compensate Genesis in the event that it has less gas than they require for the long-term supply of gas to cover Huntly Power station's minimum needs.
	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to bed of lakes and rivers subject to operating easements.
Genesis Power Limited, Meridian Energy Limited, and Mighty River Power Limited	The 1988 Deed - Sale and Purchase Agreement to ECNZ's successors	As a result of the split of ECNZ in December 1998, Ministers transferred the benefits of the indemnity of ECNZ to its successors (Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited) in relation to the specified assets transferred to each of those companies.  The liability is open-ended and is of significant commercial value. Directors are unlikely to forego the indemnity without substantial compensation.

**Note 32: Contingent Liabilities and Contingent Assets (continued)**

Party indemnified	Instrument of indemnification	Actions indemnified
Housing New Zealand Limited (HNZL)	The Crown has provided a warranty in respect of title to the assets transferred to HNZL	The Crown indemnified HNZL against: <ul style="list-style-type: none"> <li>any breach of the warranty provided, and</li> <li>any third-party claims that are a result of acts or omissions prior to 1 November 1992.</li> </ul> The Crown also indemnified the directors and officers of HNZL against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.
New Zealand Rail Corporation	The Minister of Finance signed the indemnity on 1 September 2004	The directors of NZ Railways Corporation against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities.
	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referee	Section 197 of the Summary Proceedings Act 1957 Section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Contracts	Contracts in respect of which the Crown purchases gas from Maui Mining companies and sells gas downstream to Contact Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited	The contracts provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.
Maui Partners	Confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	The indemnity relates to costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.
New Zealand Local Authorities	Section 9 of the Civil Defence Emergency Management Act 2002 Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is issued by the Director of Civil Defence Emergency Management.
Persons exercising investigating powers	Section 63 of the Corporations (Investigation and Management) Act 1989	Indemnifies the Financial Markets Authority (formerly Securities Commission), the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.

**Note 32: Contingent Liabilities and Contingent Assets (continued)**

Party indemnified	Instrument of indemnification	Actions indemnified
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004	The Crown has indemnified Westpac: <ul style="list-style-type: none"> <li>• In relation to letters of credit issued on behalf of the Crown.</li> <li>• For costs and expenses incurred by reason of third party claims against Westpac relating to indirect instructions, direct debits, third party cheques, departmental credit card merchant agreements, use of online banking products and IRD processing arrangements.</li> </ul>
	Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2010	The Crown indemnified Westpac New Zealand Limited against certain costs, damages and losses to third parties resulting from unauthorised, forged or fraudulent payment instructions (excluding costs, damages and losses arising from Westpac's wilful default, negligence or breach of the agreement or other applicable legal obligation).

**b) Legal claims and proceedings**

There are numerous legal actions that have been brought against the Crown. However, in the majority of these actions it is considered a remote possibility that the Crown would lose the case, or if the Crown were to lose it would be unlikely to have greater than a \$20 million impact. Based on these factors, not all legal actions are individually disclosed. The claims that are disclosed individually, while they cannot be quantified, have the potential to exceed \$20 million in costs.

**i) Accident Compensation Corporation (ACC) litigations**

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. Given the stage of proceedings and uncertainty as to outcomes of the cases, no estimate of the financial effect can be made.

**ii) Air New Zealand litigation**

Air New Zealand is currently named in class actions. Two (one in Australia and the other in the United States) make allegations against more than 30 airlines, of anti competitive conduct in relation to pricing in the air cargo business. A class action in the United States alleges that Air New Zealand together with many other airlines conspired in respect of fares and surcharges on trans-Pacific routes. All class actions are being defended. The allegations made in relation to the air cargo business are also the subject of proceedings by the Australian Competition and Consumer Commission. A defended hearing in the Federal Court concluded in May 2013 and a decision is awaited. In the event that the Court determines that Air New Zealand had breached Australian laws, the Company would have potential liability for pecuniary penalties.

**iii) Television New Zealand (TVNZ)**

TVNZ is subject to a number of legal claims. Given the stage of proceedings and uncertainty as to outcomes of the cases, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

**Note 32: Contingent Liabilities and Contingent Assets (continued)****iv) Treaty of Waitangi claims**

Under the Treaty of Waitangi Act 1975, any Māori may lodge claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

On occasion, Māori claimants pursue the resolution of particular claims against the Crown through higher courts. There are currently two such actions against the Crown being heard at the Court of Appeal and the Supreme Court. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

**v) Ministry of Education litigation**

Post Primary Teachers Association and several teachers have lodged a claim in the High Court alleging breach of statutory duty in respect of the Novopay system failures. The Ministry is defending this claim.

**c) Other contingent liabilities****i) Criminal Proceeds (Recovery) Act**

The Ministry of Justice is responsible for administering the Criminal Proceeds (Recovery) Act 2009. The Act requires the Crown to give an undertaking as to damages or costs in relation to asset restraining orders. In the event that the Crown is found liable, payment may be required.

**ii) Environmental liabilities**

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities. Departments managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with *NZ IAS 37: Provisions, Contingent Liabilities and Contingent Assets* any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions.

**iii) Treaty of Waitangi claims – settlement relativity payments**

The Deeds of Settlement negotiated with Waikato Tainui and Ngāi Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds \$1 billion in 1994 present-value terms, the Crown is liable to make payments to maintain the real value of Waikato Tainui's and Ngāi Tahu's settlements as a proportion of all Treaty Settlements. The agreed relativity proportions are 17% for Waikato - Tainui and approximately 16% for Ngāi Tahu.

The relativity mechanism has now been triggered, and in future years, additional costs may be incurred in accordance with the relativity mechanism as Treaty settlements are reached. However, the final amount payable to settle this matter cannot be quantified yet due to uncertainty around when current and future negotiations will be settled and the value of these settlements when reached. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

**Note 32: Contingent Liabilities and Contingent Assets (continued)****Contingent Assets**

	Note	Actual	
		30 June 2013 \$m	30 June 2012 \$m
<b>Contingent assets</b>			
Tax disputes	i	169	150
Suspensory loans issued to integrated schools	ii	38	45
Transpower New Zealand Limited	iii	21	24
Insurance claims - Canterbury earthquakes	iv	-	166
Other contingent assets		42	25
<b>Total contingent assets</b>		<b>270</b>	<b>410</b>
<i>By source</i>			
Core Crown		245	224
Crown entities		4	162
State-owned enterprises		21	24
<b>Total quantifiable contingent liabilities</b>		<b>270</b>	<b>410</b>

*i) Tax disputes*

A contingent asset is recognised when the Inland Revenue has advised, or was about to advise, a taxpayer of a proposed adjustment to their tax assessment. The taxpayer has the right to dispute this adjustment and a disputes resolution process can be entered into. The contingent asset is based on the likely outcome of the disputes process based on experience and similar prior cases.

*ii) Suspensory loans to Schools*

These loans were issued by the Ministry of Education to integrated schools; however, loan repayments were not due to begin until certain dates in the future. A contingent asset is recorded at the estimated value of payments until the point that the loans are called to be repaid.

*iii) Transpower New Zealand Limited's revenue recovery*

Transpower has a net contingent asset relating to a regulatory asset from historical under recoveries of revenue. The contingent asset relates to the future revenue that will be received as the regulatory asset is recovered over time from customers.

*iv) Insurance claims – Canterbury earthquakes*

The 2012 comparative relates to insurance proceeds receivable by Housing New Zealand Corporation that has since been received.



**Note 33: Financial Instruments**

The Government has devolved responsibility for the financial management of its financial portfolios to its sub-entities such as NZDMO, Reserve Bank, NZS Fund, Inland Revenue and ACC. The financial management objectives of each of these portfolios are influenced by the purpose and associated governance framework for which the portfolio is held. The purposes of a portfolio may cover:

- public policy considerations eg, the provision of student loans to support tertiary education policy
- liquidity management eg, Treasury bills and Government bonds are the primary debt instruments for funding core Government operations, and
- long-term economic return eg, the function of the NZ Superannuation Fund.

These purposes are not mutually exclusive, with portfolios typically established for, or arising from, a public policy objective, such as pre-funding future superannuation expenses, but in doing so are managed to maximise economic returns consistent with the policy objective.

Reporting to Ministers on these portfolios is done on a portfolio-by-portfolio basis. The institutional frameworks and policy objectives of these portfolios are reviewed periodically. Otherwise, reporting on the consolidated financial management and performance of these portfolios is done in the context of the interim and annual Financial Statements of the Government and the forecasts reported in the *Half-Year* and *Budget Economic and Fiscal Updates*.

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in note 1 to the financial statements.

This note provides the following details of the Crown's financial instruments:

- a) Analysis of financial instruments
  - Designation category
  - Fair value hierarchy
  - Fair value movements
  - Derivatives
  - Hedge accounted derivatives
- b) Risk management policies
- c) Market risk management
  - Interest rate risk management
  - Foreign currency risk management
  - Equity market risk management
- d) Credit risk management
  - Concentration of credit risk by credit rating
  - Concentration of credit risk by geographical area
  - Concentration of credit risk by industry
- e) Liquidity risk management

## Note 33: Financial Instruments (continued)

## (a) Analysis of financial instruments

Financial instruments are measured at either fair value or amortised cost. Financial instruments measured at fair value are further classified into three designations; available for sale, held for trading and fair value through profit and loss. Changes in the value of an instrument may be reported in the operating balance or directly in net worth depending on its designation. The following table details the value of financial assets and financial liabilities by class of instrument and by designation category, as defined in the accounting policies in note 1.

*Financial Assets*

## Financial assets as at 30 June 2013

Note	Loans and receivables at amortised cost \$m	Designation		Fair value through P&L \$m	Total \$m
		Available for sale \$m	Held for trading \$m		
	14,924	-	-	-	14,924
14	7,962	-	-	-	7,962
15	3,444	-	-	144	3,588
15	-	-	3,775	-	3,775
15	-	523	166	33,657	34,346
15	2,291	-	-	-	2,291
16	28	107	9	17,215	17,359
17	8,288	-	-	-	8,288
17	13,202	-	-	-	13,202
17	778	67	-	278	1,123
<b>Total financial assets</b>	<b>50,917</b>	<b>697</b>	<b>3,950</b>	<b>51,294</b>	<b>106,858</b>

## Financial assets as at 30 June 2012

Note	Loans and receivables at amortised cost \$m	Designation		Fair value through P&L \$m	Total \$m
		Available for sale \$m	Held for trading \$m		
	10,686	-	-	-	10,686
14	9,660	-	-	-	9,660
15	2,258	-	-	164	2,422
15	-	-	5,032	-	5,032
15	-	505	130	38,047	38,682
15	2,249	-	-	-	2,249
16	26	100	-	14,259	14,385
17	8,291	-	-	-	8,291
17	12,401	-	-	44	12,445
17	790	50	-	190	1,030
<b>Total financial assets</b>	<b>46,361</b>	<b>655</b>	<b>5,162</b>	<b>52,704</b>	<b>104,882</b>

As at 30 June 2013, the carrying value of financial assets that had been pledged as collateral was \$1,978 million (2012: \$1,512 million). These transactions are conducted under terms that are usual and customary to standard securities borrowing.

## Note 33: Financial Instruments (continued)

## (a) Analysis of financial instruments (continued)

*Financial Liabilities*

## Financial liabilities as at 30 June 2013

	Note	Designation			Total \$m
		Amortised cost	Held for trading	Fair value through P&L	
		\$m	\$m	\$m	
Issued currency		4,691	-	-	4,691
Accounts payable	23	7,616	-	-	7,616
Borrowings:	24				
Government bonds		55,005	-	2,372	57,377
Treasury bills		4,084	-	-	4,084
Government retail stock		199	-	-	199
Settlement deposits with Reserve Bank <sup>1</sup>		7,575	-	-	7,575
Derivatives in loss		-	3,188	-	3,188
Finance lease liabilities		1,454	-	-	1,454
Other borrowings		21,534	90	4,586	26,210
<b>Total borrowings</b>		<b>89,851</b>	<b>3,278</b>	<b>6,958</b>	<b>100,087</b>
<b>Total financial liabilities</b>		<b>102,158</b>	<b>3,278</b>	<b>6,958</b>	<b>112,394</b>

## Financial liabilities as at 30 June 2012

	Note	Designation			Total \$m
		Amortised cost	Held for trading	Fair value through P&L	
		\$m	\$m	\$m	
Issued currency		4,457	-	-	4,457
Accounts payable	23	8,255	-	-	8,255
Borrowings:	24				
Government bonds		51,016	-	2,834	53,850
Treasury bills		8,557	-	397	8,954
Government retail stock		229	-	-	229
Settlement deposits with Reserve Bank <sup>1</sup>		5,917	-	-	5,917
Derivatives in loss		-	2,807	-	2,807
Finance lease liabilities		1,515	-	-	1,515
Other borrowings		22,465	189	4,608	27,262
<b>Total borrowings</b>		<b>89,699</b>	<b>2,996</b>	<b>7,839</b>	<b>100,534</b>
<b>Total financial liabilities</b>		<b>102,411</b>	<b>2,996</b>	<b>7,839</b>	<b>113,246</b>

1. The Reserve Bank have reclassified their settlement deposits balances from fair value through profit and loss to amortised cost. Prior year balances have been restated to reflect current year treatment.

## Note 33: Financial Instruments (continued)

**(a) Analysis of financial instruments (continued)***Fair Value Hierarchy*

The following table details the basis for the valuation of financial assets and financial liabilities measured at fair value. This includes those financial assets and financial liabilities that are available for sale, held for trading, or fair value through profit and loss. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value may be determined using different methods depending on the type of asset or liability. Where possible, assets and liabilities are valued with reference to a quoted market price, or based on other observable current market transactions. Where this is not available, valuation techniques may be used to determine fair value. In these instances, fair value is generally based on the discounted value of future cashflows using applicable yield curves and adjusted for additional risks, including credit risks, where applicable. Maximum use is made of observable market data when selecting variables and developing assumptions for the valuation techniques. There have been no changes in valuation techniques during the year.

As at 30 June 2013

	Quoted market price	Observable markets	Significant non- observable inputs	Total
	\$m	\$m	\$m	\$m
<b>Financial assets</b>				
Long-term deposits	15	129	-	144
Derivatives in gain	12	3,509	254	3,775
Marketable securities	10,801	21,888	1,657	34,346
Share investments	16,217	42	1,072	17,331
Kiwibank mortgages	-	-	-	-
Other advances	-	128	217	345
<b>Total financial assets at fair value</b>	<b>27,045</b>	<b>25,696</b>	<b>3,200</b>	<b>55,941</b>
<b>Financial liabilities</b>				
Government bonds	2,372	-	-	2,372
Treasury bills	-	-	-	-
Government retail stock	-	-	-	-
Derivatives in loss	17	3,011	160	3,188
Other borrowings	81	4,565	30	4,676
<b>Total financial liabilities at fair value</b>	<b>2,470</b>	<b>7,576</b>	<b>190</b>	<b>10,236</b>
<b>Net financial assets at fair value</b>	<b>24,575</b>	<b>18,120</b>	<b>3,010</b>	<b>45,705</b>

## Note 33: Financial Instruments (continued)

## (a) Analysis of financial instruments (continued)

*Fair Value Hierarchy (continued)*

As at 30 June 2012

	Quoted market price	Observable markets	Significant non- observable inputs	Total
	\$m	\$m	\$m	\$m
<b>Financial assets</b>				
Long-term deposits	-	164	-	164
Derivatives in gain	17	4,812	203	5,032
Marketable securities	9,941	27,149	1,592	38,682
Share investments	13,677	33	649	14,359
Kiwibank mortgages	-	-	44	44
Other advances	-	133	107	240
<b>Total financial assets at fair value</b>	<b>23,635</b>	<b>32,291</b>	<b>2,595</b>	<b>58,521</b>
<b>Financial liabilities</b>				
Government bonds	2,834	-	-	2,834
Treasury bills	-	397	-	397
Government retail stock	-	-	-	-
Derivatives in loss	7	2,558	242	2,807
Other borrowings	192	4,564	41	4,797
<b>Total financial liabilities at fair value</b>	<b>3,033</b>	<b>7,519</b>	<b>283</b>	<b>10,835</b>
<b>Net financial assets at fair value</b>	<b>20,602</b>	<b>24,772</b>	<b>2,312</b>	<b>47,686</b>

## Note 33: Financial Instruments (continued)

## (a) Analysis of financial instruments (continued)

*Fair Value Movements*

The following table details movements in the fair value of financial instruments measured using significant non-observable inputs.

As at 30 June 2013	Marketable	Share	Kiwibank	Other	Derivatives	Other	Total
	securities	investments	mortgages	advances	in gain/ (loss)	borrowings	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening balance	1,592	649	44	107	(39)	(41)	2,312
Total gains/(losses) recognised in the statement of financial performance	222	122	-	(18)	13	11	350
Total gains/(losses) recognised in the statement of comprehensive income	9	-	-	-	364	-	373
Purchases	398	253	-	14	(15)	-	650
Sales	(193)	(14)	-	-	(19)	-	(226)
Issues	-	-	-	115	-	-	115
Settlements	(253)	-	(44)	(1)	(216)	-	(514)
Transfers into and out of level 3	(118)	62	-	-	6	-	(50)
<b>Closing balance</b>	<b>1,657</b>	<b>1,072</b>	<b>-</b>	<b>217</b>	<b>94</b>	<b>(30)</b>	<b>3,010</b>

As at 30 June 2012	Marketable	Share	Kiwibank	Other	Derivatives	Other	Total
	securities	investments	mortgages	advances	in gain/ (loss)	borrowings	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening balance	1,170	479	448	45	(87)	-	2,055
Total gains/(losses) recognised in the statement of financial performance	29	(45)	(10)	(2)	(5)	(41)	(74)
Total gains/(losses) recognised in the statement of comprehensive income	4	-	-	-	45	-	49
Purchases	777	229	-	-	2	-	1,008
Sales	(126)	(14)	-	-	(24)	-	(164)
Issues	2	-	-	65	4	-	71
Settlements	(264)	-	(394)	(1)	26	-	(633)
Transfers into and out of level 3	-	-	-	-	-	-	-
<b>Closing balance</b>	<b>1,592</b>	<b>649</b>	<b>44</b>	<b>107</b>	<b>(39)</b>	<b>(41)</b>	<b>2,312</b>

Total gains/(losses) included in the statement of financial performance in relation to those financial assets and financial liabilities held as at 30 June:

	Marketable	Share	Kiwibank	Other	Derivatives	Other	Total
	securities	investments	mortgages	advances	in gain/ (loss)	borrowings	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Year ended 30 June 2013	184	94	-	(18)	83	(11)	332
Year ended 30 June 2012	(7)	(72)	(10)	(1)	747	(41)	616

## Note 33: Financial Instruments (continued)

## (a) Analysis of financial instruments (continued)

*Derivatives*

Derivatives as at 30 June 2013	Carrying Value			Notional Value		
	Derivatives in gain	Derivatives in loss	Net carrying value	Derivatives in gain	Derivatives in loss	Total Notional value
	\$m	\$m	\$m	\$m	\$m	\$m
Foreign exchange contracts	538	701	(163)	19,540	22,493	42,033
Foreign exchange options	-	2	(2)	13	202	215
Cross currency swaps	1,863	545	1,318	14,590	6,473	21,063
Interest rate swaps	719	1,274	(555)	21,302	36,995	58,297
Interest rate options	-	-	-	-	-	-
Futures	5	7	(2)	2,331	2,169	4,500
Other derivatives	650	659	(9)	14,615	13,207	27,822
<b>Total derivatives</b>	<b>3,775</b>	<b>3,188</b>	<b>587</b>	<b>72,391</b>	<b>81,539</b>	<b>153,930</b>

Derivatives as at 30 June 2012	Carrying Value			Notional Value		
	Derivatives in gain	Derivatives in loss	Net carrying value	Derivatives in gain	Derivatives in loss	Total Notional value
	\$m	\$m	\$m	\$m	\$m	\$m
Foreign exchange contracts	607	213	394	17,520	10,059	27,579
Foreign exchange options	1	1	-	45	98	143
Cross currency swaps	2,585	368	2,217	20,966	5,441	26,407
Interest rate swaps	1,079	1,461	(382)	15,046	21,362	36,408
Interest rate options	-	15	(15)	65	165	230
Futures	17	-	17	4,702	3,245	7,947
Other derivatives	743	749	(6)	17,252	21,548	38,800
<b>Total derivatives</b>	<b>5,032</b>	<b>2,807</b>	<b>2,225</b>	<b>75,596</b>	<b>61,918</b>	<b>137,514</b>

Derivative financial instruments are used across the portfolios to manage exposure to interest rate, foreign currency and electricity sector risk. These transactions do not generally involve any principal exchange at commencement. They are an agreement to change the characteristics of the underlying transactions. The credit exposure is therefore limited to the net market value movement resulting from changes in relevant interest rates or currencies. The notional value is therefore a reference to the calculation base, not a reflection of the counterparty exposure. Instruments utilised include:

- foreign exchange contracts and options to hedge exchange rate risk arising from foreign investments and liabilities as well as budgeted overseas purchases. Under foreign exchange contracts the Government agrees to exchange one currency for another at a future date using an exchange rate determined when the contract is entered into
- cross currency swaps. Cross currency swaps combine an interest rate swap and a currency swap whereby the interest rate in one currency is fixed, and the interest rate in the other is floating. In doing so, they manage both interest rate and currency risk
- interest rate swaps and options to manage interest rate risk. Under interest rate swap contracts, the Government agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Government to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. They are also used to reduce interest rate risk for a number of Government departments
- other derivatives include electricity derivatives. Electricity derivatives are typically “contracts for differences” entered into by the electricity generation State-owned enterprises to hedge against volatility in electricity prices
- futures. Futures are contracts stipulating the purchase or sale of currencies or securities of a specified quantity, at a specified price and on a predetermined date in the future.

## Note 33: Financial Instruments (continued)

## (a) Analysis of financial instruments (continued)

*Hedge Derivatives*

Some derivatives are reported using the hedge accounting approaches available under financial reporting standards. Changes in the fair value of hedging instruments designated as cash flow hedges are accumulated within equity and to the extent that the hedges are deemed effective. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in the statement of financial performance. A fair value hedge enables the hedged item to be adjusted by the effective portion of the fair value hedge and for this adjustment to be reported in the statement of financial performance.

The carrying values of hedge accounted derivatives were:

	Carrying value in gain \$m	Carrying value in loss \$m	Net carrying value \$m
<b>Hedge accounted derivatives as at 30 June 2013</b>			
Derivatives hedging fair value	41	21	20
Derivatives hedging cash flows	239	217	22
<b>Hedge accounted derivatives as at 30 June 2012</b>			
Derivatives hedging fair value	43	36	7
Derivatives hedging cash flows	173	357	(184)

As a result of fair value hedge accounting, the hedged items were adjusted by a gain of \$4 million (2012: gain of \$22 million), which is included in the statement of financial performance along with the change in fair value of the hedging derivative.

The periods when cash flows are expected to occur from activities subject to cash flow hedge accounting and when they are expected to effect the operating balance are:

	<1 year \$m	1-2 years \$m	2-5 years \$m	>5 years \$m	Total \$m
<b>As at 30 June 2013</b>					
Timing of cash flows	62	3	1	1	67
Increase/(decrease) in operating balance	32	(5)	(6)	21	42
<b>As at 30 June 2012</b>					
Timing of cash flows	20	(7)	(11)	(57)	(55)
Increase/(decrease) in operating balance	6	(8)	(28)	(197)	(227)

The same types of derivative instruments listed on the previous page are used for hedge accounting.



**Note 33: Financial Instruments (continued)****(b) Risk management policies**

Risk management policies are outlined for entities that hold significant portfolios of financial instruments. The size of these portfolios on an unconsolidated basis (ie, including cross-holdings of Government bonds and other Crown instruments) are:

	30 June 2013		30 June 2012	
	Unconsolidated financial assets	Unconsolidated financial liabilities	Unconsolidated financial assets	Unconsolidated financial liabilities
	\$m	\$m	\$m	\$m
ACC	25,278	1,332	22,377	1,970
Air New Zealand	2,093	2,043	1,817	2,102
EQC	5,346	448	7,196	32
Genesis Energy	302	1,285	367	1,370
Inland Revenue Department	11,232	301	9,740	288
Meridian Energy	824	1,606	650	2,398
Mighty River Power	455	1,601	694	1,911
New Zealand Debt Management Office (NZDMO)	12,713	76,585	21,644	78,702
NZ Post (including Kiwibank)	15,418	14,990	14,969	14,842
NZ Superannuation Fund	23,419	1,721	18,815	1,095
Public Trust	626	594	808	785
Reserve Bank	19,342	16,659	17,573	14,877
Southern Response	1,746	8	1,986	10
Transpower	576	3,731	478	3,151

The risk management policies applied by each of these entities are outlined below.

Manager	Financial Instrument Portfolio	Risk Management
Accident Compensation Corporation	ACC reserves	The investment committee sets investment guidelines by requiring investment portfolio managers to manage their portfolios within defined market exposure limits. These limits include limits on percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment companies not represented in the benchmark; limits on the maximum investment in any individual company; ratings related credit limits on both a per-issuer and aggregate basis; duration limits relative to the duration of the benchmark; and maximum credit exposure to single entities. Compliance with the investment guidelines is reviewed by the internal auditors on a half-yearly basis.

**Note 33: Financial Instruments (continued)****(b) Risk management policies (continued)**

<b>Manager</b>	<b>Financial Instrument Portfolio</b>	<b>Risk Management</b>
Air New Zealand	Financial instruments arising from its business activity.	The Board of directors approve risk management policies. Compliance with these policies is reviewed and reported monthly to the Board and is included as part of the internal audit programme. Group policy is not to enter, issue, or hold financial instruments for speculative purposes.
Earthquake Commission	Assets in National Disaster Fund (NDF)	The NDF has a short-term time horizon in that the assets are being fully applied to meeting Canterbury earthquake damage claims. The Commission is managing the NDF to ensure both liquidity and stability of asset values. Its assets comprise only New Zealand Government bonds and commercial bank cash instruments.
Genesis Energy	Financial instruments arising from its business activity including: <ul style="list-style-type: none"> <li>• interest rate swaps</li> <li>• foreign currency swaps and options</li> <li>• electricity swaps and options</li> <li>• oil price swaps and options.</li> </ul>	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise financial risk to the Group. Trading in financial instruments, including derivatives, for speculative purposes is not permitted by the Board.
Inland Revenue Department	Student Loans	Risk is minimised by the collection of compulsory repayments from NZ-based borrowers through the tax system. In addition, advances are widely dispersed, reducing the concentration of credit risk.
Meridian Energy	Financial instruments arising from its business activity	Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the Group. The Group uses financial instruments to mitigate these risk exposures.
Mighty River Power	Financial instruments arising from its business activity	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to proactively manage these risks with the aim of protecting shareholder wealth. The Group uses financial instruments to hedge these risk exposures.
NZDMO	Financial assets and liabilities held to: <ul style="list-style-type: none"> <li>• finance the Government's gross borrowing requirements</li> <li>• provide funds to Government entities, and</li> <li>• provide capital market services and derivative transactions to Government entities.</li> </ul>	NZDMO operates within a risk management framework that is approved by the Minister of Finance. The framework specifies NZDMO's policies for managing market risk, credit risk, liquidity risk, funding risk and operational risk. The risk management framework is subject to continuous improvement.

**Note 33: Financial Instruments (continued)****(b) Risk management policies (continued)**

<b>Manager</b>	<b>Financial Instrument Portfolio</b>	<b>Risk Management</b>
New Zealand Post (including Kiwibank)	Financial instruments from its debt portfolio and investment activity. This includes activities as a financial intermediary and financial market participant.	The Board is responsible for risk management policies and procedures. This includes appointing a finance risk and investment committee to monitor risk management. In addition, the Asset-Liability Committee, the Executive Risk Committee and the Enterprise Portfolio Management Office have been formed to ensure bank-wide input and appropriate focus on specific risk matters.
The New Zealand Superannuation Fund (NZS Fund)	Investment Fund assets	The Guardians manage the NZS Fund's risks by adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the Fund. The objective is to: <ul style="list-style-type: none"> <li>• avoid concentration of risk by ensuring there is adequate diversification between and within asset classes and geographically</li> <li>• carefully select and monitor managers to ensure the Guardians have sufficient conviction that each manager will maximise the probability that return expectations will be met</li> <li>• ensure that there are no unintended biases away from the intended investment strategy, and</li> <li>• perform rigorous measurement and management of market risk.</li> </ul>
Public Trust	Financial assets and liabilities	The Trust has an Investment Committee that reviews the investment policies, procedures, practices and investment performance.
The Reserve Bank of New Zealand	Financial assets and liabilities held for the purpose of effective foreign exchange intervention capability, wholesale banking liquidity and circulating currency.	The main financial risks to which the Bank is exposed include credit risk, foreign currency risk, interest rate risk and liquidity risk. The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risks.
Southern Response	Financial assets	The company's financial risk management activities focus on ensuring that the financial assets are managed in accordance with the investment strategy set out in the Crown Support Deed and that sufficient liquidity is maintained at all times to meet its insurance liabilities.
Transpower	Financial instruments arising from its business activity	The Board has approved policy and guidelines and authorised the use of various financial instruments. The policy adopted by the Board prohibits the use of financial instruments for speculative purposes. All derivatives must be directly related to underlying physical or forecast debt or firm capital commitments on Board approved projects.

## Note 33: Financial Instruments (continued)

### (c) Market risk management

The Government's activities expose it primarily to the financial risks of changes in interest rates, foreign exchange rates and equity markets. These risks are managed at portfolio level consistent with the policy purpose of the portfolio and risk management objectives. Detailed information on the exposure to market risk and policies for managing this risk are available in the separate financial statements prepared by the Manager for each portfolio.

The Government's exposure to market risk reflects the combination of these portfolio management practices. These practices include use of Value-at-Risk (VaR) limits and stop-loss limits to manage risk. While NZDMO and Reserve Bank's activities collectively manage the core Crown's exposure to foreign exchange, there is no other centralised management of market or other risk.

There has been no significant change to the manner in which the Government reporting entities that manage the Government's portfolios, manage and measure risks from previous year.

Derivative financial instruments are used across the portfolios to manage exposure to interest rate, foreign currency and electricity sector risk. Refer to section on derivatives in note 33(a) for further information on these derivatives.

#### *Interest rate risk management*

The Government is exposed to interest rate risk as entities in the Government reporting entity borrow and invest funds at both fixed and floating interest rates. The risk is managed at the entity level in accordance with their capital objectives and risk management policies. These objectives and policies include maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts, and by the use of Value-at-Risk and stop-loss limits. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

#### *Interest rate sensitivity analysis*

The following analysis of financial instruments shows how the operating balance and equity reserves would have been affected by a 100 basis point increase or decrease in New Zealand interest rates while holding all other variables constant. The effect on the operating balance is primarily from changes in interest revenue and interest expense on floating rate instruments and changes in the value of instruments measured at fair value through profit and loss. The Government does not have material exposure to foreign interest rates.

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. The effect of exposure to interest rates on the valuation of non-financial instruments, such as the ACC liability and GSF defined benefit plan, are provided in the relevant notes to the financial statements.

Movements in interest rates affect the financial results of the Government in the following manner:

- the resulting valuation changes for fixed interest instruments that are measured at fair value through profit and loss will affect the operating balance, while the valuation changes of fixed interest instruments designated as available-for-sale will affect equity reserves
- the resulting changes in interest expense and interest revenue on floating rate instruments will affect the operating balance, and
- where derivatives are designated as cash flow hedges of floating rate instruments, equity reserves will be affected by the resulting changes in the fair value of these derivatives.

**Note 33: Financial Instruments (continued)****(c) Market risk management (continued)**

If interest rates had been 100 basis points higher/(lower) at balance date and all other variables were held constant, the effect of financial instruments would increase/(decrease) the Government's financial results as outlined in the following table. The impact is net of any hedging by way of interest rate derivatives.

**Change in New Zealand Interest Rates**

	Impact on operating balance		Impact on net worth	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Increase 1% (100 basis points)	(532)	(400)	(493)	(393)
Decrease 1% (100 basis points)	592	429	554	423

The Government's sensitivity to interest rates has increased since last year. A large part of the increase relates to ACC holding higher levels of assets under management compared to last year. This increase in asset holdings has resulted in an increase in sensitivity to changes in interest rates.

**Foreign currency risk management**

The Government undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross currency interest rate swaps. The carrying amounts of the Government's foreign currency denominated financial assets and financial liabilities translated to NZD at the reporting date are as follows:

As at 30 June 2013	Note	NZD NZ\$m	USD NZ\$m	Yen NZ\$m	Euro NZ\$m	Other NZ\$m	Total NZ\$m
Cash and cash equivalents		6,233	3,173	3,092	1,544	882	14,924
Trade and other receivables	14	6,771	693	13	213	272	7,962
Long-term deposits	15	3,254	80	5	86	163	3,588
Derivatives in gain	15	16,065	(1,093)	(3,766)	(3,499)	(3,932)	3,775
Marketable securities	15	8,246	15,506	1,684	3,657	5,253	34,346
IMF financial assets	15	-	-	-	-	2,291	2,291
Share investments	16	4,574	4,450	1,021	1,860	5,454	17,359
Student loans	17	8,288	-	-	-	-	8,288
Kiwibank mortgages	17	13,202	-	-	-	-	13,202
Other advances	17	927	115	-	4	77	1,123
<b>Total financial assets</b>		<b>67,560</b>	<b>22,924</b>	<b>2,049</b>	<b>3,865</b>	<b>10,460</b>	<b>106,858</b>
Issued currency		4,691	-	-	-	-	4,691
Accounts payable	23	6,702	340	399	82	93	7,616
Borrowings:	24						
Government bonds		57,377	-	-	-	-	57,377
Treasury bills		4,084	-	-	-	-	4,084
Government retail stock		199	-	-	-	-	199
Settlement deposits with Reserve Bank		7,575	-	-	-	-	7,575
Derivatives in loss		(14,750)	11,790	1,514	2,048	2,586	3,188
Finance lease liabilities		567	679	207	-	1	1,454
Other borrowings		19,771	3,714	-	-	2,725	26,210
<b>Total financial liabilities</b>		<b>86,216</b>	<b>16,523</b>	<b>2,120</b>	<b>2,130</b>	<b>5,405</b>	<b>112,394</b>
<b>Net financial currency holdings</b>		<b>(18,656)</b>	<b>6,401</b>	<b>(71)</b>	<b>1,735</b>	<b>5,055</b>	<b>(5,536)</b>

## Note 33: Financial Instruments (continued)

## (c) Market risk management (continued)

## Foreign currency risk management (continued)

As at 30 June 2012	Note	NZD NZ\$m	USD NZ\$m	Yen NZ\$m	Euro NZ\$m	Other NZ\$m	Total NZ\$m
Cash and cash equivalents		5,848	4,074	70	271	423	10,686
Trade and other receivables	14	9,035	442	9	10	164	9,660
Long-term deposits	15	2,041	181	18	23	159	2,422
Derivatives in gain	15	29,325	(14,744)	(1,141)	(4,092)	(4,316)	5,032
Marketable securities	15	9,651	19,757	1,689	4,178	3,407	38,682
IMF financial assets	15	-	-	-	-	2,249	2,249
Share investments	16	3,912	3,644	688	1,104	5,037	14,385
Student loans	17	8,291	-	-	-	-	8,291
Kiwibank mortgages	17	12,445	-	-	-	-	12,445
Other advances	17	834	119	-	-	77	1,030
<b>Total financial assets</b>		<b>81,382</b>	<b>13,473</b>	<b>1,333</b>	<b>1,494</b>	<b>7,200</b>	<b>104,882</b>
Issued currency		4,457	-	-	-	-	4,457
Accounts payable	23	7,503	299	162	32	259	8,255
Borrowings:	24						
Government bonds		53,850	-	-	-	-	53,850
Treasury bills		8,954	-	-	-	-	8,954
Government retail stock		229	-	-	-	-	229
Settlement deposits with Reserve Bank		5,917	-	-	-	-	5,917
Derivatives in loss		2	2,761	1,200	(65)	(1,091)	2,807
Finance lease liabilities		642	678	194	-	1	1,515
Other borrowings		19,568	4,491	171	-	3,032	27,262
<b>Total financial liabilities</b>		<b>101,122</b>	<b>8,229</b>	<b>1,727</b>	<b>(33)</b>	<b>2,201</b>	<b>113,246</b>
<b>Net financial currency holdings</b>		<b>(19,740)</b>	<b>5,244</b>	<b>(394)</b>	<b>1,527</b>	<b>4,999</b>	<b>(8,364)</b>

## Foreign currency sensitivity analysis

The following table details the Government's sensitivity to a 10% strengthening and weakening in the New Zealand dollar with all other variables held constant. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

The sensitivity analysis is net of hedging via foreign exchange derivatives, but does not include the impact on prices of goods and services purchased or sold in foreign currencies.

## Change in New Zealand exchange rate

	Impact on operating balance		Impact on net worth	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Strengthen by 10%	(1,029)	(907)	(995)	(903)
Weaken by 10%	1,160	881	1,140	884

The Government's sensitivity to foreign currency has increased during the current period. This increase is mainly in relation ACC holding a larger value of investments this year across a broad range of currencies resulting in an increase in sensitivity to exchange rate changes.

## Note 33: Financial Instruments (continued)

## (c) Market risk (continued)

*Equity market risk management*

The Government is exposed to share price risks arising from its holding of share investments.

*Equity market sensitivity analysis*

Share investments are reported at fair value. Movements in share prices therefore directly translate into movements in the value of the share investment portfolio.

The sensitivity analysis below has been determined based on the exposure of the NZS Fund and ACC to share price risks at the reporting date. These portfolios combined make up 97% of the Government's total share investments (2012: 97%).

Change in share prices	Impact on operating balance		Impact on net worth	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Strengthen/weaken by 10%	1,681	1,392	1,681	1,392

The Government's sensitivity to share prices has increased from the prior year in line with an increase in the level of share investments held.

## Note 33: Financial Instruments (continued)

**(d) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Government. The carrying value of financial assets equates to the maximum exposure to credit risk as at balance date. Credit risk is managed at the entity level in accordance with their capital objectives and risk management policies. These objectives and policies include limits to individual and industry counterparty exposure, collateral requirements, and counterparty credit ratings.

Of the financial assets held by the Government at 30 June 2013, the fair value of collateral held that could be sold or repurchased was \$2,361 million (2012: \$7,538 million).

Concentrations of credit exposure classified by credit rating, geography and industry of the counterparty are provided in the following tables. The credit exposure of financial assets that are neither past due nor impaired is not materially different to the total credit exposure of the Government.

**Concentration of credit exposure by credit rating (using Standard & Poor's ratings)**

As at 30 June 2013	Note	AAA \$m	AA \$m	A \$m	Other \$m	Non-rated \$m	Total \$m
Cash and cash equivalents		1,449	10,929	2,434	59	53	14,924
Trade and other receivables	14	-	1,282	1,790	17	4,873	7,962
Long-term deposits	15	-	2,773	806	9	-	3,588
Derivatives in gain	15	-	1,945	1,639	1	190	3,775
Marketable securities	15	9,487	17,112	663	1,418	5,666	34,346
IMF financial assets	15	-	-	-	2,291	-	2,291
Share investments	16	100	539	1,466	10,671	4,583	17,359
Student loans	17	-	-	-	-	8,288	8,288
Kiwibank mortgages <sup>12</sup>	17	-	-	-	-	13,202	13,202
Other advances	17	-	320	134	12	657	1,123
<b>Total credit exposure by credit rating</b>		<b>11,036</b>	<b>34,900</b>	<b>8,932</b>	<b>14,478</b>	<b>37,512</b>	<b>106,858</b>
<b>As at 30 June 2012</b>							
	Note	AAA \$m	AA \$m	A \$m	Other \$m	Non-rated \$m	Total \$m
Cash and cash equivalents		230	9,251	1,139	32	34	10,686
Trade and other receivables	14	-	1,769	3,234	-	4,657	9,660
Long-term deposits	15	-	1,720	702	-	-	2,422
Derivatives in gain	15	-	2,646	1,928	271	187	5,032
Marketable securities	15	13,094	17,973	1,554	1,116	4,945	38,682
IMF financial assets	15	-	-	-	2,249	-	2,249
Share investments	16	57	315	1,197	8,816	4,000	14,385
Student loans	17	-	-	-	-	8,291	8,291
Kiwibank mortgages <sup>12</sup>	17	-	-	-	-	12,445	12,445
Other advances	17	-	246	122	1	661	1,030
<b>Total credit exposure by credit rating</b>		<b>13,381</b>	<b>33,920</b>	<b>9,876</b>	<b>12,485</b>	<b>35,220</b>	<b>104,882</b>

<sup>12</sup> Kiwibank mortgages consist mainly of residential lending. Therefore these financial assets have been classified as non-rated for the purposes of credit risk.



## Note 33: Financial Instruments (continued)

## (d) Credit risk management (continued)

## Concentration of credit exposure by geographical area:

## As at 30 June 2013

	Note	USA \$m	Europe \$m	Japan \$m	Australia \$m	New Zealand \$m	Other \$m	Total \$m
Cash and cash equivalents		3,126	2,064	3,092	116	6,409	117	14,924
Trade and other receivables	14	1,151	1,253	9	302	3,977	1,270	7,962
Long-term deposits	15	101	45	5	69	3,324	44	3,588
Derivatives in gain	15	615	854	14	170	2,012	110	3,775
Marketable securities	15	7,595	9,115	1,683	2,398	7,772	5,783	34,346
IMF financial assets	15	-	-	-	-	-	2,291	2,291
Share investments	16	4,296	3,434	1,021	2,134	4,523	1,951	17,359
Student loans <sup>13</sup>	17	-	-	-	-	8,288	-	8,288
Kiwibank mortgages	17	-	-	-	-	13,202	-	13,202
Other advances	17	-	119	-	76	915	13	1,123
<b>Total credit exposure by geography</b>		<b>16,884</b>	<b>16,884</b>	<b>5,824</b>	<b>5,265</b>	<b>50,422</b>	<b>11,579</b>	<b>106,858</b>

## As at 30 June 2012

	Note	USA \$m	Europe \$m	Japan \$m	Australia \$m	New Zealand \$m	Other \$m	Total \$m
Cash and cash equivalents		4,043	370	69	188	5,915	101	10,686
Trade and other receivables	14	992	1,500	3	464	4,269	2,432	9,660
Long-term deposits	15	126	23	18	133	2,041	81	2,422
Derivatives in gain	15	820	1,179	1	374	2,416	242	5,032
Marketable securities	15	8,826	12,699	1,680	2,651	9,332	3,494	38,682
IMF financial assets	15	-	-	-	-	-	2,249	2,249
Share investments	16	3,361	2,575	688	2,156	3,875	1,730	14,385
Student loans <sup>13</sup>	17	-	-	-	-	8,291	-	8,291
Kiwibank mortgages	17	-	-	-	-	12,445	-	12,445
Other advances	17	-	119	-	78	833	-	1,030
<b>Total credit exposure by geography</b>		<b>18,168</b>	<b>18,465</b>	<b>2,459</b>	<b>6,044</b>	<b>49,417</b>	<b>10,329</b>	<b>104,882</b>

<sup>13</sup> At 30 June 2013, 15.1% (2012: 14.5%) of student loan borrowers were overseas. As the total advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk.

## Note 33: Financial Instruments (continued)

## (d) Credit risk management (continued)

## Concentration of credit exposure by industry:

As at 30 June 2013	Note	Sovereign issuers \$m	Supra- national \$m	NZ banking sector \$m	Foreign banking sector \$m	Individuals \$m	Other \$m	Total \$m
Cash and cash equivalents		7,641	3	6,388	840	1	51	14,924
Trade and other receivables	14	-	-	-	-	-	7,962	7,962
Long-term deposits	15	2	-	3,320	263	-	3	3,588
Derivatives in gain	15	-	-	1,621	1,724	-	430	3,775
Marketable securities	15	12,534	3,718	2,993	4,235	-	10,866	34,346
IMF financial assets	15	-	2,291	-	-	-	-	2,291
Share investments	16	-	6	55	1,013	151	16,134	17,359
Student loans	17	-	-	-	-	8,288	-	8,288
Kiwibank mortgages <sup>14</sup>	17	-	-	-	-	13,202	-	13,202
Other advances	17	-	-	149	133	199	642	1,123
<b>Total credit exposure by industry</b>		<b>20,177</b>	<b>6,018</b>	<b>14,526</b>	<b>8,208</b>	<b>21,841</b>	<b>36,088</b>	<b>106,858</b>

As at 30 June 2012	Note	Sovereign issuers \$m	Supra- national \$m	NZ banking sector \$m	Foreign banking sector \$m	Individuals \$m	Other \$m	Total \$m
Cash and cash equivalents		3,678	4	5,947	992	-	65	10,686
Trade and other receivables	14	-	-	-	-	-	9,660	9,660
Long-term deposits	15	56	-	2,037	326	-	3	2,422
Derivatives in gain	15	-	-	2,094	2,475	-	463	5,032
Marketable securities	15	14,330	2,245	3,171	7,948	-	10,988	38,682
IMF financial assets	15	-	2,249	-	-	-	-	2,249
Share investments	16	-	5	37	909	146	13,288	14,385
Student loans	17	-	-	-	-	8,291	-	8,291
Kiwibank mortgages <sup>14</sup>	17	-	-	-	-	12,445	-	12,445
Other advances	17	-	-	187	121	247	475	1,030
<b>Total credit exposure by industry</b>		<b>18,064</b>	<b>4,503</b>	<b>13,473</b>	<b>12,771</b>	<b>21,129</b>	<b>34,942</b>	<b>104,882</b>

In addition to the above financial assets, the Crown has entered into various financial guarantees and indemnities totalling \$225 million (2012: \$430 million) which expose the Crown to credit risk. These guarantees are classified as contingent liabilities and are set out in note 32. The amount included is the maximum credit exposure the Crown is exposed to should the guarantee be called upon.

<sup>14</sup> Kiwibank mortgages consist mainly of residential lending. Therefore these financial assets have been classified as non-rated for the purposes of credit risk.

## Note 33: Financial Instruments (continued)

## (e) Liquidity risk management

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is managed on an individual entity basis generally by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows.

The following table details the Government's remaining contractual maturity for its financial liabilities. The table was compiled based on:

- the undiscounted cash flows of financial liabilities based on the earliest date on which the Government can be required to pay, and
- both interest and principal cash flows.

As at 30 June 2013	Note	Contractual cash flows						
		Carrying value \$m	cash flows \$m	<1 year \$m	1-2 years \$m	2-5 years \$m	5-10 years \$m	> 10 years \$m
Issued currency		4,691	4,691	4,691	-	-	-	-
Accounts payable	23	7,616	7,649	7,429	67	54	45	54
Borrowings:	24							
Government bonds		57,377	76,073	3,271	13,648	20,288	38,270	596
Treasury bills		4,084	4,121	4,121	-	-	-	-
Government retail stock		199	203	135	27	41	-	-
Settlement deposits with Reserve Bank		7,575	7,575	7,575	-	-	-	-
Finance lease liabilities		1,454	1,611	193	208	566	643	1
Other borrowings		26,210	25,206	16,267	3,070	2,169	3,553	147
<b>Total non-derivative liabilities</b>		<b>109,206</b>	<b>127,129</b>	<b>43,682</b>	<b>17,020</b>	<b>23,118</b>	<b>42,511</b>	<b>798</b>
Derivatives in loss settled net			2,457	984	463	490	519	1
Derivatives settled gross								
- inflow			55,430	41,758	4,197	6,995	1,656	824
- outflow			53,207	41,177	3,710	6,217	1,510	593
<b>Other cashflows</b>								
Loan commitments			1,490	1,490	-	-	-	-

In addition to the above financial liabilities, the Crown has entered into various financial guarantees and indemnities totalling \$225 million (2012: \$430 million) which expose the Crown to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 32. For all these guarantees, the earliest period which the Crown would be required to pay if the guarantees are called upon is less than one year.

The Government has access to financing facilities, of which the total unused amount at 30 June 2013 was \$1,448 million (2012: \$993 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

## Note 33: Financial Instruments (continued)

## (e) Liquidity risk management (continued)

As at 30 June 2012	Note	Carrying value \$m	Contractual cash flows \$m	<1 year \$m	1-2 years \$m	2-5 years \$m	5-10 years \$m	> 10 years \$m
Issued currency		4,457	4,457	4,457	-	-	-	-
Accounts payable	23	8,255	8,235	8,018	50	38	68	61
Borrowings:	24							
Government bonds		53,850	70,058	13,308	2,496	18,178	33,176	2,900
Treasury bills		8,954	9,039	9,039	-	-	-	-
Government retail stock		229	235	176	29	30	-	-
Settlement deposits with Reserve Bank		5,917	5,917	5,917	-	-	-	-
Finance lease liabilities		1,515	1,704	199	188	578	739	-
Other borrowings		27,262	28,065	18,597	2,413	3,251	2,926	878
<b>Total non-derivative liabilities</b>		<b>110,439</b>	<b>127,710</b>	<b>59,711</b>	<b>5,176</b>	<b>22,075</b>	<b>36,909</b>	<b>3,839</b>
Derivatives in loss settled net			3,797	764	338	1,240	710	745
Derivatives settled gross								
- inflow			48,206	31,774	3,954	9,095	2,424	959
- outflow			44,253	30,419	3,159	7,887	2,062	726
<b>Other cashflows</b>								
Loan commitments			1,628	1,628	-	-	-	-

**Note 34: Related Parties**

Related party relationships are a normal feature of commerce. Therefore, the Government will transact with related parties as a matter of course.

Related parties of the Government include:

- Ministers of the Crown, who are key management personnel because they have authority and responsibility for planning, directing and controlling the activities of the Government, directly or indirectly
- Ministers' spouses, children and dependants who are close family members of key management personnel, and
- private-sector entities owned or jointly controlled by Ministers, their spouses, children and dependants.

Given the breadth of Government activities these related parties transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment of taxes and user charges (such as purchase of electricity), and the receipt of entitlements and services (such as access to education). These transactions have not been separately disclosed in this note.

Other transactions with these related parties can include the employment of Ministers' spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and State-owned enterprises, receipt of grants from, or the purchase or sale of goods and services to, a Government entity by Ministers, their spouses, children and dependants, or private-sector entities they own or jointly control. These transactions have not been separately disclosed in this note, unless they have taken place within a Minister's portfolio.

Taking the above paragraphs into account, there are no related party transactions to be separately disclosed.

**Note 35: Partial Sale of Mighty River Power****Core Crown Direct Investment**

On 8 May the price and allocations of Mighty River Power (MRP) shares that were sold were confirmed (settled on 14 May 2013). The Government sold 48.24% of its shares in MRP and received gross cash proceeds of \$1.69 billion. The non-government shareholders are referred to as non-controlling "minority interests". The table below outlines the net assets of MRP and the summary results of the partial share sale:

	<b>At date of share issue \$m</b>
Property, plant and equipment	5,041
Financial assets	515
Other assets	212
Borrowings	(1,546)
Total Liabilities	(1,170)
Net Assets	3,052
<b>Core Crown carrying amount of minority interests (48.2%)</b>	<b>1,471</b>
Gross proceeds	1,685
Direct costs <sup>15</sup>	(22)
Net proceeds	1,663
Loyalty Bonus Shares <sup>16</sup>	(25)
Net proceeds	1,638
Estimated gain on disposal to minority interests	167
<b>Core Crown carrying amount of minority interests (48.2%)</b>	<b>1,471</b>

As a result of the sale of shares in MRP to minority interests, the income from its assets must be shared with the minority interests. However, because the Government retains control of the assets, no "sale" of MRP assets is reported. As a result, 100% of the assets, liabilities, revenue and expenses of MRP will continue to be included in the financial statements of the Government. The key change to the financial statements will be the disclosure of the non-controlling minority interests in those assets, liabilities, revenue and expenses.

Eligible New Zealand retail investors in the MRP share offer will receive one loyalty bonus share for every 25 shares they hold for two years from the offer, up to a maximum of 200 bonus shares. The estimated cost of the loyalty scheme was recognised in the financial statements reflecting the maximum allocation of bonus shares (approximately \$25 million).

The estimated impact of the partial sale (including the loyalty bonus scheme) on the Government's core Crown fiscal indicators at 30 June was as follows:

<b>Indicator</b>	<b>Before Sale \$m</b>	<b>Impact \$m</b>	<b>After Sale \$m</b>
Residual Cash	(7,405)	1,663	(5,742)
Net Debt	57,498	1,663	55,835

<sup>15</sup> Direct costs are the costs that were deducted from the share sale proceeds received by the Crown.

<sup>16</sup> This is an estimate of the maximum cost of the loyalty bonus share. While the bonus share issue will be two years from now, the expected cost is recognised upfront. There is no cash impact in issuing the loyalty bonus shares so there is no residual cash or net debt impact.

**Note 35: Partial Sale of Mighty River Power (continued)****Total Crown Investment**

In addition to the core Crown's direct investment in Mighty River Power a number of Crown Financial Institutions (CFIs) have also invested in the company as part of their normal investment activities. These investments have the effect of increasing the total Crown investment and therefore reducing the overall minority interest.

The total Crown minority interest immediately following the IPO is as follows:

	Net Proceeds \$m	At date of IPO \$m
Core Crown Minority Interest (above)	1,663	1,471
CFI's	(116)	(100)
<b>Total Crown Minority Interest</b>	<b>1,547</b>	<b>1,371</b>

**Minority Interest at 30 June 2013**

Since the IPO on 8 May 2013 the CFI holdings in MRP has changed as a result of normal investment activities. In addition, the minority interest share of MRP is affected by the operating balance and other net asset movements of MRP since the IPO.

The total Crown minority interest at 30 June 2013 is as follows:

	At 30 June 2013 \$m	Shareholding %
Core Crown Minority Interest at IPO date	1,471	48.2
CFI's	(101)	
Minority Interest share of current year's operating balance	10	
Minority Interest share of other net asset movements	51	
<b>Total Crown Minority Interest</b>	<b>1,431</b>	<b>45.0</b>

### Note 36: Subsequent Events

The following policy decisions and events occurred after 30 June 2013 and prior to the financial statements being signed. No adjustments have been made to these financial statements. The nature and estimated financial commitment (where known) is noted below.

#### Solid Energy

Subsequent to balance date Solid Energy reached an agreement that addresses the Company's current solvency and liquidity issues.

The capital restructure involves:

- 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 of \$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.

#### Cook Strait Earthquakes

On 19 July and 21 July 2013 there were two significant earthquakes centred in the Cook Strait. These were followed on 16 August 2013 by further earthquakes in the Cook Strait including a magnitude 6.6 centred close to Seddon. The financial liability for these claims is estimated to be up to \$100 million.

#### Canterbury Earthquake Recovery Agency

A recent court decision regarding the offer to purchase uninsured and vacant residual red zone properties at 50% of the rateable value was not made according to law and set aside. This decision will be appealed. This court case has delayed decisions relating to the Port Hills Zoning Review and vacant, commercial and uninsured land in the Port Hills. Any outcome is likely to be immaterial to these financial statements.



## Statement of Unappropriated Expenditure

for the year ended 30 June 2013

An appropriation is a statutory authorisation by Parliament for the incurring of expenses or capital expenditure. This statement reports all expenses and capital expenditure that were incurred without, in excess, or outside the scope, of existing appropriations. This statement also reports breaches of projected net asset balance limits set by section 22(3) of the Public Finance Act 1989 ("the Act").

The table below details the different categories of unappropriated expenditure for the year ended 30 June 2013.

Category of unappropriated expenditure	Reporting requirements to Parliament under the Act
(A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989	Where the amount in excess (but within the scope) of an existing appropriation was within \$10,000 or 2% of the appropriation, Section 26B of the Act authorises the Minister of Finance to approve these items. Such items must also be confirmed by Parliament in the Appropriation Act for the year.
(B) In excess of appropriation but with authority of an Imprest Supply Act	Where the unappropriated items exceed the limits available for approval under Section 26B, they fall into one of five categories of unappropriated expenditure. All such instances are unlawful unless validated by Parliament through an Appropriation Act (Section 26C of the Act). The validating legislation will be accompanied by a report to the House of Representatives that sets out each unappropriated item together with an explanation made by the Minister responsible for the appropriation.
(C) Without appropriation but with authority of an Imprest Supply Act	
(D) In excess of appropriation and without authority of an Imprest Supply Act	
(E) Outside scope of an appropriation and without authority of an Imprest Supply Act	
(F) Without appropriation and without authority of an Imprest Supply Act	

Department Vote	Expense type Appropriation name	Authority at time of breach \$000	Amount without or exceeding appropriation \$000
<b>(A) Expenses and capital expenditure incurred in excess of existing appropriation and approved by the Minister of Finance under Section 26B of the Public Finance Act 1989</b>			
<b>Ministry of Business Innovation and Employment</b>	<i>Departmental Output Expenses</i> Advice and Support on Shaping the Science and Innovation System MCOA	33,078	448
<b>Ministry of Justice</b>	<i>Non-Departmental Output Expense</i> Producing and Maintaining Electoral Rolls	19,492	202
<b>Office of the Ombudsmen</b>	<i>Departmental Output Expenses</i> Investigation and Resolution of Complaints About Government Administration	8,783	167
<b>Statistics New Zealand</b>	<i>Departmental Output Expenses</i> Official Statistics MCOA	109,006	1,030

# Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2013

Department Vote	Expense type Appropriation name	Authority at time of breach \$000	Amount without or exceeding appropriation \$000
<b>(B) Expenses and capital expenditure incurred in excess of appropriation but with authority of an Imprest Supply Act</b>			
<b>Land Information New Zealand Lands</b>	<i>Non-Departmental Other Expenses</i> Proceeds from Sale of Transit NZ Properties	30,000	25,276
<b>Ministry of Business Innovation and Employment Housing</b>	<i>Benefits and Other Unrequited Expenses</i> KiwiSaver Deposit Subsidy	15,799	1,595
<b>(C) Expenses and capital expenditure incurred without appropriation but with authority of an Imprest Supply Act</b>			
<i>None this year</i>			
<b>(D) Expenses and capital expenditure incurred in excess of appropriation and without authority of an Imprest Supply Act</b>			
<b>Ministry of Business Innovation and Employment Housing</b>	<i>Non-Departmental Other Expenses</i> Increase in Debt Provision	8,000	2,180
<b>Land Information New Zealand Lands</b>	<i>Non-Departmental Other Expenses</i> Residual Crown Leasehold Rents	543	335
<b>New Zealand Customs Service Customs</b>	<i>Departmental Output Expenses</i> Clearance and Enforcement Services Related to Craft	7,077	724
	Clearance and Enforcement Services Related to Passengers and Crew	52,456	267
	Clearance and Enforcement Services Related to Goods	64,808	420
	Revenue Collection	5,832	71
<b>Inland Revenue Department Revenue</b>	<i>Benefits and Other Unrequited Expenses</i> KiwiSaver: Kickstart Payment	220,000	3,762
<b>Ministry of Justice Justice</b>	<i>Non-Departmental Output Expense</i> Provision of Services from the Electoral Commission	5,976	677

# Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2013

Department Vote	Expense type Appropriation name	Authority at time of breach \$000	Amount without or exceeding appropriation \$000
<b>(E) Expenses and capital expenditure incurred outside of scope of an existing appropriation and without authority of an Imprest Supply Act</b>			
<i>None this year</i>			
<b>(F) Expenses and capital expenditure incurred without appropriation and without authority of an Imprest Supply Act</b>			
<b>Canterbury Earthquake Recovery Authority</b>	<i>Non-Departmental Other Expenses</i>		
	Anchor Project Development Costs for the Urban Frame	-	975
Canterbury Earthquake Recovery	Impairment of Property, Plant and Equipment	-	8,688
	Impairment of Trade Receivables	-	478
<b>Land Information New Zealand</b>	<i>Departmental Output Expenses</i>		
Lands	Land Disposal Services for Other Agencies	-	5
<b>Treasury</b>	<i>Non-Departmental Capital Expenses</i>		
Finance	Crown Asset Management Limited (CAML) Equity Injection	-	30,167

## Net Assets

Section 22 of the Public Finance Act 1989 requires that the net asset holding of a department must not exceed the most recent projected balance of net assets for that department as set out in an Appropriation Act, except where Ministers agree a surplus may be retained or where assets or liabilities have been remeasured. The following schedule discloses those departments that have breached this requirement during the year.

Department	Net asset authority at time of breach \$000	Amount in excess of net asset balance \$000
<b>Excess departmental net asset holding, without authority of an Imprest Supply Act</b>		
New Zealand Defence Force	5,586	742

## Statement of Expenses or Capital Expenditure Incurred in Emergencies

*for the year ended 30 June 2013*

Under section 25 of the Public Finance Act 1989, if a state of national emergency is declared under the Civil Defence Act 1983, Civil Defence Emergency Management Act 2002, or if the Government declares an emergency because of any situation that affects the public health or safety of New Zealand, the Minister of Finance may approve expenses or capital expenditure to meet such emergency or disaster whether or not an appropriation by Parliament is available for the purpose. Once expenses or capital expenditure have been incurred, the amounts that have not been appropriated must be disclosed in the annual financial statements of the Government for the financial year and sanctioned by Parliament in an Appropriation Act.

During the year there were no such emergency expenses or capital expenditure incurred.

## Statement of Trust Money

*for the year ended 30 June 2013*

Trust money is defined by section 66 of the Public Finance Act 1989 as:

- Money that is deposited with the Crown pending the completion of a transaction or dispute and which may become repayable to the depositor or payable to the Crown or any other person.
- All money that is paid into Court for possible repayment to the payee or a third party, by virtue of any Act, rule or authority whatsoever.
- All money that is paid to the Crown in trust for any purpose.
- Money that belongs to or is due to any person and is collected by the Crown pursuant to any agreement between the Crown and that person.
- Unclaimed money that is due to or belongs to any person and is deposited with the Crown.

Trust money exists only where there is a trustee/beneficiary relationship. Money set aside by the Crown or department for a particular purpose will normally not be trust money as there is no directly identifiable beneficiary who has deposited the money with the Crown.

Trust money held by the Crown is managed separately from public money.

Under the Act, the Treasury has the responsibility to manage and invest trust money. The Treasury may appoint agents (including departments) to act on its behalf. Written Notices of Appointment to Manage and Invest Trust Money are issued in these cases. Section 68 of the Act establishes the constraints on the investment of trust money.

Amounts in this statement are expressed in thousands of dollars.

## Statement of Trust Money (continued)

for the year ended 30 June 2013

Department Trust Account	As at 30 June 2012 \$000	Contributions \$000	Distributions \$000	Revenue \$000	Expenses \$000	As at 30 June 2013 \$000
<b>Office of the Auditor-General</b>						
South Pacific Association of Supreme Audit Institutions Trust <sup>2</sup>	-	-	-	-	-	-
<b>Department of Conservation</b>						
Bonds/Deposits Trust	8,738	214	(1,420)	211	-	7,743
Conservation Project Trust	824	792	(520)	16	-	1,112
National Parks Trust	100	49	(60)	1	-	90
Walkways Trust	10	-	-	-	-	10
Wildlife and Reserves Trusts <sup>2</sup>	-	-	-	-	-	-
<b>Department of Corrections</b>						
Prisons Trust	1,356	14,564	(14,164)	-	-	1,756
<b>Crown Law Office</b>						
Legal Claims Trust	276	401	(470)	4	(5)	206
<b>Ministry of Business, Innovation and Employment <sup>1</sup></b>						
Certifiers Bond Trust	188	-	(109)	2	-	81
Licensed Building Practitioners Trust	-	152	(125)	-	(7)	20
Residential Tenancies Bond Trust	367,311	185,411	(162,007)	18,657	(18,657)	390,715
Residential Tenancies Bond Trust No. 2	-	4	-	-	-	4
Weathertight Services Financial Assistance Trust <sup>3</sup>	-	-	-	-	-	-
Employment Relations Service Trust	25	(25)	-	-	-	-
Employment Relations Act Security of Costs Trust	2	(2)	-	-	-	-
New Zealand Immigration Service Trust	2,097	714	(1,149)	34	(4)	1,692
Coal and Minerals Deposits Trust	140	-	(33)	-	-	107
Criminal Assets Management and Enforcement Regulators Association Trust	12	-	-	-	-	12
Official Assignee's Office Trust	18,785	22,610	(15,388)	658	(9,107)	17,558
Patent Co-operation Treaty Fees Trust	133	1,159	(1,193)	2	(2)	99
Petroleum Deposits Trust	90	-	-	1	-	91
Proceeds of Crime Trust	27,679	23,829	(7,426)	754	(12,454)	32,382
Radio Frequencies Tender Trust	226	-	-	-	-	226
<b>Ministry of Culture and Heritage</b>						
New Zealand Oral History Awards Trust	1,273	-	(165)	68	-	1,176
Dictionary of New Zealand Biography Trust	14	-	-	-	-	14
New Zealand Historical Atlas Trust	130	-	-	7	-	137
New Zealand History Research Trust	1,618	-	(152)	67	(6)	1,527
War History Trust	1,240	-	-	8	(194)	1,054

## Statement of Trust Money (continued)

for the year ended 30 June 2013

Department Trust Account	As at 30 June 2012 \$000	Contributions \$000	Distributions \$000	Revenue \$000	Expenses \$000	As at 30 June 2013 \$000
<b>New Zealand Customs Services</b>						
Alcohol Liquor Advisory Council Trust	788	13,631	(13,654)	-	-	765
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	5,630	5,476	(5,193)	-	-	5,913
Heavy Engineering Research Association Trust	63	780	(770)	-	-	73
Maritime Safety Authority Trust <sup>2</sup>	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	168	5,238	(5,332)	-	-	74
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	11	5,532	(5,527)	-	-	16
<b>Ministry of Education</b>						
Code of Practice for Providers who Enrol International Students Trust	3,875	-	-	4,723	(6,284)	2,314
Conferences Trust	2	-	-	-	-	2
<b>Ministry of Foreign Affairs and Trade</b>						
Cook Island Trust	23	3,170	(2,973)	-	-	220
Fred Hollows Foundation New Zealand - Pacific Regional Blindness Prevention Programme Trust	1	306	(300)	2	-	9
Government Administration Building, Niue Trust	280	-	-	4	-	284
Niue Primary School Infrastructure Project Trust	2,700	2,576	-	38	-	5,314
Kiribati Sustainable Towns Programme Trust	10	-	(5)	-	-	5
New Zealand/France Friendship Trust	23	195	(206)	-	-	12
Afghanistan New Zealand Aid Programme Trust	-	1,635	(951)	-	-	684
Tuvalu Ship to Shore Transport Project Trust	-	-	-	-	-	-
<b>Ministry of Health</b>						
Health Benefits Offices Trust	110	5,719,646	(5,718,307)	-	(566)	883
Medicines Review Objectors Deposit Trust <sup>2</sup>	-	-	-	-	-	-
<b>Inland Revenue Department</b>						
Child Support Agency Trust	22,222	224,752	(224,974)	-	-	22,000
KiwiSaver Employer Trust <sup>2</sup>	-	-	-	-	-	-
KiwiSaver Returned Transactions Trust	204	69	-	-	-	273
Reciprocal Child Support Agreement Trust	287	12,014	(11,964)	-	-	337
<b>Department of Internal Affairs</b>						
Christchurch Earthquake Appeal Trust	53,213	5,665	(6,174)	2,240	-	54,944
Interloan Billing System Trust	7	-	-	430	(379)	58
Macklin Bequest Fund Trust	262	15	-	13	-	290
New Zealand 1990 Scholarship Trust	724	-	-	19	-	743
Vogel House Trust <sup>2</sup>	-	-	-	-	-	-

## Statement of Trust Money (continued)

for the year ended 30 June 2013

Department Trust Account	As at 30 June 2012 \$000	Contributions \$000	Distributions \$000	Revenue \$000	Expenses \$000	As at 30 June 2013 \$000
<b>Ministry of Justice</b>						
Courts Law Trust	22,903	26,901	(39,246)	-	-	10,558
Election Candidates Deposit Trust <sup>2</sup>	-	-	-	-	-	-
Employment Court Trust	79	182	(85)	-	-	176
Fines Trust	32,550	327,214	(326,212)	-	-	33,552
Foreign Currency Euro Fund Trust <sup>2</sup>	-	-	-	-	-	-
Foreign Currency United States Dollar Trust	-	-	-	-	-	-
Legal Complaints Review Officer Trust	11	1,471	(1,147)	-	-	335
Maori Land Court Trust	61	4	(4)	-	-	61
Supreme Court Trust	62	42	(42)	-	-	62
Victims' Claims Trust	29	111	(97)	-	-	43
<b>Land Information New Zealand</b>						
Crown Forestry Licences Trust	947	1,478	(1,972)	-	-	453
Deposits Trust	-	-	-	-	-	-
Endowment Rentals Trust	-	38	(37)	-	-	1
Hunter Gift for the Settlement of Discharged Soldiers Trust	55	-	-	-	-	55
<b>New Zealand Police</b>						
Bequests, Donations and Appeals Trust	69	2	(1)	-	-	70
Found Money Trust	53	89	(47)	-	-	95
Money in Custody Trust	12,058	3,736	(4,898)	-	-	10,896
Reparation Trust	9	4	(2)	-	-	11
Rewards Monies Trust <sup>2</sup>	-	-	-	-	-	-
<b>Ministry for Primary Industries</b>						
MAF Overfishing Account Trust	1,771	4,395	(3,372)	64	-	2,858
MAF Fish Forfeit Property Trust	774	670	(248)	37	-	1,233
Meat Board Levies Trust	5	65,092	(65,041)	-	-	56
Seized Timber Trust	1	-	-	-	-	1
National Animal Identification Tracing Trust	-	5,475	(5,252)	-	-	223
<b>Ministry of Social Development</b>						
Australian Recovery Debt Trust	2	19	(18)	-	-	3
Australian Dollar Embargoed Arrears Trust	356	5,424	(5,401)	-	-	379
Maintenance Trust	33	514	(496)	3	-	54
Netherlands Recovery Debt Trust	11	69	(79)	-	-	1
Overseas Debt Recovery Trust <sup>2</sup>	-	-	-	-	-	-
WR Wallace Trust	404	-	(34)	40	-	410
<b>Ministry of Transport</b>						
Rena Settlement Proceeds Trust <sup>3</sup>	-	27,600	-	551	(197)	27,954
<b>Treasury</b>						
Trustee Act 1956 Trust	2,671	1,020	(89)	70	(711)	2,961
Mighty River Share Offer Trust <sup>3</sup>	-	997,318	(997,245)	952	-	1,025
<b>Total</b>	<b>597,784</b>	<b>7,719,440</b>	<b>(7,651,776)</b>	<b>29,676</b>	<b>(48,573)</b>	<b>646,551</b>

1 The trust accounts formerly under the Ministry of Economic Development, Department of Building and Housing and the Department of Labour are now administered by the Ministry of Business, Innovation and Employment

2 Inoperative trust account

3 New trust account





# ADDITIONAL FINANCIAL INFORMATION

## Fiscal Indicator Analysis

*for the year ended 30 June 2013*

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 30 to 172) and the fiscal indicators used to measure the Government's performance against the fiscal objectives set out in the *Fiscal Strategy Report*.

The fiscal analysis comprises two statements: core Crown residual cash and debt.

### **Core Crown Residual Cash**

The core Crown residual cash statement measures the core Crown cash surplus (or deficit), after operating and investing cash requirements are met, that is available for the Government to invest, repay, or, in the case of a deficit, fund in any given year.

### **Debt**

The debt statement presents the calculation of both gross debt and net debt.

Gross debt is defined as gross-sovereign issued debt and represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills as these are issued for liquidity management purposes.

Net debt is debt after deducting financial assets of the core Crown from gross debt. Net debt provides 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 held for public policy rather than treasury management purposes (eg, student loans), they are excluded from the calculation of net debt.

# Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2013

Forecast			Actual	
30 June 2013			30 June	30 June
Budget 12	Budget 13		2013	2012
\$m	\$m		\$m	\$m
<b>Core Crown Cash Flows from Operations</b>				
57,762	57,699	Tax receipts	57,808	54,249
653	662	Other sovereign receipts	651	670
1,676	1,583	Interest, profits and dividends	1,553	1,431
2,506	2,322	Sale of goods & services and other receipts	2,385	2,699
(23,334)	(22,937)	Transfer payments and subsidies	(22,780)	(22,854)
(42,411)	(41,754)	Personnel and operating costs	(40,412)	(40,036)
(3,918)	(3,789)	Finance costs	(3,729)	(3,369)
(348)	(42)	Forecast for future new operating spending	-	-
700	330	Top-down expense adjustment	-	-
<b>(6,714)</b>	<b>(5,926)</b>	<b>Net core Crown operating cash flows</b>	<b>(4,524)</b>	<b>(7,210)</b>
(1,999)	(1,782)	Net purchase of physical assets	(1,231)	(1,262)
(926)	(358)	Net increase in advances	(342)	(1,022)
(1,438)	(1,462)	Net purchase of investments	(1,308)	(1,150)
1,500	1,500	Government share offer in SOE	1,663	-
(194)	(2)	Forecast for future new capital spending	-	-
100	280	Top-down capital adjustment	-	-
<b>(2,957)</b>	<b>(1,824)</b>	<b>Net Core Crown capital cash flows</b>	<b>(1,218)</b>	<b>(3,434)</b>
<b>(9,671)</b>	<b>(7,750)</b>	<b>Residual cash deficit</b>	<b>(5,742)</b>	<b>(10,644)</b>
<i>The residual cash deficit is funded as follows:</i>				
<b>Debt programme cash flows</b>				
Market:				
14,122	15,554	Issue of government bonds	15,458	15,146
(9,982)	(9,982)	Repayment of government bonds	(9,982)	(7,602)
(3,701)	(5,553)	Net issue/(repayment) of short-term borrowing <sup>1</sup>	(5,404)	2,139
439	19	Total market debt cash flows	72	9,683
Non market:				
-	-	Issue of government bonds	-	-
(499)	(499)	Repayment of government bonds	(499)	(1,501)
-	-	Net issue/(repayment) of short-term borrowing	100	430
(499)	(499)	Total non-market debt cash flows	(399)	(1,071)
<b>(60)</b>	<b>(480)</b>	<b>Total debt programme cash flows</b>	<b>(327)</b>	<b>8,612</b>
<b>Other borrowing cash flows</b>				
741	4,118	Net (repayment)/issue of other New Zealand dollar borrowing	4,494	5,880
(620)	(2,354)	Net (repayment)/issue of foreign currency borrowing	(3,047)	(6,030)
<b>121</b>	<b>1,764</b>	<b>Total other borrowing cash flows</b>	<b>1,447</b>	<b>(150)</b>
<b>Investing cash flows</b>				
9,465	11,572	Other net sale/(purchase) of marketable securities and deposits	5,699	2,270
144	264	Issues of circulating currency	234	203
1	(5,370)	Decrease/(increase) in cash	(1,311)	(291)
<b>9,610</b>	<b>6,466</b>	<b>Total investing cash flows</b>	<b>4,622</b>	<b>2,182</b>
<b>9,671</b>	<b>7,750</b>	<b>Residual cash deficit funding</b>	<b>5,742</b>	<b>10,644</b>

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

## Fiscal Indicator Analysis – Debt

as at 30 June 2013

Forecast				Actual	
30 June 2013				30 June	30 June
Budget 12	Budget 13			2013	2012
\$m	\$m			\$m	\$m
<b>Gross and net debt analysis:</b>					
<b>103,207</b>	<b>100,780</b>	Total borrowings		<b>100,087</b>	<b>100,534</b>
<b>Net debt:</b>					
85,674	85,310	Core Crown borrowings <sup>1</sup>		84,873	84,680
(884)	(883)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings		(587)	(512)
<b>84,790</b>	<b>84,427</b>	<b>Gross sovereign-issued debt<sup>2</sup></b>		<b>84,286</b>	<b>84,168</b>
56,569	61,257	Less core Crown financial assets <sup>3</sup>		62,984	64,017
<b>28,221</b>	<b>23,170</b>	<b>Net core Crown debt (including NZS Fund)<sup>4</sup></b>		<b>21,302</b>	<b>20,151</b>
19,150	21,330	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets <sup>5</sup>		21,407	17,196
<b>47,371</b>	<b>44,500</b>	<b>Net core Crown debt (excluding NZS Fund)<sup>4</sup></b>		<b>42,709</b>	<b>37,347</b>
13,894	13,445	Advances		13,126	13,324
<b>61,265</b>	<b>57,945</b>	<b>Net core Crown debt (excluding NZS Fund and advances)<sup>6</sup></b>		<b>55,835</b>	<b>50,671</b>
<i>28.1%</i>	<i>27.1%</i>	<i>As a percentage of GDP</i>		<i>26.3%</i>	<i>24.3%</i>
<b>Gross debt:</b>					
84,790	84,427	Gross sovereign-issued debt <sup>2</sup>		84,286	84,168
(6,418)	(7,391)	Less Reserve Bank settlement cash and bank bills		(7,902)	(6,133)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash <sup>7</sup>		1,600	1,600
<b>79,972</b>	<b>78,636</b>	<b>Gross sovereign-issued debt excluding settlement cash and bank bills</b>		<b>77,984</b>	<b>79,635</b>
<i>36.7%</i>	<i>36.8%</i>	<i>As a percentage of GDP</i>		<i>36.7%</i>	<i>38.2%</i>

1. Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts payable in the statement of financial position).

2. Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.

3. Core Crown financial assets exclude receivables.

4. Net core Crown Debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country.

5. Adding back the NZS Fund assets provides the financial liabilities less financial assets of the core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.

6. Net core Crown Debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.

7. The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZ Debt Management Office borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

## Information on State-owned Enterprises and Crown Entities

### Accounting Policies

The Crown's financial interest in State-owned enterprises ("SOEs") and Crown entities ("CEs") is reported in accordance with the Crown's accounting policies. Adjustments have been made to restate the financial position and financial performance of certain entities, as reported in their own financial statements, to a basis consistent with the Crown's accounting policies.

With the exception of Tertiary Education Institutions ("TEIs") the Crown has line-by-line combined all SOEs and CEs.

The Crown has equity accounted 100% of the net assets of TEIs on the basis that, in the event of disestablishment of a TEI (which is subject to a resolution of the House of Parliament), 100% of the net assets revert to the Crown in the absence of a decision to transfer the assets to a new or existing institution and, in the meantime, the Crown enjoys the benefits of the provision of a higher education to the public of New Zealand (refer note 21).

### Minority Interests

The ownership interest in Air New Zealand Limited is 72.85% (2012: 73.13%). The interest in Air New Zealand Limited is included in the SOE segment.

The ownership interest in Mighty River Power is 55.01% (2012: 100%). The interest in Mighty River Power is included in the SOE segment.

### Balance Dates

Except for those entities listed below, all SOEs and significant CE's have a balance date of 30 June, and the information reported in these financial statements is for the period ended 30 June 2013:

SOEs	Balance date	Information reported to
AsureQuality Limited	30 September	30 June 2013
<b>Crown entities</b>		
New Zealand Symphony Orchestra	31 December	30 June 2013
School boards of trustees	31 December	31 December 2012
TEIs	31 December	30 June 2013

### Annual Reports

The following entity results are presented using Crown accounting policies and classifications. As a consequence they may differ from the results published in entities' individual annual reports.

## Information on State-owned Enterprises and Crown Entities (continued)

	30 June 2013				30 June 2012			
	Revenue	Expenses	Operating	Distri-	Revenue	Expenses	Operating	Distri-
	(excl gains)	(excl losses)	balance	butions to Crown	(excl gains)	(excl losses)	balance	butions to Crown
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>State-owned enterprises</b>								
Airways Corporation of New Zealand Limited	183	161	22	2	164	154	9	5
AsureQuality Limited	160	151	10	8	154	148	7	7
Genesis Energy Limited	2,007	1,993	100	57	2,233	2,163	90	-
Landcorp Farming Limited	195	190	(18)	20	3	181	(9)	28
Meridian Energy Limited	2,714	2,614	295	100	2,577	2,530	75	141
Meteorological Service of New Zealand Limited	42	39	3	1	42	40	1	1
Mighty River Power Limited	1,372	1,345	115	112	1,499	1,309	70	121
New Zealand Post Limited	2,212	2,171	121	14	1,836	1,785	170	12
KiwiRail Holdings Limited	912	971	(45)	-	890	3,173	(1,812)	-
Solid Energy New Zealand Limited	634	972	(334)	-	983	1,063	(40)	30
Transpower New Zealand Limited	917	693	264	363	795	581	85	110
Kordia Group Limited	309	306	4	2	398	386	12	1
Animal Control Products Limited	4	4	-	1	6	5	1	1
Learning Media Limited	19	19	(1)	-	27	28	(1)	-
Quotable Value New Zealand	43	44	1	6	46	44	3	-
AMI Insurance Limited	-	-	-	-	262	422	(25)	-
New Zealand Railways Corporation	-	1	(1)	-	-	-	-	-
<b>Total State-owned enterprises</b>	<b>11,723</b>	<b>11,674</b>	<b>536</b>	<b>686</b>	<b>11,915</b>	<b>14,012</b>	<b>(1,364)</b>	<b>457</b>
Air New Zealand Limited	4,650	4,404	344	71	4,508	4,286	208	49
<b>Total State-owned enterprises and Air New Zealand Limited</b>	<b>16,373</b>	<b>16,078</b>	<b>880</b>	<b>757</b>	<b>16,423</b>	<b>18,298</b>	<b>(1,156)</b>	<b>506</b>
Intra-segmental eliminations	(437)	(326)	(266)	-	(392)	(674)	(267)	-
<b>Total per statement of segments</b>	<b>15,936</b>	<b>15,752</b>	<b>614</b>	<b>757</b>	<b>16,031</b>	<b>17,624</b>	<b>(1,423)</b>	<b>506</b>
<b>Crown Entities</b>								
Accident Compensation Corporation	5,687	4,246	4,929	-	5,649	4,124	(474)	-
Crown Asset Management	27	10	77	-	-	1	1	-
Crown Fibre Holdings Limited	11	109	(98)	-	3	24	(21)	-
Crown Research Institutes	782	759	21	-	705	675	21	2
District Health Boards (including the Crown Health Funding Agency)	12,725	12,457	267	-	12,161	12,199	(25)	-
Earthquake Commission	160	(16)	175	-	729	1,112	(436)	-
Housing New Zealand Corporation	1,125	974	178	77	1,096	907	120	68
Museum of New Zealand Te Papa	53	59	(6)	-	54	60	(7)	-
New Zealand Fire Service Commission	355	327	29	-	339	317	21	-
New Zealand Lotteries Commission	901	698	202	-	904	712	190	-
New Zealand Transport Agency	2,056	2,003	57	-	1,995	1,955	38	-
Public Trust	78	82	10	-	87	89	8	-
Schools	6,640	6,597	36	-	6,608	6,562	38	-
Southern Response Earthquake Services	61	1	52	-	5	243	(164)	-
Tertiary Education Commission	2,759	2,749	6	6	2,763	2,725	37	36
TEIs	-	-	169	-	-	-	134	-
Television New Zealand	361	342	14	11	382	363	8	14
Other Crown entities	1,692	1,689	24	4	1,705	1,708	18	5
<b>Total Crown entities</b>	<b>35,473</b>	<b>33,086</b>	<b>6,142</b>	<b>98</b>	<b>35,185</b>	<b>33,776</b>	<b>(493)</b>	<b>125</b>
Intra-segmental eliminations	(409)	(225)	(265)	-	(714)	(556)	(148)	-
<b>Total per statement of segments</b>	<b>35,064</b>	<b>32,861</b>	<b>5,877</b>	<b>98</b>	<b>34,471</b>	<b>33,220</b>	<b>(641)</b>	<b>125</b>
<b>Total financial interest in SOEs, Crown entities and Air New Zealand Limited</b>	<b>51,000</b>	<b>48,613</b>	<b>6,491</b>	<b>855</b>	<b>50,502</b>	<b>50,844</b>	<b>(2,064)</b>	<b>631</b>

## Information on State-owned Enterprises and Crown Entities (continued)

	Purchase of PPE \$m	Total PPE \$m	30 June 2013			Equity \$m	30 June 2012 Equity \$m
			Total assets \$m	Borrow- ings \$m	Total liabilities \$m		
<b>State-owned enterprises</b>							
Airways Corporation of New Zealand Limited	24	114	149	32	81	68	47
AsureQuality Limited	4	27	74	12	36	38	35
Genesis Energy Limited	162	3,192	3,750	1,064	1,801	1,949	1,801
Landcorp Farming Limited	64	1,217	1,685	354	367	1,318	1,332
Meridian Energy Limited	251	6,769	7,725	1,377	3,037	4,688	4,825
Meteorological Service of New Zealand Limited	2	24	40	15	23	17	14
Mighty River Power Limited	201	5,141	5,802	1,394	2,620	3,182	3,017
New Zealand Post Limited	18	186	16,108	14,795	15,165	943	813
KiwiRail Holdings Limited	482	1,412	1,629	224	422	1,207	3,460
Solid Energy New Zealand Limited	55	476	859	412	767	92	423
Transpower New Zealand Limited	687	4,451	5,471	3,652	4,033	1,438	1,536
Kordia Group Limited	20	87	219	60	126	93	91
Animal Control Products Limited	-	3	6	-	1	5	6
Learning Media Limited	-	1	6	-	3	3	5
Quotable Value New Zealand	-	1	25	-	7	18	23
AMI Insurance Limited	-	-	-	-	-	-	-
New Zealand Railways Corporation	-	3,273	3,273	-	-	3,273	-
<b>Total State-owned enterprises</b>	<b>1,970</b>	<b>26,374</b>	<b>46,821</b>	<b>23,391</b>	<b>28,489</b>	<b>18,332</b>	<b>17,428</b>
Air New Zealand Limited	311	2,941	5,679	1,641	3,798	1,881	1,584
<b>Total State-owned enterprises and Air New Zealand Limited</b>	<b>2,281</b>	<b>29,315</b>	<b>52,500</b>	<b>25,032</b>	<b>32,287</b>	<b>20,213</b>	<b>19,012</b>
Intra-segmental eliminations	-	(812)	(1,289)	(193)	(222)	(1,067)	(410)
<b>Total per statement of segments</b>	<b>2,281</b>	<b>28,503</b>	<b>51,211</b>	<b>24,839</b>	<b>32,065</b>	<b>19,146</b>	<b>18,602</b>
<b>Crown Entities</b>							
Accident Compensation Corporation	124	39	28,618	185	30,872	(2,254)	(7,182)
Crown Asset Management	17	-	124	-	7	117	98
Crown Fibre Holdings Limited	71	143	245	-	5	240	157
Crown Research Institutes	52	499	813	3	259	554	526
District Health Boards (including the Crown Health Funding Agency)	682	5,397	7,041	2,268	4,276	2,765	2,335
Earthquake Commission	7	21	5,454	-	6,871	(1,417)	(1,593)
Housing New Zealand Corporation	183	16,370	17,240	1,976	3,913	13,327	11,979
Museum of New Zealand Te Papa	9	1,174	1,201	-	8	1,193	1,193
New Zealand Fire Service Commission	34	568	650	8	93	557	511
New Zealand Lotteries Commission	8	20	154	-	125	29	28
New Zealand Transport Agency	1,074	26,182	26,621	100	506	26,115	25,883
Public Trust	2	8	639	584	600	39	30
Schools	39	1,368	2,670	108	786	1,884	1,824
Southern Response Earthquake Services	1	1	1,756	-	1,751	5	(47)
Tertiary Education Commission	1	3	51	18	29	22	22
TEIs	-	-	8,060	-	-	8,060	7,914
Television New Zealand	4	103	245	1	59	186	183
Other Crown entities	22	184	1,104	29	411	693	777
<b>Total Crown entities</b>	<b>2,330</b>	<b>52,080</b>	<b>102,686</b>	<b>5,280</b>	<b>50,571</b>	<b>52,115</b>	<b>44,638</b>
Intra-segmental eliminations	(16)	(257)	(282)	(29)	(59)	65	(416)
<b>Total per statement of segments</b>	<b>2,314</b>	<b>51,823</b>	<b>102,404</b>	<b>5,251</b>	<b>50,512</b>	<b>52,180</b>	<b>44,222</b>
<b>Total financial interest in SOEs, Crown entities and Air New Zealand Limited</b>	<b>4,595</b>	<b>80,326</b>	<b>153,615</b>	<b>30,090</b>	<b>82,577</b>	<b>71,326</b>	<b>62,824</b>

## Government Reporting Entity as at 30 June 2013

These financial statements are for the Government Reporting entity as specified in Part III of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (subsidiaries are consolidated by their parents and not listed separately):

<b>Core Crown</b>	
<b>Departments</b>	
Canterbury Earthquake Recovery Authority	Ministry of Justice
Crown Law Office	Ministry of Māori Development
Department of Conservation	Ministry of Pacific Island Affairs
Department of Corrections	Ministry of Social Development
Department of Internal Affairs	Ministry of Transport
Department of the Prime Minister and Cabinet	Ministry of Women's Affairs
Education Review Office	New Zealand Customs Service
Government Communications Security Bureau	New Zealand Defence Force
Inland Revenue Department	New Zealand Police
Land Information New Zealand	New Zealand Security Intelligence Service
Ministry for Culture and Heritage	Office of the Clerk of the House of Representatives
Ministry for Primary Industries	Parliamentary Counsel Office
Ministry for the Environment	Parliamentary Service
Ministry of Business, Innovation and Employment	Serious Fraud Office
Ministry of Defence	State Services Commission
Ministry of Education	Statistics New Zealand
Ministry of Foreign Affairs and Trade	The Treasury
Ministry of Health	
<b>Offices of Parliament</b>	<b>Others</b>
Controller and Auditor-General	New Zealand Superannuation Fund
The Ombudsmen	Reserve Bank of New Zealand
Parliamentary Commissioner for the Environment	

<b>State-owned enterprises</b>	
Airways Corporation of New Zealand Limited	Learning Media Limited
Animal Control Products Limited	Meridian Energy Limited
AsureQuality Limited	Meteorological Service of New Zealand Limited
Electricity Corporation of New Zealand Limited	New Zealand Post Limited
Genesis Power Limited	New Zealand Railways Corporation
Kiwirail Holdings Limited	Quotable Value Limited
Kordia Group Limited	Solid Energy New Zealand Limited
Landcorp Farming Limited	Transpower New Zealand Limited
<b>Organisations named or described in Schedule 5 of the Public Finance Act 1989</b>	<b>Others</b>
Mighty River Power Limited	Air New Zealand Limited



**Crown entities**

Accident Compensation Corporation	New Zealand Blood Service
Arts Council of New Zealand Toi Aotearoa	New Zealand Film Commission
Broadcasting Commission	New Zealand Fire Service Commission
Broadcasting Standards Authority	New Zealand Historic Places Trust (Pouhere Taonga)
Callaghan Innovation	New Zealand Lotteries Commission
Careers New Zealand	New Zealand Productivity Commission
Children's Commissioner	New Zealand Qualifications Authority
Civil Aviation Authority of New Zealand	New Zealand Symphony Orchestra
Commerce Commission	New Zealand Teachers Council
Crown Research Institutes (7)	New Zealand Tourism Board
District Health Boards (20)	New Zealand Trade and Enterprise
Drug Free Sport New Zealand	New Zealand Transport Agency
Earthquake Commission	New Zealand Venture Investment Fund Limited
Education New Zealand	New Zealand Walking Access Commission
Electoral Commission	Office of Film and Literature Classification
Electricity Authority	Pharmaceutical Management Agency
Energy Efficiency and Conservation Authority	Privacy Commissioner
Environmental Protection Authority	Public Trust
External Reporting Board	Radio New Zealand Limited
Families Commission	Real Estate Agents Authority
Financial Markets Authority	Retirement Commissioner
Government Superannuation Fund Authority	School Boards of Trustees (2,453)
Guardians of New Zealand Superannuation	Social Workers Registration Board
Health and Disability Commissioner	Sport and Recreation New Zealand
Health Promotion Agency	Standards Council
Health Quality and Safety Commission	Takeovers Panel
Health Research Council of New Zealand	Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Housing New Zealand Corporation	Te Taura Whiri i te Reo Māori (Māori Language Commission)
Human Rights Commission	Television New Zealand Limited
Independent Police Conduct Authority	Tertiary Education Commission
Law Commission	Tertiary education institutions (29)
Maritime New Zealand	Testing Laboratory Registration Council
Museum of New Zealand Te Papa Tongarewa Board	Transport Accident Investigation Commission
New Zealand Antarctic Institute	
New Zealand Artificial Limb Board	

**Organisations named or described in Schedule 4 of the Public Finance Act 1989**

Agriculture and Marketing Research and Development Trust	New Zealand Government Property Corporation
Asia New Zealand Foundation	New Zealand Lottery Grants Board
Crown Asset Management Limited	Ngai Tahu Ancillary Claims Trust
Crown Fibre Holdings Limited	Pacific Co-operation Foundation
Dispute Resolution Services Limited	Pacific Island Business Development Trust
Fish and Game Councils (12)	Research and Education Advanced Network New Zealand Limited
Health Benefits Limited	Reserves Boards (21)
Leadership Development Centre Trust	Sentencing Council
Learning State Limited	Southern Response Earthquake Services Limited
Māori Trustee	Tāmaki Redevelopment Company Limited
National Pacific Radio Trust	Te Ariki Trust
New Zealand Fish and Game Council	The Network for Learning Limited
New Zealand Game Bird Habitat Trust Board	

## Glossary of Terms

### ***Comparatives (Budget 2012 and Budget 2013)***

Comparatives referred to as Budget 2012 were forecasts published in the *2012 Budget Economic and Fiscal Update* while comparatives referred to as Budget 2013 were forecasts published in the *2013 Budget Economic and Fiscal Update*.

### ***Contingent assets***

Income that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise loans with specific events that trigger repayment and Inland Revenue pending assessments (where there is a proposed adjustment to a tax assessment).

### ***Contingent liabilities***

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

### ***Core Crown***

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 180 to 181).

### ***Core Crown expenses***

The day-to-day spending (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not build physical assets for the Core Crown. This is an accrual measure of expenses and includes items such as depreciation on physical assets.

### ***Core Crown revenue***

Consists primarily of tax revenue collected by the Government but also includes investment income, sales of goods and services and other revenue of the Core Crown.

### ***Corporate tax***

The sum of net company tax, non-resident withholding tax (NRWT) and foreign-source dividend withholding payments (FDWP).

### ***Domestic bond programme***

The amount and timing of government bonds expected to be issued or redeemed.

### ***Excise duties***

A tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

### ***Financial assets***

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies), or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

### ***Financial liabilities***

Any liability that is a contractual obligation to pay cash (government stock, accounts payable), or a right to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

### ***Forecast new capital spending***

An amount provided in the forecasts to represent the balance sheet impact of capital initiatives expected to be introduced over the forecast period.

### ***Forecast new operating spending***

An amount included in the forecasts to provide for the operating balance impact of policy initiatives, changes to demographics, and other forecasting changes expected to occur over the forecast period.

### ***Gains and Losses***

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and the Government Superannuation Fund. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the statement of financial performance.

***Gross domestic product (GDP)***

A measure of the value of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured as the actual dollar value of goods and services at today's prices (nominal GDP), or excluding the effects of price changes over time (real GDP).

***Gross debt (or Gross sovereign-issued debt)***

Represents debt issued by sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission.

***Insurance liabilities***

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

***Inter-segment eliminations***

The amounts of transactions between different segments (core Crown, Crown entities and State-owned enterprises) that are eliminated to determine total Crown results.

***Marketable securities***

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

***Net core Crown cash flow from operations***

The cash impact of operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of State-owned enterprises, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

***Net core Crown debt***

Net core Crown debt provides information about the sustainability of the Government's accounts, and is used by some international rating agencies when determining the creditworthiness of a country. It represents gross debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

***Net worth***

Total assets less total liabilities. The change in net worth in any given forecast year is largely driven by the operating balance and property, plant and equipment revaluations.

***Net worth attributable to the Crown***

Represents the Crown's share of total assets and liabilities and excludes minority interest's share of those assets and liabilities.

***New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)***

The reporting and measurement framework under which these forecast financial statements are prepared. These standards are approved by the External Reporting Board in New Zealand, based on requirements of the international financial reporting standards issued by the International Accounting Standards Board, adjusted where appropriate for entities that are not profit oriented.

***Operating balance***

Represents OBEGAL plus gains and losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long term liabilities.

***Operating balance before gains and losses (OBEGAL)***

Represents core Crown revenue less core Crown expenses plus surpluses from State-owned enterprises and Crown entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short term market fluctuations are not included in the calculation.

***Optimised Depreciated Replacement Cost***

Valuation method which represents the gross replacement cost of the asset, less allowances for physical deterioration (depreciated) and for obsolescence and relevant surplus capacity (optimised).

***Residual cash***

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Residual cash is alternatively termed "Cash available/(shortfall to be funded)".

Residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments (eg, purchase of assets, loans to others).

***Settlement cash***

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

***Tax revenue***

The accrual, rather than the cash (“tax receipts”) measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

***Top-down adjustment***

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to State-owned enterprises or Crown entity forecasts.

***Total borrowings***

Represents the Government’s total debt obligations to external parties and can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of State-owned enterprises and Crown entities that are not explicitly guaranteed by the Crown.

***Total Crown***

Includes the core Crown (defined above) plus Crown entities and State-owned Enterprises. Also known as the Government Reporting Entities (which are listed on pages 180 and 181).