Financial Statements of the Government of New Zealand

for the year ended 30 June 2015

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Ministerial Statement

The economy continues to grow, with the 18th consecutive quarter of GDP growth in the three months to 30 June giving growth of 2.4 per cent from the same quarter last year and annual average growth of 3.0 per cent in the year to 30 June 2015.

The Government's programme to build a more productive economy is also delivering dividends in terms of the Crown's finances which have been turned around in recent years.

In the wake of the global financial crisis and the Canterbury earthquakes, the total Crown's annual operating balance excluding gains and losses (OBEGAL) was a deficit of $18.4 billion, equivalent to 9 per cent of national income in a year.

Careful stewardship over day-to-day expenses permitted the Government to significantly reduce the size of the OBEGAL deficits year after year and, in 2014/15, the Crown reports a return to surplus – delivering on the Government's key fiscal priority first set in 2011.

The OBEGAL surplus of $414 million is equal to 0.2 per cent of GDP in the year to 30 June 2015 while the Government's operating balance including gains and losses of $5.8 billion is equal to 2.4 per cent of GDP.

In the year to June 2015, the core Crown's revenue was $72.2 billion, while core expenses were $72.4 billion.

The Government has continued to restrain growth in spending while focusing on getting more effective results from existing spending, particularly for the most vulnerable New Zealanders.

While core Crown expenses grew by $1.2 billion (1.7 per cent), the increase in spending was lower than the pace of growth in the economy, resulting in expenses easing to 30.1 per cent of GDP, compared with over 34 per cent of GDP four years ago.

The approach of the Government to expenditure control is working well for New Zealand and for New Zealanders.

In its Budget 2015 forecasts, the Treasury had forecast a small OBEGAL deficit in 2014/15.

However, the Government's ongoing commitment to solid expenditure control, together with tax revenue being marginally stronger than the Treasury had expected, means the Crown accounts were in surplus.

Returning to surplus in 2014/15 is a significant milestone, but the Government is committed to continued prudent management of the public finances, including effective revenue raising and ongoing attention on operating spending and the underlying drivers of demand for public services, reprioritisation of spending that is not deliver results and rigorous management of our balance sheet.

Our focus must remain on steady and ongoing reductions in public debt over the medium term. That is the most prudent approach to take in a still uncertain global environment.

Hon Bill English
Minister of Finance
30 September 2015

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 Public Benefit Entity Accounting Standards (PBE standards) for the public sector.

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

Gabriel Makhlouf
Secretary to the Treasury
30 September 2015

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 2015 and its operations for the year ended on that date.

Hon Bill English
Minister of Finance
30 September 2015

COMMENTARY

Fiscal Overview

FISCAL STRATEGY

Operating revenue

Ensure sufficient operating revenues to meet the operating balance objective

Operating expenses

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

Operating balance

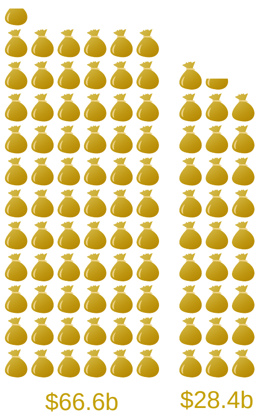
Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective

Total Crown

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

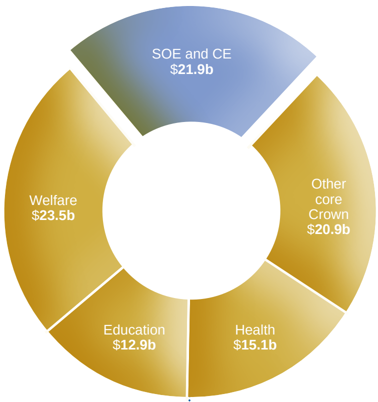
FINANCIAL RESULTS

$95.0b Total Crown revenue – **$94.3b Total expenses** = – minority interests $0.3b **$0.4b OBEGAL** (excluding minority interests)



Core Crown tax revenue (27.7% of GDP)

Other revenue

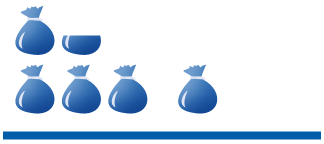


■ SOE and Crown Entities
■ Core Crown expenses (30.1% of GDP)

\+

$4.4b Net gains

$1.0b Net surpluses from associates and JV's



$5.8b
Operating balance surplus
(excluding minority interests)

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Fiscal strategy

- Note 27 (pg 92)

Revenue

- Tax revenue (pg 9)
- Other revenue (pg 10)

Expenses

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- Detailed expense notes (pgs 50–53)
- SOE and Crown entities (CE) results (pg 153–155)
- Unappropriated expenditure (pg 139–143)

Net result

- Operating statement (pg 32)
- Gains and losses notes (pg 54)
- ACC insurance liability (pg 78–83)
- GSF note (pg 84–87)

FISCAL STRATEGY

Debt

Reduce net debt to a level no higher than 20% of GDP by 2020

FINANCIAL RESULTS

Moving from total Crown accrual measure to core Crown cash measure

Core Crown

Movement in net debt

$0.4b OBEGAL +
$1.2b Non-residual cash items

–

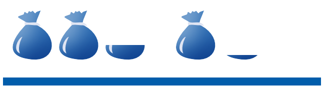
$3.4b Capital items

=

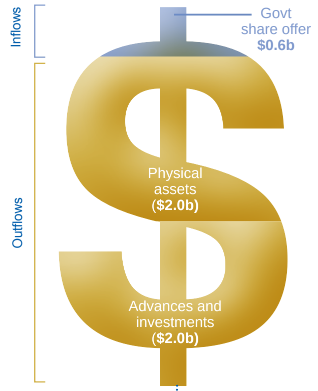
($1.8b) Residual cash deficit

$2.3b
Non-cash expenses (eg, depreciation)

($1.1b)
SOE, CE and NZSF OBEGAL



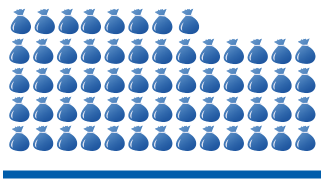
$1.6b
Core Crown operating cash flows



Core Crown investing cash flows

–

$59.9b Opening net debt



+ other fair value movements $1.1b

$60.6b
Closing Net debt

25.2% of GDP

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Non-residual cash movements

- SOE and CE results (pg 153–155)

Other impacts on cash

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Debt

- Debt calculation (pg 152)
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Introduction

These financial statements[1] contain the audited results for the financial year ended 30 June 2015. The results are compared against previous years and against two sets of forecasts for the 2014/15 year:

- *Budget 2014* refers to the 2014 *Budget Economic and Fiscal Update*, and
- *Budget 2015* refers to the 2015 *Budget Economic and Fiscal Update*.

This commentary should be read in conjunction with the financial statements on pages 32 to 138.

These financial statements, including the comparative results, are the first set of annual audited financial statements of the Government prepared in accordance with Public Benefit Entity (PBE) accounting standards (which are based on International Public Sector Accounting Standards). The most recent published financial statements have been prepared in accordance with NZ equivalents to International Financial Reporting Standards as applicable for PBEs. Overall, the impact on transition to the new standards was not significant to the financial results. Note 33 provides further information on the impact on the financial position and performance of this change on the comparative results.

At a Glance

Table 1 – Financial results

Year ended 30 June	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Forecast 30 June 2015 Budget 2014	Forecast 30 June 2015 Budget 2015
$ million							
Core Crown tax revenue	51,557	55,081	58,651	61,563	**66,636**	66,442	66,077
Core Crown expenses	70,099	68,939	69,962	71,174	**72,363**	72,680	72,858
OBEGAL (excluding minority interests)	(18,396)	(9,240)	(4,414)	(2,802)	**414**	372	(684)
Operating balance (excluding minority interests)	(13,360)	(14,897)	6,925	2,939	**5,771**	3,102	(634)
Residual cash	(13,343)	(10,644)	(5,742)	(4,109)	**(1,827)**	(4,306)	(2,674)
Gross debt[1]	72,420	79,635	77,984	81,956	**86,125**	79,834	83,910
as a percentage of GDP	*35.5%*	*37.5%*	*36.0%*	*35.0%*	***35.8%***	*33.1%*	*35.0%*
Net debt[2]	40,128	50,671	55,835	59,931	**60,631**	63,567	61,673
as a percentage of GDP	*19.7%*	*23.9%*	*25.8%*	*25.6%*	***25.2%***	*26.4%*	*25.7%*
Net worth attributable to the Crown	80,579	59,348	68,071	75,486	**86,454**	73,115	74,803

Headlines:

- Tax revenue up $5.1 billion from a year earlier and higher than forecast (page 9).
- Core Crown expenses were $1.2 billion higher than the year before, but less than expected (page 11).
- OBEGAL reached surplus for the first time since 2008, an improvement of $3.2 billion from last year (page 15).
- Core Crown net debt increased by $0.7 billion, but fell as a percentage of GDP (to 25.2%) (page 17).
- Net worth attributable to the Crown continued to strengthen (page 19).

A comparison of the year end results to *Budget 2015* is included on page 23.

1 The financial statements of the Government of New Zealand refer to both core Crown and total Crown results. Core Crown is comprised of Ministers of the Crown, Departments, Offices of Parliament, the NZ Superannuation Fund and the Reserve Bank of New Zealand. Total Crown is comprised of the core Crown, State-owned Enterprises (SOEs) (including mixed ownership model companies) and Crown entities.

Summary

The Crown has reached surplus...

The operating balance before gains and losses (OBEGAL) has reached surplus for the first time since 2008. The improved result was due to further growth in nominal GDP (leading to a higher tax take) combined with low expenditure growth.

The OBEGAL surplus was $0.4 billion this year (0.2% of GDP), compared to a deficit of $2.8 billion for the previous year.

... as tax revenue increased...

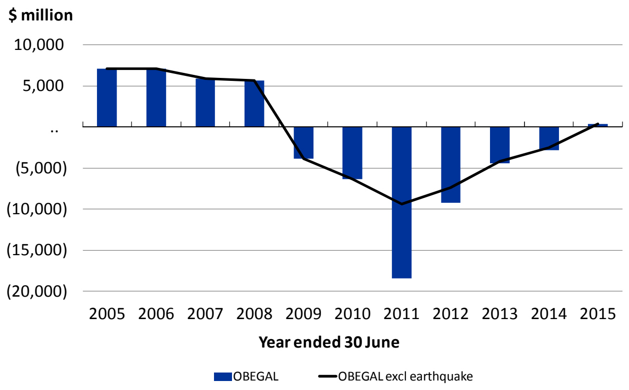
Real GDP growth in the year to June 2015 was 3.0% higher mainly as a result of robust growth in construction, household consumption and tourism. In current dollar terms (ie, nominal GDP), the value of output increased 2.8% in the June 2015 year.

The increase in nominal GDP, along with higher terminal tax on corporate and other individuals' income, led to core Crown tax revenue being $5.1 billion (8.2%) higher than a year earlier, with all major tax types increasing, to reach $66.6 billion. As a share of the economy, core Crown tax revenue was 27.7% of GDP (compared to 26.3% last year).

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

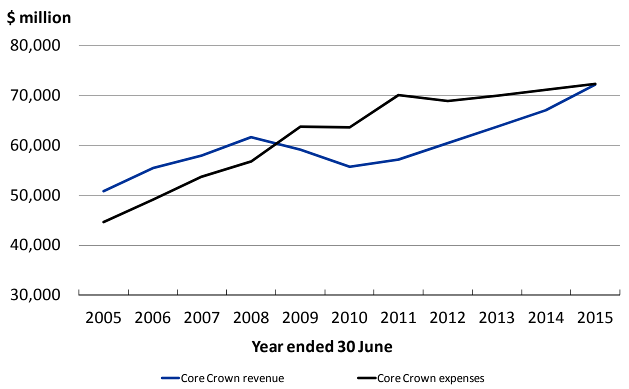
In nominal terms, core Crown expenses increased $1.2 billion (1.7%) to $72.4 billion for the year to 30 June. As a share of the nominal economy, core Crown expenses were equal in value to 30.1% of GDP (30.4% of GDP in 2014); which is in line with the government's short-term intentions.

Figure 1 – OBEGAL (excluding minority interests)



Source: The Treasury

Figure 2 – Core Crown revenue and expenses



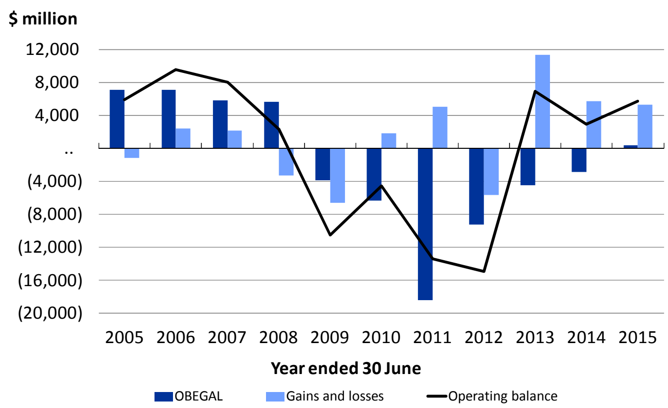
Source: The Treasury

The largest drivers of growth in nominal core Crown expenditure were New Zealand Superannuation benefits (as a result of indexation and an increase in the number of recipients), along with new spending allocated in *Budget 2014*, primarily in the areas of health and education.

...and gains added to the OBEGAL result...

Adding the Crown's net gains of $5.4 billion to OBEGAL, the operating balance was a surplus of $5.8 billion ($2.8 billion higher than 2014). Strong equity markets for the period ended 30 June 2015 drove the net financial gains (mostly NZSF and ACC), partly offset by actuarial losses in relation to updated long-term liability valuations for ACC insurance and Government Superannuation Fund pensions.

Figure 3 – Operating balance (excluding minority interests)



Source: The Treasury

...strengthening the Crown's net worth...

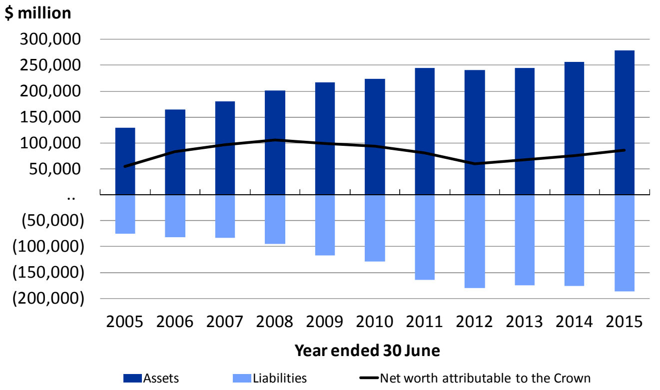
With an operating surplus and revaluation uplifts of the Crown's property, plant and equipment, the Crown's net worth continued to strengthen.

Total assets increased by $21.9 billion, while liabilities increased by $10.3 billion.

The uplift in financial sector assets ($12.8 billion) was largely the result of strong equity markets, while revaluations to Crown assets contributed to the increase in value of property, plant and equipment ($5.3 billion).

The increase in liabilities was due mainly to an increase in borrowings, partly offset by lower earthquake liabilities as claims were settled.

Figure 4 – Net worth attributable to the Crown



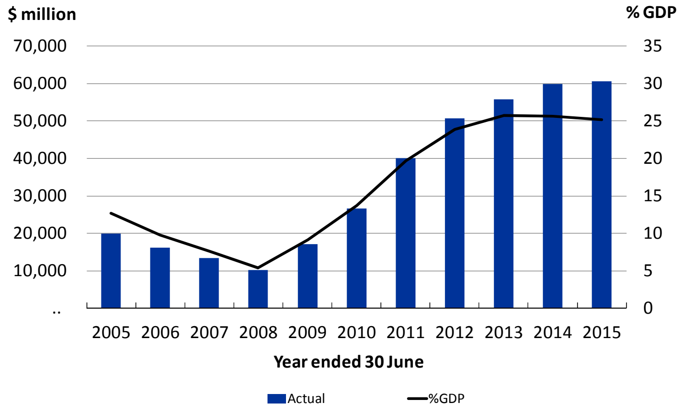
Source: The Treasury

...as cash deficits reduce and net debt flattens

At $1.8 billion, the residual cash deficit was $2.3 billion less than the year before. Tax receipts grew faster than operating payments, leading to an operating cash surplus of $1.6 billion.

While operating cash flows were positive, they were not sufficient to cover capital spending. The core Crown spent $3.4 billion on capital which included purchasing physical assets, providing capital to Crown Entities and net increases in advances (eg, student loans).

Figure 5 – Net debt



Source: The Treasury

Net debt reached $60.6 billion (25.2% of GDP) at 30 June 2015, compared to $59.9 billion (25.6% of GDP) a year earlier. The rate of growth in net debt has slowed in recent years as cash deficits have become smaller.

Revenue

Table 2 – Breakdown of revenue

Year ended 30 June	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Forecast 30 June 2015 Budget 2014	Forecast 30 June 2015 Budget 2015
$ million							
Core Crown tax revenue	51,557	55,081	58,651	61,563	66,636	66,442	66,077
Core Crown other revenue	5,642	5,347	5,154	5,530	5,577	6,095	5,575
Core Crown revenue	57,199	60,428	63,805	67,093	72,213	72,537	71,652
Crown entities, SOEs and eliminations	24,013	22,918	22,506	22,106	22,800	22,603	22,553
Total Crown revenue	**81,212**	**83,346**	**86,311**	**89,199**	**95,013**	**95,140**	**94,205**
% of GDP							
Core Crown tax revenue	25.3%	25.9%	27.1%	26.3%	27.7%	27.6%	27.6%
Core Crown other revenue	2.8%	2.5%	2.4%	2.4%	2.3%	2.5%	2.3%
Core Crown revenue	28.1%	28.5%	29.5%	28.7%	30.0%	30.1%	29.9%
Crown entities, SOEs and eliminations	11.8%	10.8%	10.4%	9.4%	9.5%	9.4%	9.4%
Total Crown revenue	**39.9%**	**39.3%**	**39.9%**	**38.1%**	**39.5%**	**39.5%**	**39.3%**

Total Crown revenue was $95.0 billion, an increase of $5.8 billion from a year earlier mostly due to higher core Crown tax revenue.

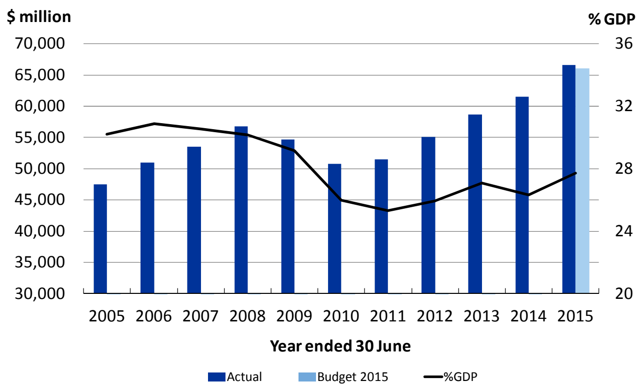
Core Crown Tax Revenue

Overall, core Crown tax revenue at $66.6 billion was $5.1 billion (8.2%) higher than the year before due to a rise in nominal economic activity, the composition of that activity and increased terminal tax revenue.

Economic activity (ie, real GDP) in the year to June 2015 was 3.0% higher as residential rebuilding in Christchurch reached a peak, resulting in strong growth in the construction industry, and as household consumption and tourism grew rapidly, resulting in fast growth in the retail trade and accommodation industry. In current dollar terms (ie, nominal GDP), the value of output increased 2.8% in the June 2015 year. Total weekly paid hours increased 2.9% from the previous year and average hourly wages were up 2.5%, giving an increase in total weekly gross earnings of 5.5%.

As a share of the economy, core Crown tax revenue was 27.7% of GDP (compared to 26.3% last year). The increase from last year was mainly due to the timing of 2014 tax year corporate and other individuals' income tax across the 2014 and 2015 fiscal years (Table 3). This resulted in terminal tax revenue being significantly higher in 2015 than it was in 2014, adding 0.7% to the tax-to-GDP ratio. At the same time, compensation of employees grew at a faster rate than nominal GDP, providing a boost to source deductions (+0.3% of GDP).

Figure 6 – Core Crown tax revenue



Source: The Treasury

Table 3 – Increase in core Crown tax revenue

Year ended 30 June (% of GDP)	
2014 core Crown tax revenue	**26.3**
Income tax timing	0.7
Composition of GDP	0.3
Fiscal drag	0.1
Excise rate indexation	0.1
Deposit base and interest rates	0.1
Other movements	0.1
2015 core Crown tax revenue	**27.7**

Source: The Treasury

All major tax types contributed to the nominal increase in tax over the year, with three tax types making up most of the increase (Table 4):

- Source deductions: $1.6 billion (6.6%) higher than the previous year owing to higher total labour income. Growth in wages and salaries and in total employment added an estimated $0.8 billion and $0.6 billion respectively to source deductions, compared with the June 2014 year.
- GST: $1.2 billion (7.2%) stronger than 2014 largely owing to growth in domestic consumption.
- Corporate tax: $1.0 billion (10.4%) higher than the year before, mainly owing to growth in taxable profits in the 2014 tax year, which pushed up terminal tax revenue and contributed to an increase in provisional tax estimates for the 2015 tax year.

Table 4 – Increase in core Crown tax revenue

Year ended 30 June ($ billion)

2014 core Crown tax revenue	**61.6**
Source deductions	1.6
GST	1.2
Corporate tax	1.0
Other movements	1.2
2015 core Crown tax revenue	**66.6**

Source: The Treasury

The above strength in source deductions and GST is expected to continue into the next financial year. However, some of the increase in provisional tax estimates for the 2015 tax year is expected to reverse.

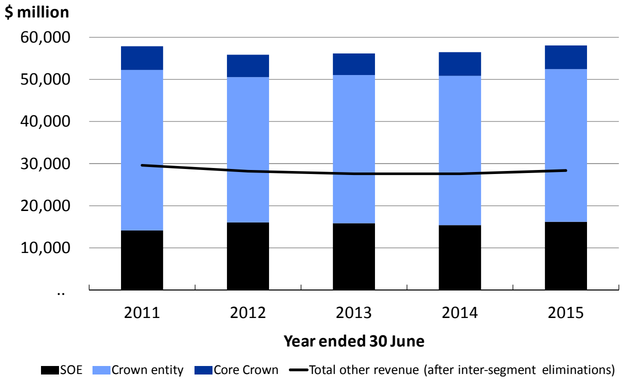
Other Revenue

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

Core Crown other revenue, at $5.6 billion was the same as the previous year, while the SOE and CE sectors (including eliminations) recorded revenue of $22.8 billion, $0.7 billion higher than a year earlier (Table 2).

The increase was mostly attributable to SOE mixed ownership companies[2] which recorded $0.8 billion higher revenue (which was largely offset by higher operating expenses).

Figure 7 – Other revenue



Source: The Treasury

2 Mixed ownership companies include Mighty River Power, Meridian Energy, Genesis Energy and Air New Zealand.

Expenses

Table 5 – Breakdown of expenses

Year ended 30 June	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Forecast 30 June 2015 Budget 2014	Forecast 30 June 2015 Budget 2015
$ million							
Social security and welfare	21,724	21,956	22,459	23,026	23,523	23,568	23,647
Health	13,753	14,160	14,498	14,898	15,058	15,065	15,075
Education	11,650	11,654	12,504	12,300	12,879	12,827	13,021
Core government services	5,563	5,428	4,294	4,502	4,134	4,816	4,401
Law and order	3,312	3,338	3,394	3,463	3,515	3,445	3,569
Other core Crown expenses	14,097	12,403	12,813	12,985	13,254	12,959	13,145
Core Crown expenses	**70,099**	**68,939**	**69,962**	**71,174**	**72,363**	**72,680**	**72,858**
Crown entities, SOEs and eliminations	29,509	23,647	20,701	20,668	21,909	21,748	21,714
Total Crown expenses	**99,608**	**92,586**	**90,663**	**91,842**	**94,272**	**94,428**	**94,572**
% of GDP							
Social security and welfare	10.7%	10.3%	10.4%	9.8%	9.8%	9.8%	9.9%
Health	6.7%	6.7%	6.7%	6.4%	6.3%	6.2%	6.3%
Education	5.7%	5.5%	5.8%	5.3%	5.4%	5.3%	5.4%
Core government services	2.7%	2.6%	2.0%	1.9%	1.7%	2.0%	1.8%
Law and order	1.6%	1.6%	1.6%	1.5%	1.5%	1.4%	1.5%
Other core Crown expenses	6.9%	5.8%	5.9%	5.5%	5.5%	5.4%	5.5%
Core Crown expenses	**34.4%**	**32.5%**	**32.3%**	**30.4%**	**30.1%**	**30.1%**	**30.4%**
Crown entities, SOEs and eliminations	14.5%	11.1%	9.6%	8.8%	9.1%	9.0%	9.1%
Total Crown expenses	**48.9%**	**43.6%**	**41.9%**	**39.2%**	**39.2%**	**39.2%**	**39.4%**

Total Crown expenses were $94.3 billion in the latest year, $2.4 billion more than the year earlier. The expenditure increase was across all three segments, with the core Crown recording the largest proportion ($1.2 billion).

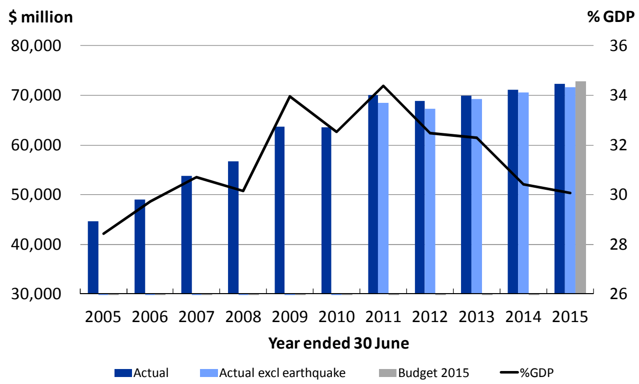
Core Crown Expenses

Despite the nominal expenditure increase of $1.2 billion, core Crown expenses fell as a share of the economy to 30.1% of GDP (Figure 8); which is in line with the government's short-term intentions.

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

- New Zealand Superannuation benefits increased $0.7 billion, mostly a result of indexation and an increase in recipients of New Zealand Superannuation, from around 640,000 to 665,000.
- Education expenses were $0.6 billion higher than the previous year mainly as a result of allocations in *Budget 2014* for schools operations (teacher salaries and operating grants), maintenance of infrastructure in schools, schools' payroll services, increased subsidies for early childhood education centres and new investments in tertiary education. In addition, there was a higher impairment expense on student loans.
- Health expenses were also $0.2 billion higher mainly as a result of allocations in *Budget 2014* of approximately $0.4 billion, with funds going to District Health Boards for extra services and to help meet cost pressures and population changes. Partly offsetting this result, was lower expenditure on the ACC related non-earners account.

Figure 8 – Core Crown expenses



Source: The Treasury

Table 6 – Movement in core Crown expenses

Year ended 30 June ($ billion)	
2014 core Crown expenses	**71.2**
New Zealand Superannuation	0.7
Education expenditure	0.6
Health expenditure	0.2
Other movements	(0.3)
2015 core Crown expenses	**72.4**

Source: The Treasury

Other Expenses

The SOE and CE sectors (including eliminations) also recorded expenses that were $1.2 billion (6.0%) higher than the previous year.

This result was partly attributable to ACC insurance expenses which increased $0.6 billion, mostly reflecting increased entitlement claims volumes. There was also an impact from the discontinuation of residual levies from 1 April 2016.

In addition expenses in the mixed ownership companies increased $0.6 billion (which was more than offset by higher revenue).

Canterbury Earthquake Recovery

Table 7 – Net costs to the Crown of the Canterbury earthquake recovery to 30 June 2015

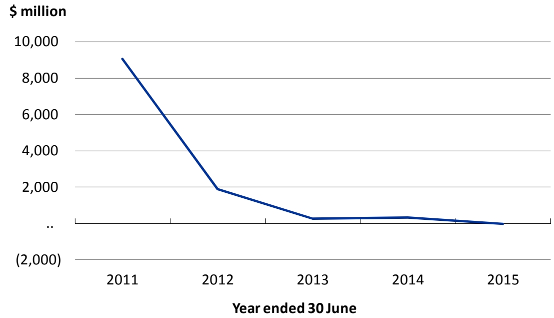
Year ending 30 June $ million	Total to date 2011-2015	Actual 2015	Forecast Budget 15
EQC (net of reinsurance proceeds)	7,313	(444)	(201)
Local Infrastructure	1,582	66	110
Land zoning	999	(1)	45
Southern Response support package	907	325	290
Christchurch central city rebuild	767	179	202
Crown assets	471	335	362
Other earthquake costs	904	129	202
Total Crown net earthquake costs	**12,943**	**589**	**1,010**
Operating expenses	11,497	(55)	327
Capital expenditure	1,446	644	683
Total Crown net earthquake costs	**12,943**	**589**	**1,010**
Core Crown net earthquake costs	5,728	1,045	1,237
SOE and Crown entity costs	7,215	(456)	(227)
Total Crown net earthquake costs	**12,943**	**589**	**1,010**

This June year the net cost (including both operating and capital spending) of the Canterbury recovery was $0.6 billion, $0.3 billion lower than the previous year, and $0.4 billion lower than expected in *Budget 2015* (Table 7). These results bring the total net costs to date to $12.9 billion. It is important to note that this does not represent the total fiscal impact to the Government of the earthquakes as further expenditure is planned on rebuild projects. Note 32 in these financial statements includes more detail about the costs this year and provides detailed information about the judgements and uncertainties involved in the cost estimations along with key risks.

Figures 9 and 10 show the net costs incurred by the Crown each year since the first earthquake in September 2010.

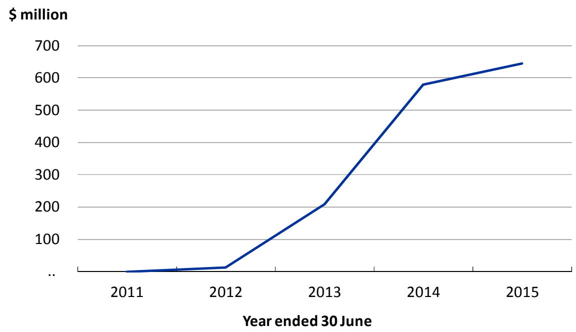
The overall trend is that operating expenditure has decreased significantly since the 2010/11 year-end when the Crown first incurred significant earthquake-related obligations (largely EQC's insurance claim liability). Over that time, capital expenditure has increased as the Crown is now investing in rebuilding assets and infrastructure in Canterbury.

Figure 9 – Net operating costs to the Crown of the Canterbury earthquake recovery over time



Source: The Treasury

Figure 10 – Net capital costs to the Crown of the Canterbury earthquake recovery over time



Source: The Treasury

Current year expenditure

The most significant operating expenses this year were incurred by:

- Southern Response with costs of $0.3 billion due to an uplift in the actuarial valuation of their earthquake claims liability as at 30 June 2015.
- Canterbury Earthquake Recovery Authority (CERA) with $0.1 billion in relation to the central city rebuild and almost $0.1 billion for departmental and other costs.

Now the work in Canterbury has moved on into the rebuild stage, capital costs have increased. In total, $0.6 billion of capital expenditure was spent this year:

- $0.2 billion related to the refurbishment of TEIs and schools in Canterbury
- $0.3 billion for Canterbury hospitals and the state housing stock, and
- $0.1 billion for the new justice and emergency services precinct and other central city rebuild projects.

More than offsetting these capital costs were net recoveries of $0.4 billion for EQC and $0.3 billion for Tertiary Education Institutions (TEIs). The EQC net recovery arises from a reassessment of its claims liability as at 30 June while TEIs' recoveries reflect the settlement of a major TEI insurance claim during the year.

Compared to Budget 2015

The $0.6 billion of net costs incurred this year were $0.4 billion lower than forecast in *Budget 2015*:

- Updated actuarial valuations of EQC's insurance liabilities as at 30 June resulted in $0.2 billion lower costs than forecast for EQC.
- Local infrastructure costs were just under $0.1 billion lower than forecast largely due to lower expenditure by New Zealand Transport Agency on local roads. This was mainly due to work progressing slower than expected.
- Costs in relation to the central city rebuild, the residential red zone and other costs (eg, demolition) together were $0.1 billion lower than forecast in *Budget 2015*. Generally this lower than forecast expenditure related to delays in delivery of business cases across a number of work programmes.

Operating Balance

Table 8 – Total Crown operating balance (excluding minority interests)

Year ended 30 June						Forecast	
	Actual	Actual	Actual	Actual	Actual	30 June 2015	
$ million	**2011**	**2012**	**2013**	**2014**	**2015**	**Budget 2014**	**Budget 2015**
Total Crown OBEGAL	**(18,396)**	**(9,240)**	**(4,414)**	**(2,802)**	**414**	**372**	**(684)**
Gains and losses:							
ACC actuarial gain/(loss)	996	(2,942)	2,369	479	(1,352)	-	(4,232)
GSF actuarial gain/(loss)	(574)	(3,896)	1,251	577	(322)	-	(2,049)
ETS/Kyoto net position	47	350	103	(324)	(366)	-	(332)
Investment portfolios:							
NZS Fund	3,518	(204)	4,374	3,735	3,156	1,914	3,328
ACC	961	944	1,796	730	2,397	351	2,058
Earthquake Commission	109	(53)	1	-	-	-	-
Other gains/(losses)[1]	(21)	144	1,445	544	1,844	465	1,277
Total Crown gains/(losses)	**5,036**	**(5,657)**	**11,339**	**5,741**	**5,357**	**2,730**	**50**
Total Crown operating balance	**(13,360)**	**(14,897)**	**6,925**	**2,939**	**5,771**	**3,102**	**(634)**
% of GDP							
Total Crown OBEGAL	(9.0)%	(4.4)%	(2.0)%	(1.2)%	0.2%	0.2%	(0.3)%
Total Crown gains/(losses)	2.5%	(2.7)%	5.2%	2.5%	2.2%	1.1%	0.0%
Total Crown Operating balance	**(6.6)%**	**(7.0)%**	**3.2%**	**1.3%**	**2.4%**	**1.3%**	**(0.3)%**

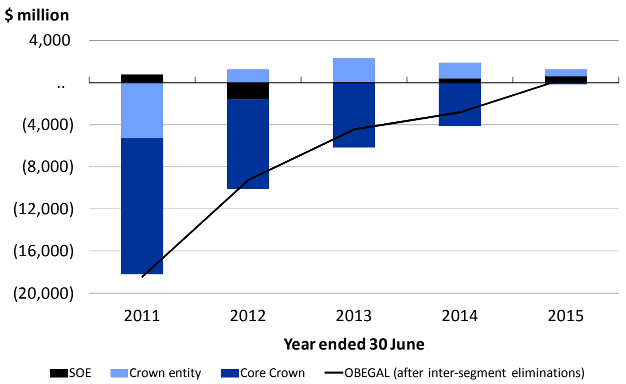
[1] Other gains and losses includes the net surplus from associates and joint ventures

OBEGAL

The OBEGAL has reached surplus for the first time since 2008. The continued improvement was mainly owing to growth in tax revenue outpacing spending growth.

Figure 11 shows the composition of OBEGAL from the different segments of the Government. For the period ended 30 June 2015, the core Crown was close to break-even (compared to a deficit of $4.1 billion last year), with higher tax revenue (8.2%) outpacing higher expenses (1.7%) compared to last year.

Figure 11 – Components of OBEGAL by segment



Source: The Treasury

Also posting a favourable result, the SOE segment achieved a surplus of $0.6 billion compared with a surplus of $0.4 billion last year across a number of companies.

While other segments improved, the Crown entity segment's surplus of $0.7 billion was lower than the previous year's $1.5 billion surplus. Within this result, ACC's surplus reduced by $0.9 billion, mainly due to higher entitlement claims volumes which increased 12.4% compared to 2013/14 levels. In addition, levy revenue was lower due to reduced levy rates, partially offset by an increase in liable earnings and number of registered motor vehicles. There was also an impact from the discontinuation of residual levies from 1 April 2016.

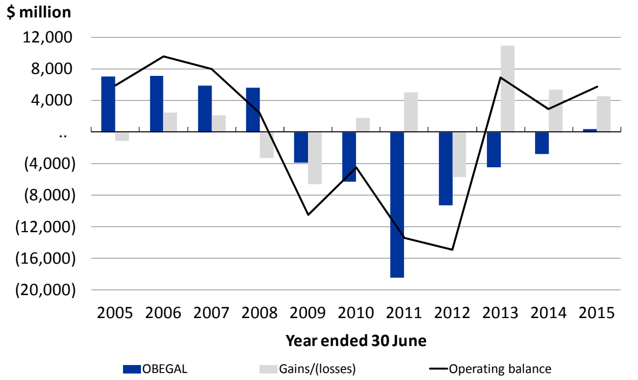
Partly offsetting ACC's result, EQC recorded a surplus of $0.7 billion (compared to $0.3 billion last year) mainly because their insurance liability is expected to be lower than previously thought.

Operating Balance

Adding the Crown's net gains of $5.4 billion to the OBEGAL surplus, the operating balance was a surplus of $5.8 billion ($2.8 billion higher than 2014).

The NZS Fund recorded $3.2 billion of the total Crown net gains, with ACC recording $2.4 billion. NZS Fund's investment portfolio earned returns as global equity markets rose. Overall, the Fund returned 14.64% for the year to June (19.36% last year) and now has financial assets of approximately $31.3 billion ($27.0 billion in 2014).

Figure 12 – Operating balance



Source: The Treasury

While financial gains on investments were positive, the 2014/15 year was adversely impacted by actuarial losses of $1.7 billion in relation to updated long-term liability valuations for ACC insurance and Government Superannuation Fund (GSF) pensions. A decrease in discount rates, partially offset by lower inflation rates[3] resulted in actuarial losses of $1.4 billion for ACC and $0.3 billion for GSF.

The operating balance is particularly sensitive to balance sheet movements. Refer to the sensitivities and risks to the balance sheet section on page 22.

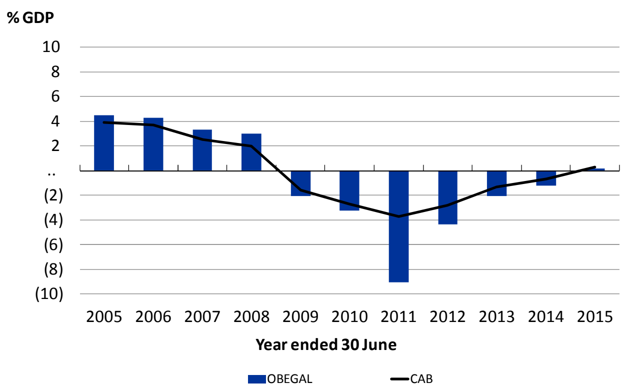
Cyclically-adjusted Balance (CAB)

The Treasury calculates a range of structural fiscal indicators that help to inform assessments of underlying fiscal performance and its relationship with the economy.[4] The cyclically-adjusted operating balance (before gains and losses) (CAB) provides an estimate of what the OBEGAL would be without the effect of the automatic stabilisers, which are the tax revenue and unemployment-related expenses that fluctuate with the business cycle.

The CAB returned to surplus in the 2014/15 fiscal year (Figure 13). The CAB is estimated to be 0.3% of GDP in 2014/15, which is slightly higher than the actual OBEGAL (0.2% of GDP). This is because the economy was estimated by the Treasury to be operating slightly below its capacity in 2014/15.

The terms of trade was elevated in 2014/15. The elevated terms of trade supported higher tax revenues. Adjusting the cyclically-adjusted balance for the terms of trade gives an approximate indication of the OBEGAL if the terms of trade returned to its long-run average and the economy was operating at its potential level. A terms of trade adjustment reduces the CAB by approximately 2% of GDP in 2014/15. As a result, the CAB with a terms-of-trade adjustment implies the structural balance would be in deficit in 2014/15.

Figure 13 – Cyclically-adjusted balance (CAB)



Source: The Treasury

3 In relation to ACC, a number of different inflation rates decreased (eg, medical). For further information on ACC's inflation assumptions see Note 23 insurance liabilities.

4 For further information of the Treasury's suite of additional fiscal indicators, see *Budget 2015* Additional Information: http://www.treasury.govt.nz/budget/forecasts/befu2015/098.htm

Debt

Table 9 – Net debt[5] and Gross debt[6]

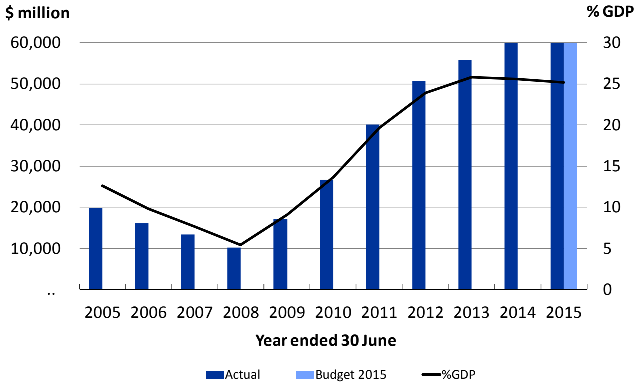
Year ended 30 June	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Forecast 30 June 2015 Budget 2014	Forecast 30 June 2015 Budget 2015
Net debt ($m)	40,128	50,671	55,835	59,931	60,631	63,567	61,673
Net debt (% GDP)	19.7%	23.9%	25.8%	25.6%	25.2%	26.4%	25.7%
Gross debt ($m)	72,420	79,635	77,984	81,956	86,125	79,834	83,910
Gross debt (% GDP)	35.5%	37.5%	36.0%	35.0%	35.8%	33.1%	35.0%
Residual cash ($m)	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(4,306)	(2,674)
Residual cash (% GDP)	(6.5%)	(5.0%)	(2.7%)	(1.8%)	(0.8%)	(1.8%)	(1.1%)

Net Debt

After increasing over the past six years, net debt has begun to flatten and has fallen as a share of the economy (25.2% of GDP versus 25.6% of GDP a year earlier). Net debt in nominal terms was similar to last year, with an increase of $0.7 billion this June year, as the Crown ran a smaller residual cash deficit to previous years. The residual cash shortfall of $1.8 billion was partly offset by valuation movements from favourable foreign exchange changes and an increase in circulating currency.

The fiscal overview, on pages 4 and 5, summarises the link from the OBEGAL (a total Crown measure of total revenue less total expenses) to net debt (a core Crown measure of debt).

Figure 14 – Net debt



Source: The Treasury

Residual Cash

The residual cash deficit was $1.8 billion, $2.3 billion less than last year. Table 10 summarises the contributors to the reduction in the residual cash deficit over the year.

Table 10 – Decrease in residual cash deficit

Year ended 30 June ($ billion)	
2014 core Crown residual cash deficit	**(4.1)**
Increase in tax receipts	5.0
Decrease in proceeds from share offer	(1.7)
Increase in operating payments	(0.8)
Increase in net purchase of investments	(0.7)
Other movements	0.5
2015 core Crown residual cash deficit	**(1.8)**

Source: The Treasury

Tax receipts were $5.0 billion higher than last year, which was in line with the improvement in core Crown tax revenue as discussed on page 9.

Tax receipts grew faster than operating payments, leading to an operating cash surplus of $1.6 billion. Offsetting the operating cash surplus recorded during the year, capital spending totalled $3.4 billion, resulting in an overall cash deficit. Capital spending included:

- Net purchase of physical assets of $2.0 billion, including $0.7 billion for the Ministry of Education in relation to school property ($0.2 billion was Canterbury related) and $0.5 billion for defence equipment.
- Net increase in advances of $0.6 billion, which included $0.4 billion for student loans.

[5] Net debt is defined as core Crown net debt excluding the NZS Fund and advances.

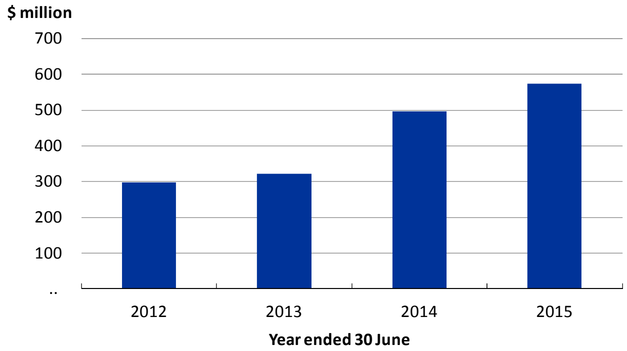
[6] Gross debt is defined as gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills.

- Net purchase of investments of $1.5 billion, the largest of which was the Crown's investment in state highways of $1.0 billion.

- Last year the Crown received proceeds of $2.3 billion from the Government's share offer programme (compared with this year's proceeds of $0.6 billion, reflecting the Meridian Energy final instalment).

While the Crown has sold a minority share in the mixed ownership companies, it continues to own at least 51% of the companies and therefore continues to receive at least 51% of their dividends (Figure 15). The total amount received by the Crown in dividends from the companies in 2015 was higher than the amount received in 2012 and 2013, when the Crown owned 100% of the three electricity companies and around 73% of Air New Zealand.

Figure 15 – Crown share of dividends received from mixed ownership companies



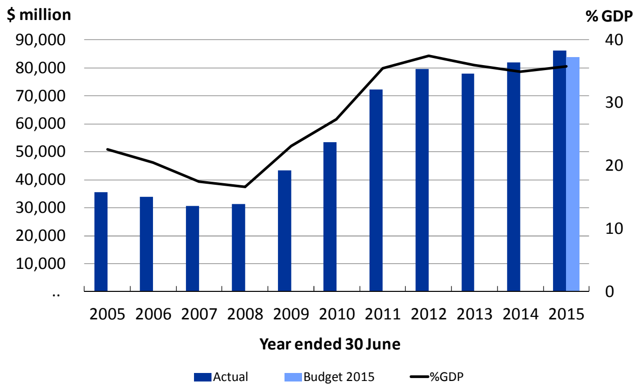
Source: The Treasury

Gross Debt

Gross debt, which reflects the borrowings of the core Crown, was $4.2 billion higher than a year earlier at $86.1 billion (Figure 16). As a percentage of the economy, gross debt remained at a similar level at 35.8% of GDP (35.0% of GDP a year earlier).

The increase in nominal gross debt was predominantly the result of a temporary increase in the issuance of Treasury Bills as well as the Crown's bond and bill repurchasing programme.

Figure 16 – Gross debt



Source: The Treasury

Crown's Borrowing Programme

The debt programme (Table 11) during 2014/15 raised cash from the market of $3.6 billion. The Crown continued to issue bonds ($8 billion face value) and also temporarily increased the market Treasury Bill issuance. The proceeds were largely used to provide liquidity for the maturity and earlier repurchases of the April 2015 bond ($8.7 billion).

Overall, once the non-market cash flows (debt issued directly to agencies within the Crown) were included, net cash proceeds from borrowing were $2.6 billion.

Table 11 – Cash proceeds from debt programme

Year ended 30 June $ million	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Forecast 30 June 2015 Budget 14	 Budget 15
Issue of government bonds	19,468	15,146	15,458	7,716	8,058	8,046	8,201
Repayment of government bonds	-	(7,602)	(9,982)	(2,196)	(8,684)	(8,805)	(8,684)
Net issue/(repayment) of short-term borrowing[7]	(422)	2,139	(5,404)	(935)	4,179	720	3,380
Total market debt cash flows	**19,046**	**9,683**	**72**	**4,585**	**3,553**	**(39)**	**2,897**
Issue of government bonds	270	-	-	-	-	-	-
Repayment of government bonds	(803)	(1,501)	(499)	-	(482)	(1,427)	(1,152)
Net issue/(repayment) of short-term borrowing	(125)	430	100	-	(480)	(500)	(480)
Total non-market debt cash flows	**(658)**	**(1,071)**	**(399)**	**-**	**(962)**	**(1,927)**	**(1,632)**
Total debt programme cash flows	**18,388**	**8,612**	**(327)**	**4,585**	**2,591**	**(1,966)**	**1,265**

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

Net Worth Attributable to the Crown

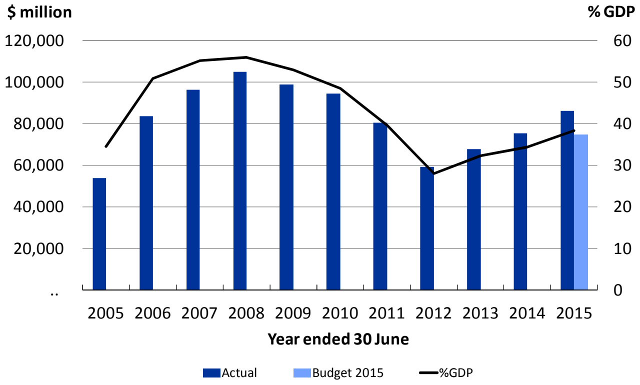
Table 12 –Net worth

Year ended 30 June						Forecast	
	Actual	Actual	Actual	Actual	Actual	30 June 2015	
$ million	**2011**	**2012**	**2013**	**2014**	**2015**	**Budget 2014**	**Budget 2015**
Net worth attributable to the Crown	80,579	59,348	68,071	75,486	86,454	73,115	74,803
Net worth attributable to minority interests	308	432	1,940	5,211	5,782	5,518	5,181
Total net worth	**80,887**	**59,780**	**70,011**	**80,697**	**92,236**	**78,633**	**79,984**
Net worth attributable to the Crown % of GDP	**39.5**	**28.0**	**31.4**	**32.2**	**35.9**	**30.3**	**31.2**

Net worth attributable to the Crown was $86.5 billion as at 30 June 2015, an increase of $11.0 billion from a year earlier, continuing the upward trend. As a share of the economy, net worth attributable to the Crown was 35.9% of GDP, which was 3.7% higher than a year earlier.

The main reasons for the improvement in the Crown's net worth were the operating balance surplus and revaluation uplifts of the Crown's property, plant and equipment (details on the next page). The operating balance surplus was driven by gains on financial assets and the OBEGAL surplus (as discussed on pages 15 and 16).

Figure 17 – Net worth attributable to the Crown



Source: The Treasury

Despite the increase in net worth, the composition of the balance sheet remains largely similar to previous years. The net worth attributable to minority interests is also similar to last year, as the Government share offer programme was largely completed in the last financial year. Note 35 in the 30 June 2014 financial statements contains more detailed information on the movement in minority interests.

The *2014 Investment Statement* examined the composition and the state of the Crown balance sheet using three different sectors (social, financial and commercial). The glossary on page 156 explains the definition of these three sectors. The composition of the balance sheet using those sectors is outlined in Table 13 below.

Table 13 – Composition of the statement of financial position

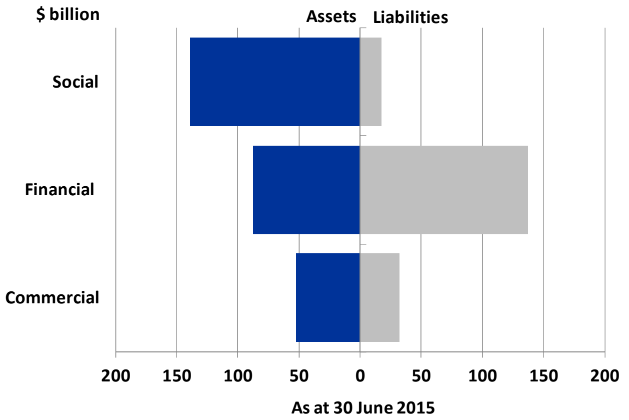
Year ended 30 June						Forecast	
	Actual	Actual	Actual	Actual	Actual	30 June 2015	
$ million	**2011**	**2012**	**2013**	**2014**	**2015**	**Budget 2014**	**Budget 2015**
Social assets	113,634	121,218	124,348	133,158	138,794	127,399	133,374
Financial assets	73,526	72,500	72,378	74,636	87,389	70,444	81,444
Commercial assets	58,054	46,600	47,690	49,030	52,520	51,862	49,848
Total assets	**245,215**	**240,318**	**244,416**	**256,824**	**278,703**	**249,705**	**264,666**
Social liabilities	16,354	17,600	16,140	17,015	17,113	15,049	17,170
Financial liabilities	120,742	134,838	130,052	129,589	137,269	123,082	135,766
Commercial liabilities	27,232	28,100	28,213	29,523	32,085	32,941	31,746
Total liabilities	**164,328**	**180,538**	**174,405**	**176,127**	**186,467**	**171,072**	**184,682**
Net worth	**80,887**	**59,780**	**70,011**	**80,697**	**92,236**	**78,633**	**79,984**
Minority interests	(308)	(432)	(1,940)	(5,211)	(5,782)	(5,518)	(5,181)
Net worth attributable to the Crown	**80,579**	**59,348**	**68,071**	**75,486**	**86,454**	**73,115**	**74,803**

Total Crown Balance Sheet

Total Crown assets were $278.7 billion as at 30 June 2015, a $21.9 billion increase over the year. The growth was largely in financial sector assets of $12.8 billion, social assets grew by $5.6 billion and commercial assets grew by $3.5 billion.

Total Crown liabilities were $186.5 billion as at 30 June 2015, an increase of $10.3 billion from the previous year, largely in relation to financial sector liabilities.

Figure 18 – Total Crown balance sheet



Source: The Treasury

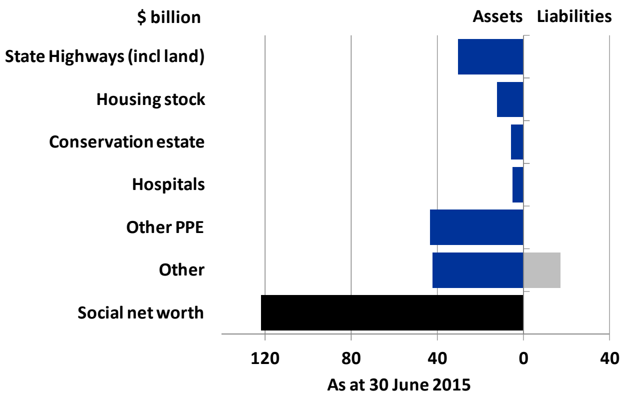
Social Balance Sheet

Social sector net worth at $121.7 billion was $5.5 billion higher than last year, driven largely by an increase in assets.

The Crown's social assets were valued at $138.8 billion at 30 June 2015, a $5.6 billion increase over the year, with the largest uplifts related to the following:

- The state housing portfolio increased by $2.2 billion of which $1.6 billion relates to land. Approximately 93% of the land increase related to Auckland stock reflecting the strength of this market.
- The value of state highways (including land) increased by $0.7 billion, mainly due to revaluation changes for the movement in land prices.

Figure 19 – Social balance sheet



Source: The Treasury

While social assets increased, social liabilities were similar to last year at $17.1 billion.

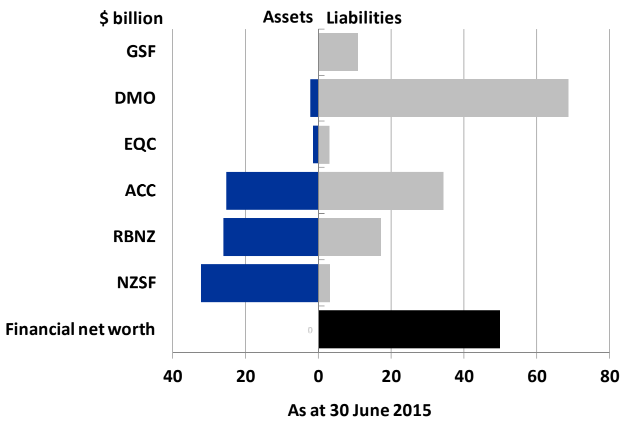
Financial Balance Sheet

Financial sector net worth at -$49.9 billion was $5.1 billion stronger than last year.

The Crown's financial sector assets were valued at $87.4 billion at 30 June 2015, a $12.8 billion increase compared to last year due to:

- Equity market returns, which increased values of investment portfolios held by ACC and the NZS Fund. Refer to page 16 for discussion about the investment gains this year.
- Increases in the Reserve Bank's assets largely as a consequence of an increase in the volume of liabilities of the Bank (assets are largely matched by liabilities) and exchange rate movements.

Figure 20 – Financial balance sheet



Source: The Treasury

Financial sector liabilities were $137.3 billion, an increase of $7.7 billion from the previous year. The main drivers of growth in financial liabilities were the following:

- Liabilities associated with derivatives increased by $4.0 billion. Of this, $1.5 billion related to the Reserve Bank and $1.8 billion related to the NZS Fund. The increase was largely due to change in exchange rates and overall is neutral on the balance sheet as there will be a corresponding increase to financial assets.
- Other financial liabilities increased by $5.2 billion. Of this, Treasury Bills increased by $3.6 billion to provide liquidity for the April 2015 bond maturity. Reserve Bank liabilities increased by $1.3 billion, largely relating to Reserve Bank bills and borrowing instruments and foreign exchange movements on liabilities.
- ACC's insurance liability increased this year by $2.6 billion from $29.9 billion to $32.5 billion. The key drivers of this increase were the discount rate reduction, partly offset by various inflation rates being lower than expected. For further information on ACC's inflation assumptions see Note 23 insurance liabilities.
- Earthquake-related insurance liabilities of EQC and Southern Response were $1.8 billion and $0.2 billion lower respectively as insurance claims were paid out during the year. EQC's claims liability movement also includes an actuarial reduction reflecting the latest available information about the expected cost of claims still to be paid.

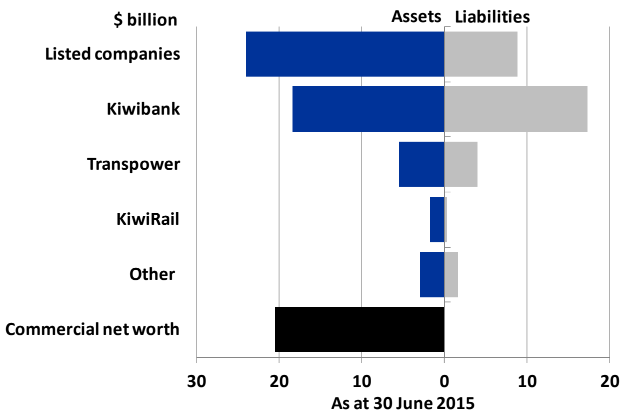
Commercial Balance Sheet

Commercial sector net worth at $20.4 billion increased by $0.9 billion compared to last year.

The Crown's commercial assets were valued at $52.5 billion at 30 June 2015, a $3.5 billion increase over the year. A large component of this increase related to Kiwibank loans ($1.0 billion increase), along with increases due to property, plant and equipment valuation uplifts and additions across the sector.

Commercial liabilities valued at $32.1 billion were $2.6 billion higher than the previous year, primarily due to an increase in deposits held by Kiwibank ($0.9 billion), matched by an increase in its lending.

Figure 21 – Commercial balance sheet



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, firstly using comparable 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.

Interest rates, share prices and exchange rates

Financial assets are an increasingly significant proportion of the Crown's balance sheet and have increased $80 billion in the last ten years, to be $136 billion in 2015. 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 financial assets to changes in these variables.

Table 14 – Financial instruments sensitivities

Financial assets Impact on operating balance	% change	$ million
New Zealand interest rates	+ 1 %	(492)
	- 1 %	539
Share prices	+ 10 %	2,522
	- 10 %	(2,522)
NZD exchange rate	+ 10 %	(907)
	- 10 %	1,043

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, some up to 80 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 $72 billion are discounted to $30 billion). Table 15 shows the impact that a 1% change in inflation and discount rates would have on these liabilities (and the gain or loss as a result of the valuation).

Table 15 – Long term liability sensitivities

Impact on operating balance $ million	Discount rate + 1 %	Discount rate - 1 %	Inflation rate + 1 %	Inflation rate - 1 %
ACC outstanding claims	3,930	(5,212)	(5,370)	4,106
GSF retirement liability	1,527	(1,850)	(1,704)	1,439

Source: The Treasury

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. The change in value of the asset or liability is generally recorded as an expense and is a source of further volatility, especially as changes in assumptions tend to be one-off adjustments in any given year (which creates differences when comparing year-on-year). Some examples of this, as discussed earlier, include:

- The valuation of ACC claims: better information about future costs and rehabilitation rates led to a $107 million reduction in the claims liability (page 79).
- 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 60).
- Property, plant and equipment asset revaluations: Revaluations of these assets (using a combination of market data and assumptions) led to a $5.3 billion increase (with the majority taken to equity), mainly on the state housing portfolio and state highways (page 62).

Other risks to the balance sheet

In addition to those items on balance sheet there are a number of liabilities or assets 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 or asset cannot be measured reliably. If these contingencies crystallise, there will be associated impacts on the operating balance. Refer to note 29 for a list of the contingent liabilities and assets as at 30 June 2015.

Year End Results Compared to Budget 2015

Budget 2015 was published on 21 May 2015 and is the most recent set of forecasts. *Budget 2015* was restated for the impact from the new PBE standards. As a result, both core Crown sovereign revenue and core Crown expenses have decreased by a corresponding amount, with no OBEGAL impact.

Table 16 –Comparison to *Budget 2015*

Year ended 30 June	Actual 2015	Budget 2015 30 June 2015	Variance to Budget 2015 $m	Variance to Budget 2015 %
$ million				
Core Crown tax revenue	**66,636**	66,077	559	0.8
Core Crown expenses	**72,363**	72,858	495	0.7
OBEGAL (excluding minority interests)	**414**	(684)	1,098	160.5
Operating balance (excluding minority interests)	**5,771**	(634)	6,405	-
Residual cash	**(1,827)**	(2,674)	847	31.7
Gross debt	**86,125**	83,910	(2,215)	(2.6)
as a percentage of GDP	***35.8%***	*35.0%*		
Net debt	**60,631**	61,673	1,042	1.7
as a percentage of GDP	***25.2%***	*25.7%*		
Net worth attributable to the Crown	**86,454**	74,803	11,651	15.6

With the exception of gross debt, the 2015 results were favourable compared to *Budget 2015*, with tax revenue stronger than expected as the economy grew in nominal terms by 0.4% more than expected. In addition, net migration and labour force participation were slightly higher than expected.

Core Crown Tax Revenue

Core Crown tax revenue was $0.6 billion (0.8%) higher than expected, with the largest differences being:

- Source deductions: $0.2 billion (0.8%) higher than forecast due mainly to higher-than-forecast hours worked per worker in the June 2015 quarter.
- Customs and excise duties: $0.1 billion (3.0%) higher than forecast due mainly to some back-dated fuel excise revenue and associated penalties.
- Other individuals tax: $0.1 billion (2.2%) higher than forecast due mainly to higher-than-expected provisional tax estimates.
- Corporate tax: $0.1 billion (0.8%) higher than forecast mainly owing to above-forecast tax from Portfolio Investment Entities, which was mainly caused by larger-than-anticipated funds under management.

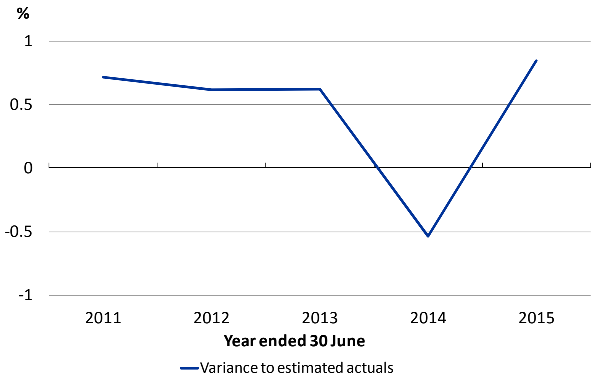
Overall the tax variance to forecast is not significantly larger than recent forecasts (Figure 22) and remains within 1%. *Estimated Actuals* refers to the latest forecasts published shortly before year end.

Table 17 – Core Crown tax revenue compared to *Budget 2015*

Year ended 30 June ($ billion)	
Budget 2015 core Crown tax revenue	**66.1**
Source deductions	0.2
Customs and excise duties	0.1
Other individuals	0.1
Corporate tax	0.1
Actual 2015 core Crown tax revenue	**66.6**

Source: The Treasury

Figure 22 – Core Crown tax revenue variance to *Estimated Actuals*



Source: The Treasury

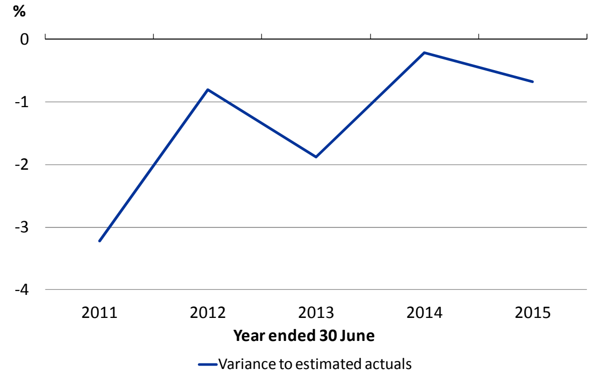
Core Crown Expenses

Core Crown expenses were $0.5 billion (0.7%) lower than expected. As with core Crown tax revenue, the forecast variance is reasonable, particularly given past years (Figure 23).

The lower than forecast result was largely due to earthquake work progressing slower than forecast ($169 million), lower treaty settlement expenditure as completion of negotiations continued into 2015/16 ($133 million), lower Ministry of Education expenses across a number of departmental and non-departmental activities ($116 million under forecast) and lower Ministry of Social Development (MSD) debt write-offs and benefit expenses ($40 million).

Delays in earthquake spending and completion of negotiations around treaty settlements may flow in to the next financial year.

Figure 23 – Core Crown expenses variance to *Estimated Actuals*



Source: The Treasury

OBEGAL

The OBEGAL surplus was $1.1 billion higher than expected. Both core Crown tax revenue and core Crown expenses were close to forecast (under 1%) but, when combined, had a significant impact on the OBEGAL result (increasing OBEGAL by $1.1 billion).

Operating Balance

The total Crown operating balance was $6.4 billion higher than expected. In addition to the favourable OBEGAL result ($1.1 billion), ACC and GSF incurred lower than forecast actuarial losses due to higher discount rates ($2.9 billion and $1.7 billion respectively).

Residual Cash

The residual cash deficit was $0.8 billion lower due in part to higher than forecast tax receipts ($0.3 billion), along with lower than forecast operating and capital payments ($0.3 billion each).

Gross Debt

Gross debt at $86.1 billion (35.8% of GDP) was $2.2 billion higher than expected (with the core Crown holding more debt instruments than forecast). The increased debt is largely held in financial assets so has no impact on net debt.

Net Debt

Net debt at $60.6 billion (25.2% of GDP) was $1.0 billion below forecast mainly due to the more favourable residual cash mentioned above.

Net Worth Attributable to the Crown

The net worth attributable to the Crown was $11.7 billion stronger than expected mainly due to the higher operating balance mentioned above and revaluation uplifts of the Crown's property, plant and equipment (that were not forecast).

Historical Financial Information

Year ended 30 June $ million	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual
Statement of financial performance											
Core Crown tax revenue	47,468	50,973	53,477	56,747	54,681	50,744	51,557	55,081	58,651	61,563	66,636
Core Crown other revenue	3,341	4,526	4,494	4,828	4,510	5,013	5,642	5,347	5,154	5,530	5,577
Core Crown revenue	50,809	55,499	57,971	61,575	59,191	55,757	57,199	60,428	63,805	67,093	72,213
Crown entities, SOE revenue and eliminations	14,322	15,690	16,378	19,660	20,024	18,509	24,013	22,918	22,506	22,106	22,800
Total Crown revenue	**65,131**	**71,189**	**74,349**	**81,235**	**79,215**	**74,266**	**81,212**	**83,346**	**86,311**	**89,199**	**95,013**
Social security and welfare	14,535	15,451	16,621	17,730	19,189	20,814	21,724	21,956	22,459	23,026	23,523
Health	8,813	9,547	10,355	11,297	12,368	13,128	13,753	14,160	14,498	14,898	15,058
Education	7,930	9,914	9,269	9,551	11,455	11,724	11,650	11,654	12,504	12,300	12,879
Core government services	2,567	2,507	4,817	3,371	5,293	2,974	5,563	5,428	4,294	4,502	4,134
Other core Crown expenses	10,815	11,665	12,702	14,804	15,407	14,914	17,409	15,741	16,207	16,448	16,769
Core Crown expenses	44,660	49,084	53,764	56,753	63,711	63,554	70,099	68,939	69,962	71,174	72,363
Crown entities, SOE expenses and eliminations	13,397	15,015	14,725	18,845	19,397	17,027	29,509	23,647	20,701	20,668	21,909
Total Crown expenses	**58,057**	**64,098**	**68,489**	**75,598**	**83,108**	**80,581**	**99,608**	**92,586**	**90,663**	**91,842**	**94,272**
OBEGAL (excluding minority interests)	**7,075**	**7,091**	**5,860**	**5,637**	**(3,893)**	**(6,315)**	**(18,396)**	**(9,240)**	**(4,414)**	**(2,802)**	**414**
Gains/(losses)	(1,144)	2,451	2,162	(3,253)	(6,612)	1,806	5,036	(5,657)	11,339	5,741	5,357
Operating balance (excluding minority interests)	**5,931**	**9,542**	**8,022**	**2,384**	**(10,505)**	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**	**2,939**	**5,771**
Statement of financial position											
Property, plant and equipment	67,494	89,141	95,598	103,329	110,135	113,330	114,854	108,584	109,833	116,306	124,558
Financial assets	42,005	66,396	73,718	85,063	93,359	95,971	115,362	116,178	118,779	123,918	135,787
Other assets	19,714	9,503	11,031	12,443	13,657	14,054	14,999	15,556	15,804	16,600	18,358
Total assets	**129,212**	**165,040**	**180,347**	**200,835**	**217,151**	**223,355**	**245,215**	**240,318**	**244,416**	**256,824**	**278,703**
Borrowings	37,728	40,027	41,898	46,110	61,953	69,733	90,245	100,534	100,087	103,419	112,580
Other liabilities	37,243	41,042	41,622	49,211	55,683	58,634	74,083	80,004	74,318	72,708	73,887
Total liabilities	**74,972**	**81,069**	**83,520**	**95,321**	**117,636**	**128,367**	**164,328**	**180,538**	**174,405**	**176,127**	**186,467**
Minority interests	215	293	369	382	447	402	308	432	1,940	5,211	5,782
Net worth attributable to the Crown	**54,025**	**83,678**	**96,458**	**105,132**	**99,068**	**94,586**	**80,579**	**59,348**	**68,071**	**75,486**	**86,454**
Debt Indicators											
Net debt	19,879	16,163	13,380	10,258	17,119	26,738	40,128	50,671	55,835	59,931	60,631
Gross debt	35,478	33,903	30,647	31,390	43,356	53,591	72,420	79,635	77,984	81,956	86,125

Historical Financial Information (continued)

Year ended 30 June as % of GDP	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual
Nominal GDP (revised)	157,101	165,027	175,047	188,147	187,532	195,399	203,791	212,307	216,585	234,027	240,571
Statement of financial performance											
Core Crown tax revenue	30.2%	30.9%	30.6%	30.2%	29.2%	26.0%	25.3%	25.9%	27.1%	26.3%	27.7%
Core Crown other revenue	2.1%	2.7%	2.6%	2.6%	2.4%	2.6%	2.8%	2.5%	2.4%	2.4%	2.3%
Core Crown revenue	32.3%	33.6%	33.1%	32.7%	31.6%	28.5%	28.1%	28.5%	29.5%	28.7%	30.0%
Crown entities, SOE and elimination revenue	9.1%	9.5%	9.4%	10.4%	10.7%	9.5%	11.8%	10.8%	10.4%	9.4%	9.5%
Total Crown revenue	**41.5%**	**43.1%**	**42.5%**	**43.2%**	**42.2%**	**38.0%**	**39.9%**	**39.3%**	**39.9%**	**38.1%**	**39.5%**
Social security and welfare	9.3%	9.4%	9.5%	9.4%	10.2%	10.7%	10.7%	10.3%	10.4%	9.8%	9.8%
Health	5.6%	5.8%	5.9%	6.0%	6.6%	6.7%	6.7%	6.7%	6.7%	6.4%	6.3%
Education	5.0%	6.0%	5.3%	5.1%	6.1%	6.0%	5.7%	5.5%	5.8%	5.3%	5.4%
Core government services	1.6%	1.5%	2.8%	1.8%	2.8%	1.5%	2.7%	2.6%	2.0%	1.9%	1.7%
Other core Crown expenses	6.9%	7.1%	7.3%	7.9%	8.2%	7.6%	8.5%	7.4%	7.5%	7.0%	7.0%
Core Crown expenses	28.4%	29.7%	30.7%	30.2%	34.0%	32.5%	34.4%	32.5%	32.3%	30.4%	30.1%
Crown entities, SOE and elimination expenses	8.5%	9.1%	8.4%	10.0%	10.3%	8.7%	14.5%	11.1%	9.6%	8.8%	9.1%
Total Crown expenses	**37.0%**	**38.8%**	**39.1%**	**40.2%**	**44.3%**	**41.2%**	**48.9%**	**43.6%**	**41.9%**	**39.2%**	**39.2%**
OBEGAL (excluding minority interests)	**4.5%**	**4.3%**	**3.3%**	**3.0%**	**-2.1%**	**-3.2%**	**-9.0%**	**-4.4%**	**-2.0%**	**-1.2%**	**0.2%**
Gains/(losses)	-0.7%	1.5%	1.2%	-1.7%	-3.5%	0.9%	2.5%	-2.7%	5.2%	2.5%	2.2%
Operating balance (excluding minority interests)	**3.8%**	**5.8%**	**4.6%**	**1.3%**	**-5.6%**	**-2.3%**	**-6.6%**	**-7.0%**	**3.2%**	**1.3%**	**2.4%**
Statement of financial position											
Property, plant and equipment	43.0%	54.0%	54.6%	54.9%	58.7%	58.0%	56.4%	51.1%	50.7%	49.7%	51.8%
Financial assets and sovereign receivables	26.7%	40.2%	42.1%	45.2%	49.8%	49.1%	56.6%	54.7%	54.8%	53.0%	56.4%
Other assets	12.5%	5.8%	6.3%	6.6%	7.3%	7.2%	7.4%	7.3%	7.3%	7.1%	7.6%
Total assets	**82.2%**	**100.0%**	**103.0%**	**106.7%**	**115.8%**	**114.3%**	**120.3%**	**113.2%**	**112.8%**	**109.7%**	**115.9%**
Borrowings	24.0%	24.3%	23.9%	24.5%	33.0%	35.7%	44.3%	47.4%	46.2%	44.2%	46.8%
Other liabilities	23.7%	24.9%	23.8%	26.2%	29.7%	30.0%	36.4%	37.7%	34.3%	31.1%	30.7%
Total liabilities	**47.7%**	**49.1%**	**47.7%**	**50.7%**	**62.7%**	**65.7%**	**80.6%**	**85.0%**	**80.5%**	**75.3%**	**77.5%**
Minority interests	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.9%	2.2%	2.4%
Net worth attributable to the Crown	**34.4%**	**50.7%**	**55.1%**	**55.9%**	**52.8%**	**48.4%**	**39.5%**	**28.0%**	**31.4%**	**32.3%**	**35.9%**
Debt Indicators											
Net debt	12.7%	9.8%	7.6%	5.5%	9.1%	13.7%	19.7%	23.9%	25.8%	25.6%	25.2%
Gross debt	22.6%	20.5%	17.5%	16.7%	23.1%	27.4%	35.5%	37.5%	36.0%	35.0%	35.8%

INDEPENDENT REPORT OF THE AUDITOR-GENERAL

CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

To the Readers of the Financial Statements of the Government of New Zealand for the Year Ended 30 June 2015

Opinion

I have audited the financial statements of the Government of New Zealand (the Government) for the year ended 30 June 2015 using my staff, resources and my appointed auditors and their staff.

The Government's financial statements on pages 32 to 148 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2015, the statement of financial performance, analysis of expenses by functional classification, statement of comprehensive revenue and expense, 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, and other explanatory information;
- a statement of borrowings as at 30 June 2015;
- a statement of unappropriated expenditure for the year ended on that date;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended on that date; and
- a statement of trust money administered by departments and Offices of Parliament as at 30 June 2015.

In my opinion, the Government's financial statements on pages 32 to 148:

- present fairly, in all material respects, the Government's:
  - financial position as at 30 June 2015;
  - financial performance and cash flows for the year ended on that date;
  - borrowings as at 30 June 2015;
  - unappropriated expenditure for the year ended on that date;
  - expenses or capital expenditure incurred in emergencies for the year ended on that date; and
  - trust money administered by departments and Offices of Parliament as at 30 June 2015.
- comply with generally accepted accounting practice in New Zealand.

My audit was completed on 30 September 2015. 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 my 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 Government's 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 Government's 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 Government's 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 Government's 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 Government's financial statements 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 the disclosures in the Government's financial statements; and
- the overall presentation of the Government's financial statements.

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

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;
- present fairly, in all material respects, the Government's financial position, financial performance and cash flows; and
- present fairly, in all material respects, the Government's:
  - borrowings;
  - unappropriated expenditure;
  - expenses or capital expenditure incurred in emergencies; and
  - trust money administered by departments and Offices of Parliament.

The Minister of Finance is responsible for forming an opinion that the Government's financial statements present fairly, in all material respects, 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.

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

Responsibilities of the Auditor

I am responsible for expressing an independent opinion on the Government's 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 staff, and my appointed auditors and their staff, followed my independence requirements, which incorporate the independence requirements of the External Reporting Board.

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

Lyn Provost
Controller and Auditor-General
Wellington, New Zealand

AUDITED FINANCIAL STATEMENTS

Statement of Financial Performance

for the year ended 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Note	Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Revenue			
65,824	65,462	Taxation revenue	3	66,055	60,968
4,681	4,929	Other sovereign revenue	3	4,953	5,134
70,505	**70,391**	**Total sovereign revenue**		**71,008**	**66,102**
17,091	16,625	Sales of goods and services	4	16,866	16,472
3,702	3,595	Interest revenue and dividends	5	3,524	3,205
3,842	3,594	Other revenue	6	3,615	3,420
24,635	**23,814**	**Total revenue earned through operations**		**24,005**	**23,097**
95,140	**94,205**	**Total revenue (excluding gains)**		**95,013**	**89,199**
		Expenses			
23,876	23,846	Transfer payments and subsidies	7	23,723	23,360
20,881	21,182	Personnel expenses	8	21,124	20,484
4,882	4,855	Depreciation and amortisation	9	4,842	4,872
37,093	36,525	Other operating expenses	10	35,910	35,225
4,763	4,689	Interest expenses	11	4,563	4,400
3,517	4,023	Insurance expenses	12	4,110	3,501
291	7	Forecast new operating spending		-	-
(875)	(555)	Top-down expense adjustment		-	-
94,428	**94,572**	**Total expenses (excluding losses)**		**94,272**	**91,842**
340	317	Minority interests share of operating balance before gains and losses		327	159
372	**(684)**	**Operating balance before gains and losses (excluding minority interests)**		**414**	**(2,802)**
2,583	6,021	Net gains/(losses) on financial instruments	13	6,196	4,820
(82)	(6,551)	Net gains/(losses) on non-financial instruments	14	(1,649)	540
2,501	(530)	**Total gains/(losses)**		4,547	5,360
25	66	Less minority interests share of net gains/(losses)		218	(21)
2,476	**(596)**	**Gains/(losses) (excluding minority interests)**		**4,329**	**5,381**
254	646	Net surplus from associates and joint ventures		1,028	360
3,102	**(634)**	**Operating balance (excluding minority interests)**		**5,771**	**2,939**
		Operating balance allocated between:			
3,102	(634)	Operating balance (excluding minority interests)		5,771	2,939
365	383	Minority interests share of operating balance	26	545	138
3,467	**(251)**	**Operating balance (including minority interests)**		**6,316**	**3,077**

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 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Total Crown expenses		
27,739	28,029	Social security and welfare	28,231	27,011
409	375	GSF pension expenses	373	295
14,741	14,748	Health	14,696	14,344
13,571	13,772	Education	13,537	13,064
4,462	3,940	Core government services	3,898	4,104
3,709	3,826	Law and order	3,730	3,692
1,936	1,878	Defence	1,917	1,776
9,427	9,583	Transport and communications	9,279	9,137
7,924	8,169	Economic and industrial services	8,235	7,732
2,348	2,174	Heritage, culture and recreation	2,198	2,372
1,788	1,848	Primary services	1,740	1,703
1,141	1,211	Housing and community development	1,114	1,095
511	593	Environmental protection	616	538
543	285	Other	145	579
4,763	4,689	Finance costs	4,563	4,400
291	7	Forecast new operating spending	-	-
(875)	(555)	Top-down expense adjustment	-	-
94,428	**94,572**	**Total Crown expenses (excluding losses)**	**94,272**	**91,842**

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 SOEs.

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Core Crown expenses		
23,568	23,647	Social security and welfare	23,523	23,026
395	359	GSF pension expenses	358	282
15,065	15,075	Health	15,058	14,898
12,827	13,021	Education	12,879	12,300
4,816	4,401	Core government services	4,134	4,502
3,445	3,569	Law and order	3,515	3,463
1,984	1,927	Defence	1,961	1,811
2,217	2,328	Transport and communications	2,291	2,237
2,215	2,268	Economic and industrial services	2,228	2,058
770	779	Heritage, culture and recreation	778	842
700	735	Primary services	667	676
326	357	Housing and community development	320	347
510	678	Environmental protection	723	533
543	285	Other	145	579
3,883	3,977	Finance costs	3,783	3,620
291	7	Forecast new operating spending	-	-
(875)	(555)	Top-down expense adjustment	-	-
72,680	**72,858**	**Total core Crown expenses (excluding losses)**	**72,363**	**71,174**

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

Statement of Comprehensive Revenue and Expense

for the year ended 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
3,467	**(251)**	**Operating balance (including minority interests)**	**6,316**	**3,077**
		Other comprehensive revenue and expense		
-	(51)	Revaluation of physical assets	5,519	5,395
11	(111)	Other revaluations reflected directly in reserves	(5)	(121)
(30)	(46)	Other movements	(13)	1
(19)	**(208)**	**Total other comprehensive revenue and expense**	**5,501**	**5,275**
3,448	**(459)**	**Total comprehensive revenue and expense**	**11,817**	**8,352**
		Attributable to:		
365	306	- minority interests	849	147
3,083	(765)	- the Crown	10,968	8,205
3,448	**(459)**	**Total comprehensive revenue and expense**	**11,817**	**8,352**

Statement of Changes in Net Worth

for the year ended 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual Taxpayer funds $m	Actual Reserves $m	Actual Minority interests $m	Actual Total net worth $m
70,011	**70,011**	**Net worth at 30 June 2013**	**10,649**	**57,209**	**1,940**	**69,798**
3,216	2,946	Operating balance	2,939	-	138	3,077
(351)	5,395	Net revaluations	-	5,386	9	5,395
(119)	(2)	Transfers to/(from) reserves	229	(199)	(2)	28
(3)	(43)	(Gains)/losses transferred to the statement of financial performance	-	(43)	-	(43)
3	(75)	Other movements	(22)	(85)	2	(105)
2,746	**8,221**	**Total comprehensive revenue and expense**	**3,146**	**5,059**	**147**	**8,352**
2,710	2,547	Transactions with minority interests	(577)	-	3,124	2,547
75,467	**80,779**	**Net worth at 30 June 2014**	**13,218**	**62,268**	**5,211**	**80,697**
3,467	(251)	Operating balance	5,771	-	545	6,316
-	(51)	Net revaluations	-	5,273	246	5,519
10	(113)	Transfers to/(from) reserves	392	(392)	-	-
3	7	(Gains)/losses transferred to the statement of financial performance	-	(56)	-	(56)
(32)	(51)	Other movements	(27)	7	58	38
3,448	**(459)**	**Total comprehensive revenue and expense**	**6,136**	**4,832**	**849**	**11,817**
(282)	(336)	Transactions with minority interests	-	-	(278)	(278)
78,633	**79,984**	**Net worth at 30 June 2015**	**19,354**	**67,100**	**5,782**	**92,236**

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

Statement of Cash Flows

for the year ended 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Note	Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Cash Flows From Operations			
		Cash was provided from			
64,913	64,650	Taxation receipts	3	64,945	59,853
4,645	4,642	Other sovereign receipts	3	4,731	4,974
17,113	17,135	Sales of goods and services		17,232	16,608
3,310	3,465	Interest and dividend receipts		3,364	2,945
4,972	4,319	Other operating receipts		3,823	5,737
94,953	**94,211**	**Total cash provided from operations**		**94,095**	**90,117**
		Cash was disbursed to			
24,020	23,944	Transfer payments and subsidies		23,896	23,447
63,953	62,090	Personnel and operating payments		60,009	59,891
4,728	4,784	Interest payments		4,598	4,312
291	7	Forecast new operating spending		-	-
(875)	(555)	Top-down expense adjustment		-	-
92,117	**90,270**	**Total cash disbursed to operations**		**88,503**	**87,650**
2,836	**3,941**	**Net cash flows from operations**		**5,592**	**2,467**
		Cash Flows From Investing Activities			
		Cash was provided from			
722	597	Sale of physical assets		775	651
83,014	88,358	Sale of shares and other securities		109,658	77,916
-	4	Sale of intangible assets		3	-
1,558	1,724	Repayment of advances		1,566	1,953
30	210	Sale of investments in associates		241	140
85,324	**90,893**	**Total cash provided from investing activities**		**112,243**	**80,660**
		Cash was disbursed to			
8,554	7,619	Purchase of physical assets		6,952	6,154
78,675	87,406	Purchase of shares and other securities		114,570	83,641
576	605	Purchase of intangible assets		635	658
3,529	3,510	Advances made		3,251	3,482
76	76	Acquisition of investments in associates		88	67
326	-	Forecast for new capital spending		-	-
(370)	(375)	Top-down capital adjustment		-	-
91,366	**98,841**	**Total cash disbursed to investing activities**		**125,496**	**94,002**
(6,042)	**(7,948)**	**Net cash flows from investing activities**		**(13,253)**	**(13,342)**
(3,206)	**(4,007)**	**Net cash flows from operating and investing activities**		**(7,661)**	**(10,875)**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
(3,206)	**(4,007)**	**Net cash flows from operating and investing activities**	**(7,661)**	**(10,875)**
		Cash Flows From Financing Activities		
		Cash was provided from		
152	511	Issue of circulating currency	372	274
598	595	Government share offer programme	579	2,186
8,046	8,201	Issue of Government bonds	8,058	7,716
825	653	Issue of foreign currency borrowings	1,227	1,524
8,333	11,915	Issue of other New Zealand dollar borrowings	14,506	6,315
17,954	**21,875**	**Total cash provided from financing activities**	**24,742**	**18,015**
		Cash was disbursed to		
8,805	8,683	Repayment of Government bonds	6,510	2,196
1,663	2,754	Repayment of foreign currency borrowings	3,548	82
4,525	5,227	Repayment of other New Zealand dollar borrowings	7,429	7,147
365	471	Dividends paid to minority interests	478	166
15,358	**17,135**	**Total cash disbursed to financing activities**	**17,965**	**9,591**
2,596	**4,740**	**Net cash flows from financing activities**	**6,777**	**8,424**
(610)	**733**	**Net movement in cash**	**(884)**	**(2,451)**
11,108	11,888	**Opening cash balance**	11,888	14,924
-	588	Foreign-exchange gains/(losses) on opening cash	978	(585)
10,498	**13,209**	**Closing cash balance**	**11,982**	**11,888**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance		
2,836	**3,941**	**Net Cash Flows from Operations**	**5,592**	**2,467**
		Items included in the operating balance but not in net cash flows from operations		
		Gains/(losses)		
2,583	6,021	Net gains/(losses) on financial instruments	6,196	4,820
(82)	(6,551)	Net gains/(losses) on non-financial instruments	(1,649)	540
25	66	Less minority interests share of net/gains/(losses)	218	(21)
2,476	**(596)**	**Total gains/(losses)**	**4,329**	**5,381**
		Other Non-cash Items in Operating Balance		
(4,882)	(4,855)	Depreciation and amortisation	(4,842)	(4,872)
(838)	(738)	Cost of concessionary lending	(696)	(789)
(128)	(290)	Impairment of financial assets (excl receivables)	(305)	(47)
353	374	Change in accumulating pension expenses	373	442
3,629	1,538	Change in accumulating insurance expenses	746	1,409
(86)	330	Other non-cash items	699	202
(1,952)	**(3,641)**	**Total other non-cash items in operating balance**	**(4,025)**	**(3,655)**
		Movements in Working Capital		
(803)	390	Increase/(decrease) in receivables	141	(1,553)
326	194	Increase/(decrease) in accrued interest	196	143
(4)	(33)	Increase/(decrease) in inventories	(105)	(41)
(27)	(61)	Increase/(decrease) in prepayments	(12)	39
(20)	(40)	Decrease/(increase) in deferred revenue	(149)	(248)
270	(788)	Decrease/(increase) in payables/provisions	(196)	406
(258)	**(338)**	**Total movements in working capital**	**(125)**	**(1,254)**
3,102	**(634)**	**Operating balance (excluding minority interests)**	**5,771**	**2,939**

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

Statement of Financial Position

as at 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Note	Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Assets			
10,498	13,209	Cash and cash equivalents		11,982	11,888
16,610	17,471	Receivables	15	17,602	18,221
42,731	46,469	Marketable securities, deposits and derivatives in gain	16	54,298	48,457
21,234	24,526	Share investments	17	25,408	20,596
26,626	26,973	Advances	18	26,497	24,756
1,155	1,067	Inventory		995	1,099
2,144	2,153	Other assets		2,389	2,510
115,873	119,432	Property, plant & equipment	19	124,558	116,306
10,326	10,742	Equity accounted investments	20	11,918	10,071
2,934	2,999	Intangible assets and goodwill		3,056	2,920
339	-	Forecast for new capital spending		-	-
(765)	(375)	Top-down capital adjustment		-	-
249,705	**264,666**	**Total assets**		**278,703**	**256,824**
		Liabilities			
5,224	5,476	Issued currency		5,336	4,964
11,874	11,500	Payables	21	11,953	12,117
1,821	2,002	Deferred revenue		2,112	1,962
104,390	107,898	Borrowings	22	112,580	103,419
31,272	38,519	Insurance liabilities	23	36,431	35,825
10,380	12,560	Retirement plan liabilities	24	10,834	10,885
6,111	6,727	Provisions	25	7,221	6,955
171,072	**184,682**	**Total liabilities**		**186,467**	**176,127**
78,633	**79,984**	**Total assets less total liabilities**		**92,236**	**80,697**
		Net Worth			
16,601	12,720	Taxpayer funds		19,354	13,218
56,509	62,142	Property, plant and equipment revaluation reserve		67,107	62,225
5	(59)	Other reserves		(7)	43
73,115	**74,803**	**Total net worth attributable to the Crown**		**86,454**	**75,486**
5,518	5,181	Net worth attributable to minority interests		5,782	5,211
78,633	**79,984**	**Total net worth**	26	**92,236**	**80,697**

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

Statement of Segments

	Current Year Actual vs Estimated Actuals (Budget 2015)									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2015 $m	Forecast Budget 2015 $m	Actual 2015 $m	Forecast Budget 2015 $m	Actual 2015 $m	Forecast Budget 2015 $m	Actual 2015 $m	Forecast Budget 2015 $m	Actual 2015 $m	Forecast Budget 2015 $m
Revenue										
Taxation revenue	66,636	66,077	-	-	-	-	(581)	(615)	66,055	65,462
Other sovereign revenue	993	974	5,062	5,071	-	-	(1,102)	(1,116)	4,953	4,929
Revenue from core Crown funding	-	-	25,535	25,378	139	142	(25,674)	(25,520)	-	-
Sales of goods and services	1,393	1,429	1,854	1,787	14,171	13,928	(552)	(519)	16,866	16,625
Interest revenue and dividends	2,452	2,449	1,429	1,459	1,043	1,070	(1,400)	(1,383)	3,524	3,595
Other revenue	739	723	2,414	2,413	822	894	(360)	(436)	3,615	3,594
Total Revenue (excluding gains)	**72,213**	**71,652**	**36,294**	**36,108**	**16,175**	**16,034**	**(29,669)**	**(29,589)**	**95,013**	**94,205**
Expenses										
Transfer payments and subsidies	23,723	23,846	-	-	-	-	-	-	23,723	23,846
Personnel expenses	6,552	6,540	11,660	11,749	2,935	2,909	(23)	(16)	21,124	21,182
Other operating expenses	38,305	39,043	23,750	23,647	10,994	10,989	(28,187)	(28,276)	44,862	45,403
Interest expenses	3,783	3,977	221	221	1,280	1,333	(721)	(842)	4,563	4,689
Forecast new operating spending and top down adjustment	-	(548)	-	-	-	-	-	-	-	(548)
Total Expenses (excluding losses)	**72,363**	**72,858**	**35,631**	**35,617**	**15,209**	**15,231**	**(28,931)**	**(29,134)**	**94,272**	**94,572**
Minority interest share of operating balance before gains/losses	-	-	21	19	(384)	(362)	36	26	(327)	(317)
Operating Balance before gains and losses (excluding minority interests)	**(150)**	**(1,206)**	**684**	**510**	**582**	**441**	**(702)**	**(429)**	**414**	**(684)**
Gains/(losses) and other items	4,029	2,122	2,765	(902)	1,073	49	(1,619)	(1,219)	5,357	50
Operating Balance	**3,879**	**916**	**2,786**	**(392)**	**689**	**490**	**(1,583)**	**(1,648)**	**5,771**	**(634)**
Assets										
Financial assets	88,754	83,538	45,257	42,563	22,588	23,156	(20,812)	(20,609)	135,787	128,648
Property, plant and equipment	32,289	31,956	61,416	58,773	30,852	28,703	1	-	124,558	119,432
Investments in associates, CEs and SOEs	34,883	34,085	9,790	9,331	565	164	(33,320)	(32,838)	11,918	10,742
Other assets	2,787	2,701	1,281	1,150	2,404	2,394	(32)	(26)	6,440	6,219
Forecast adjustments	-	(375)	-	-	-	-	-	-	-	(375)
Total Assets	**158,713**	**151,905**	**117,744**	**111,817**	**56,409**	**54,417**	**(54,163)**	**(53,473)**	**278,703**	**264,666**
Liabilities										
Borrowings	95,549	91,161	5,640	5,484	28,437	28,278	(17,046)	(17,025)	112,580	107,898
Other liabilities	29,762	30,882	44,766	46,070	7,572	7,294	(8,213)	(7,462)	73,887	76,784
Total Liabilities	**125,311**	**122,043**	**50,406**	**51,554**	**36,009**	**35,572**	**(25,259)**	**(24,487)**	**186,467**	**184,682**
Net Worth	**33,402**	**29,862**	**67,338**	**60,263**	**20,400**	**18,845**	**(28,904)**	**(28,986)**	**92,236**	**79,984**
Cost of Acquisition of Physical Assets (Cash)	**1,999**	2,427	**2,882**	3,247	**2,085**	1,956	(14)	(11)	**6,952**	7,619

Statement of Segments (continued)

Current Year Actual vs Prior Year Actual

	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2015 $m	Actual 2014 $m	Actual 2015 $m	Actual 2014 $m	Actual 2015 $m	Actual 2014 $m	Actual 2015 $m	Actual 2014 $m	Actual 2015 $m	Actual 2014 $m
Revenue										
Taxation revenue	66,636	61,563	-	-	-	-	(581)	(595)	66,055	60,968
Other sovereign revenue	993	878	5,062	5,416	-	-	(1,102)	(1,160)	4,953	5,134
Revenue from core Crown funding	-	-	25,535	24,782	139	187	(25,674)	(24,969)	-	-
Sales of goods and services	1,393	1,488	1,854	1,868	14,171	13,650	(552)	(534)	16,866	16,472
Interest revenue and dividends	2,452	2,325	1,429	1,249	1,043	879	(1,400)	(1,248)	3,524	3,205
Other revenue	739	839	2,414	2,090	822	772	(360)	(281)	3,615	3,420
Total Revenue (excluding gains)	**72,213**	**67,093**	**36,294**	**35,405**	**16,175**	**15,488**	**(29,669)**	**(28,787)**	**95,013**	**89,199**
Expenses										
Transfer payments and subsidies	23,723	23,360	-	-	-	-	-	-	23,723	23,360
Personnel expenses	6,552	6,232	11,660	11,315	2,935	2,956	(23)	(19)	21,124	20,484
Other operating expenses	38,305	37,962	23,750	22,387	10,994	10,791	(28,187)	(27,542)	44,862	43,598
Interest expenses	3,783	3,620	221	219	1,280	1,161	(721)	(600)	4,563	4,400
Total Expenses (excluding losses)	**72,363**	**71,174**	**35,631**	**33,921**	**15,209**	**14,908**	**(28,931)**	**(28,161)**	**94,272**	**91,842**
Minority interest share of operating balance before gains/losses	-	-	21	18	(384)	(194)	36	17	(327)	(159)
Operating Balance before gains and losses (excluding minority interests)	**(150)**	**(4,081)**	**684**	**1,502**	**582**	**386**	**(702)**	**(609)**	**414**	**(2,802)**
Gains/(losses) and other items	4,029	4,373	2,102	1,414	107	42	(881)	(88)	5,357	5,741
Operating Balance	**3,879**	**292**	**2,786**	**2,916**	**689**	**428**	**(1,583)**	**(697)**	**5,771**	**2,939**
Assets										
Financial assets	88,754	80,743	45,257	41,925	22,588	21,151	(20,812)	(19,901)	135,787	123,918
Property, plant and equipment	32,289	30,963	61,416	56,802	30,852	28,541	1	-	124,558	116,306
Investments in associates, CEs and SOEs	34,883	32,543	9,790	8,627	565	192	(33,320)	(31,291)	11,918	10,071
Other assets	2,787	2,817	1,281	1,149	2,404	2,598	(32)	(35)	6,440	6,529
Total Assets	**158,713**	**147,066**	**117,744**	**108,503**	**56,409**	**52,482**	**(54,163)**	**(51,227)**	**278,703**	**256,824**
Liabilities										
Borrowings	95,549	89,090	5,640	5,155	28,437	26,185	(17,046)	(17,011)	112,580	103,419
Other liabilities	29,762	29,300	44,766	43,801	7,572	7,245	(8,213)	(7,638)	73,887	72,708
Total Liabilities	**125,311**	**118,390**	**50,406**	**48,956**	**36,009**	**33,430**	**(25,259)**	**(24,649)**	**186,467**	**176,127**
Net Worth	**33,402**	**28,676**	**67,338**	**59,547**	**20,400**	**19,052**	**(28,904)**	**(26,578)**	**92,236**	**80,697**
Cost of Acquisition of Physical Assets (Cash)	**1,999**	1,664	**2,882**	2,535	**2,085**	1,958	(14)	(3)	**6,952**	6,154

Notes to the Financial Statements

Note 1: Basis of Reporting

Statement of compliance

These financial statements have been prepared in accordance with the Public Finance Act 1989 and with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as defined in the Financial Reporting Act 2013.

These financial statements, including the comparatives, have been prepared in accordance with Public Sector PBE Accounting Standards (PBE Standards) – Tier 1. These standards are based on International Public Sector Accounting Standards (IPSAS). Previously published financial statements have been prepared in accordance with NZ equivalents to International Financial Reporting Standards as appropriate for public benefit entities (NZ IFRS (PBE)). The impact of moving from NZ IFRS (PBE) to PBE Standards was not significant. This is due to a strong degree of convergence between the two suites of standards.

For the purposes of these financial statements, the Government reporting entity has been designated as a public benefit entity (PBE). Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

The use of public resources by the Government is primarily governed by the Public Finance Act 1989, the State Sector Act 1988, the Crown Entities Act 2004 and the State-Owned Enterprises Act 1986.

These financial statements were authorised for issue by the Minister of Finance on 30 September 2015.

Reporting period

The reporting period for these Financial Statements is the year ended 30 June 2015.

Where necessary, the financial information for SOEs 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 Financial Statements of the Government. Such entities are primarily in the education sector.

Basis of preparation

These financial statements have been prepared on the basis of historic cost modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the Statement of Cash Flows).

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, revenue 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.

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 in the following notes.

For significant accounting policies refer to note 35.

Note 2: Government Reporting Entity as at 30 June 2015

Reporting entity

The Government reporting entity 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 of the Government reporting entity" and the description "Financial Statements of the Government" have the same meaning and can be used interchangeably.

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 and 4A of the Public Finance Act 1989
- Organisations listed in Schedule 5 of the Public Finance Act 1989
- Legal entities listed in Schedule 6 of the Public Finance Act 1989

The Crown has a full residual interest in all the above entities with the exception of Air New Zealand Limited, Tāmaki Redevelopment Company Limited and the entities listed in Schedule 5 of the Public Finance Act 1989 (Mixed Ownership Model Companies).

Corresponding assets, liabilities, revenue 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 controlled entities 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 note 20 to the financial statements. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

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

Note 2: Government Reporting Entity as at 30 June 2015 (continued)

These financial statements are for the Government Reporting entity as specified in Part 3 of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (classified in the three institutional components used for segmental reporting):

Core Crown

Departments

Crown Law Office
Department of Conservation
Department of Corrections
Department of Internal Affairs
Department of the Prime Minister and Cabinet (Includes Canterbury Earthquake Recovery Authority as a departmental agency)
Education Review Office
Government Communications Security Bureau
Inland Revenue Department
Land Information New Zealand
Ministry for Culture and Heritage
Ministry for Primary Industries
Ministry for the Environment
Ministry of Business, Innovation and Employment
Ministry of Defence
Ministry of Education
Ministry of Foreign Affairs and Trade
Ministry of Health
Ministry of Justice
Ministry of Māori Development
Ministry of Pacific Island Affairs
Ministry of Social Development
Ministry of Transport
Ministry of Women's Affairs
New Zealand Customs Service
New Zealand Defence Force
New Zealand Police
New Zealand Security Intelligence Service
Office of the Clerk of the House of Representatives
Parliamentary Counsel Office
Parliamentary Service
Serious Fraud Office
State Services Commission
Statistics New Zealand
The Treasury

Offices of Parliament

Controller and Auditor-General
The Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
Kiwirail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Learning Media Limited (in liquidation)
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act schedule 5 companies)

Genesis Energy Limited
Meridian Energy Limited
Mighty River Power Limited

Others

Air New Zealand Limited

Note 2: Government Reporting Entity as at 30 June 2015 (continued)

Crown entities

Accident Compensation Corporation
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Careers New Zealand
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Families Commission
Financial Markets Authority
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,416)
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary Education Institutions (29)
Testing Laboratory Registration Council
Transport Accident Investigation Commission
WorkSafe New Zealand

Note 2: Government Reporting Entity as at 30 June 2015 (continued)

Crown entities (continued)

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust
Asia New Zealand Foundation
Fish and Game Councils (12)
Game Animal Council
Leadership Development Centre Trust
Māori Trustee
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngāi Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Reserves Boards (20)
Sentencing Council
Te Ariki Trust

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act schedule 4A companies)

Crown Asset Management Limited
Crown Fibre Holdings Limited
Education Payroll Limited
Fairway Resolution Limited
Health Benefits Limited
Research and Education Advanced Network New Zealand Limited
Southern Response Earthquake Services Limited
Tāmaki Redevelopment Company Limited
The Network for Learning Limited

Legal entities created by Treaty of Waitangi settlement Acts (Public Finance Act schedule 6)

Te Urewera

Subsidiaries of SOEs, Crown entities and other government entities are consolidated by their parents and not listed separately in this table.

Note 3: Sovereign Revenue (Accrual)

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Direct Income Tax Revenue (accrual)		
		Individuals		
25,224	25,114	Source deductions	25,309	23,738
5,428	5,661	Other persons	5,848	5,247
(1,395)	(1,517)	Refunds	(1,595)	(1,515)
512	519	Fringe benefit tax	514	489
29,769	**29,777**	**Total individuals**	**30,076**	**27,959**
		Corporate Tax		
9,555	9,838	Gross companies tax	9,972	9,020
(207)	(152)	Refunds	(143)	(192)
481	486	Non-resident withholding tax	470	428
2	(2)	Foreign-source dividend withholding payments	(3)	8
9,831	**10,170**	**Total corporate tax**	**10,296**	**9,264**
		Other Direct Income Tax		
2,007	1,777	Resident withholding tax on interest revenue	1,830	1,644
495	523	Resident withholding tax on dividend revenue	543	446
2,502	**2,300**	**Total other direct income tax**	**2,373**	**2,090**
42,102	**42,247**	**Total direct income tax**	**42,745**	**39,313**
		Indirect Income Tax Revenue (accrual)		
		Goods and Services Tax		
29,392	28,519	Gross goods and services tax	28,123	27,208
(11,630)	(11,312)	Refunds	(10,954)	(11,191)
17,762	**17,207**	**Total goods and services tax**	**17,169**	**16,017**
		Other Indirect Taxation		
1,268	1,265	Road user charges	1,283	1,205
936	972	Petroleum fuels excise - domestic production	1,018	865
681	665	Alcohol excise - domestic production	651	650
286	307	Tobacco excise - domestic production	310	273
766	716	Petroleum fuels excise - imports[1]	721	747
255	259	Alcohol excise - imports[1]	259	242
1,108	1,154	Tobacco excise - imports[1]	1,197	999
155	169	Other customs duty	214	172
209	217	Gaming duties	214	211
195	199	Motor vehicle fees	181	187
65	48	Approved issuer levy and cheque duty	57	52
36	37	Energy resources levies	36	35
5,960	**6,008**	**Total other indirect taxation**	**6,141**	**5,638**
23,722	**23,215**	**Total indirect taxation**	**23,310**	**21,655**
65,824	**65,462**	**Total taxation revenue**	**66,055**	**60,968**
		Other Sovereign Revenue (accrual)		
3,172	3,303	ACC levies	3,276	3,600
348	355	Fire service levies	351	346
282	280	EQC levies	281	274
279	306	Child support and working for families penalties	283	290
102	112	Court fines	110	111
498	573	Other miscellaneous items	652	513
4,681	**4,929**	**Total other sovereign revenue**	**4,953**	**5,134**
70,505	**70,391**	**Total sovereign revenue**	**71,008**	**66,102**

1 Customs excise-equivalent duty.

Note 3: Sovereign Receipts (Cash)

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Direct Income Tax Receipts (cash)		
		Individuals		
25,074	24,982	Source deductions	25,128	23,621
5,964	5,949	Other persons	6,044	5,466
(2,211)	(2,111)	Refunds	(2,275)	(2,276)
510	517	Fringe benefit tax	498	482
29,337	**29,337**	**Total individuals**	**29,395**	**27,293**
		Corporate Tax		
9,963	10,050	Gross companies tax	10,484	9,374
(703)	(544)	Refunds	(600)	(563)
480	517	Non-resident withholding tax	532	405
2	(4)	Foreign-source dividend withholding payments	(5)	-
9,742	**10,019**	**Total corporate tax**	**10,411**	**9,216**
		Other Direct Income Tax		
2,005	1,776	Resident withholding tax on interest revenue	1,810	1,629
495	523	Resident withholding tax on dividend revenue	542	449
2,500	**2,299**	**Total direct other income tax**	**2,352**	**2,078**
41,579	**41,655**	**Total direct income tax**	**42,158**	**38,587**
		Indirect Tax Receipts (cash)		
		Goods and Services Tax		
28,504	27,799	Gross goods and services tax	27,609	26,596
(11,130)	(10,812)	Refunds	(10,900)	(10,948)
17,374	**16,987**	**Total goods and services tax**	**16,709**	**15,648**
		Other Indirect Taxation		
1,268	1,265	Road user charges	1,283	1,187
936	972	Petroleum fuels excise - domestic production	988	861
681	665	Alcohol excise - domestic production	652	651
286	307	Tobacco excise - domestic production	284	268
2,284	2,298	Customs duty	2,395	2,179
209	217	Gaming duties	214	208
195	199	Motor vehicle fees	173	178
65	48	Approved issuer levy and cheque duty	53	51
36	37	Energy resources levies	36	35
5,960	**6,008**	**Total other indirect taxation**	**6,078**	**5,618**
23,334	**22,995**	**Total indirect taxation**	**22,787**	**21,266**
64,913	**64,650**	**Total tax receipts collected**	**64,945**	**59,853**
		Other Sovereign Receipts (cash)		
3,174	3,154	ACC levies	3,170	3,579
348	355	Fire service levies	351	340
282	287	EQC levies	281	273
252	207	Child support and working for families penalties	208	219
137	152	Court fines	148	149
452	487	Other miscellaneous items	573	414
4,645	**4,642**	**Total other sovereign receipts**	**4,731**	**4,974**
69,558	**69,292**	**Total sovereign receipts**	**69,676**	**64,827**

Note 4: Sales of Goods and Services

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
8,516	7,992	Sales of goods	8,289	8,153
8,575	8,633	Rendering of services	8,577	8,319
17,091	**16,625**	**Total sales of goods and services**	**16,866**	**16,472**

Note 5: Interest Revenue and Dividends

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
601	596	Student loans (interest unwind)	604	579
1,213	1,337	Other financial assets classified as amortised cost or available for sale	1,348	1,220
7	3	Financial assets classified as held for trading	6	13
1,310	1,007	Financial assets classified as fair value through the operating balance	844	734
3,131	**2,943**	**Total interest revenue**	**2,802**	**2,546**
571	652	Dividends	722	659
3,702	**3,595**	**Total interest revenue and dividends**	**3,524**	**3,205**

Student loans are advanced on an interest-free basis, therefore they are discounted to reflect their fair value. The interest unwind reflects the increase in value as the period to repayment reduces.

Note 6: Other Revenue

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
1,299	1,269	Rental revenue	1,272	1,230
387	316	Sale of royalties	293	383
14	22	EQC insurance claim on reinsurers	(44)	(123)
2,142	1,987	Other revenue	2,094	1,930
3,842	**3,594**	**Total other revenue**	**3,615**	**3,420**

The negative revenue result above represents a re-estimation of the revenue EQC is expected to receive from reinsurance.

Note 7: Transfer Payments and Subsidies

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Social Assistance Grants		
11,590	11,589	New Zealand superannuation	11,591	10,913
1,648	1,686	Jobseeker support and emergency benefit	1,684	1,691
1,518	1,512	Supported living payment	1,515	1,422
1,243	1,186	Sole parent support	1,186	1,222
1,934	1,857	Family tax credit	1,854	1,965
527	550	Other working for families tax credits	549	462
1,141	1,128	Accommodation assistance	1,129	1,146
718	718	Income related rent subsidy	703	726
373	377	Disability allowances	377	379
531	520	Student allowances	511	539
1,293	1,310	Other social assistance benefits	1,255	1,558
22,516	**22,433**	**Total social assistance grants**	**22,354**	**22,023**
		Subsidies		
827	882	KiwiSaver subsidies	856	804
		Other transfer payments		
533	531	Official development assistance	513	533
23,876	**23,846**	**Total transfer payments and subsidies**	**23,723**	**23,360**

Note 8: Personnel Expenses

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
19,412	19,647	Salaries and wages	19,851	19,318
428	380	Costs incurred on GSF and other defined benefit plans	375	310
310	380	Costs incurred on defined contribution plans (e.g. KiwiSaver)	446	424
731	775	Other personnel expenses	452	432
20,881	**21,182**	**Total personnel expenses**	**21,124**	**20,484**

Key management personnel compensation was $10 million (2014: $9 million). This reflects salaries, benefits and allowances. 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 Council. 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 (eg, travel discounts) can be found on the New Zealand Parliament website (www.parliament.nz).

Note 9: Depreciation and Amortisation

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
3,215	3,515	Depreciation expense (refer to note 19)	3,873	3,805
1,667	1,340	Amortisation and impairment of non-financial assets	969	1,067
4,882	**4,855**	**Total depreciation and amortisation**	**4,842**	**4,872**

Note 10: Other Operating Expenses

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
4,878	4,838	Grants and subsidies	4,566	4,982
1,135	1,196	Rental and leasing costs	1,188	1,122
1,288	1,313	Impairment of financial assets	1,243	1,141
797	701	Cost of concessionary lending	696	751
569	472	Lottery prize payments	473	526
229	213	Inventory expenses	459	550
4	4	Fees paid to audit firms other than the Auditor-General (refer below)	4	2
28,193	27,788	Other operating expenses	27,281	26,151
37,093	**36,525**	**Total other operating expenses**	**35,910**	**35,225**

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.

Audit fees paid to the Controller and Auditor-General

Fees paid to the Controller and Auditor-General for the financial statements of the Government and its reporting entities were $40 million (2014: $39 million). Fees for assurance and related services paid to the Controller and Auditor-General were $1 million (2014: $1 million). As the Controller and Auditor-General is part of the Government reporting entity these fees are eliminated on consolidation.

Note 11: Interest Expenses

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
4,491	4,479	Financial liabilities classified as amortised cost	4,330	4,100
230	154	Financial liabilities classified as fair value through the operating balance	192	260
42	56	Interest unwind on provisions	41	40
4,763	**4,689**	**Total interest expenses**	**4,563**	**4,400**

Note 12: Insurance Expenses

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		By entity		
3,561	3,783	Accident Compensation Corporation (ACC)	4,104	3,484
34	(59)	Earthquake Commission (EQC)	(357)	(111)
(89)	286	Southern Response	335	87
11	13	Other	28	41
3,517	**4,023**	**Total insurance expenses**	**4,110**	**3,501**

At 30 June 2015 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. Note 32 contains further discussion on total costs of the earthquakes to the Crown.

The remainder of note 12 provides additional information on the insurance expenses for ACC.

An analysis of the insurance liabilities is provided in note 23. Given the uncertainty over the cost of outstanding insurance claims, it is likely that the final cost will be different from the original liability established.

Analysis of ACC Insurance Expense	Actual 30 June 2015 $m	Actual 30 June 2014 $m
By type		
Claims expense	5,593	3,223
Movement in unearned premium deficiency liability	265	159
Other underwriting expenses	101	99
Total ACC claims and other expenses	**5,959**	**3,481**
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss)	(1,352)	479
Operating costs relating to claims	(503)	(476)
Total ACC insurance expenses (excluding gains/(losses) and operations)	**4,104**	**3,484**

Note 12: Insurance Expenses (continued)

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 2015 $m	30 June 2014 $m
ACC Claims Incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	7,510	7,578
Discount and discount movement	(3,913)	(4,418)
Total current year net claims incurred	**3,597**	**3,160**
Previous years' net ACC claims incurred		
Reassessment of gross claims and expenses – undiscounted	(8,051)	(4,490)
Discount and discount movement	10,047	4,553
Total previous years' net claims incurred	**1,996**	**63**
ACC claims expense	**5,593**	**3,223**

The underwriting surplus/(deficit) below represents the net effect on the statement of financial performance from claims incurred and premiums levied during the year. It includes actuarial gains/(losses).

	Actual	
	30 June 2015 $m	30 June 2014 $m
Net ACC Underwriting Result		
Premium revenue (refer to note 3)	3,276	3,600
Recoveries revenue (including reinsurance recovery)	-	-
ACC underwriting revenue	**3,276**	**3,600**
Less claims and other expenses	(5,959)	(3,481)
Net ACC underwriting surplus/(deficit)	**(2,683)**	**119**
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	3,170	3,579
Cash payments	(3,057)	(2,778)
Net ACC operating cash flows	**113**	**801**

Note 13: Gains and Losses on Financial Instruments

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
6	729	Foreign exchange gains on financial assets and financial liabilities measured at amortised cost	1,449	200
13	(148)	Foreign exchange losses on financial assets and financial liabilities measured at amortised cost	(241)	(500)
1	(1)	Change in fair value of financial assets and financial liabilities classified as held for trading	(1)	9
(5)	32	Gains/(losses) on disposal of financial assets and financial liabilities measured at amortised cost	6	(13)
1,497	6,392	Change in fair value of financial assets and financial liabilities classified as fair value through the operating balance	10,029	(705)
1,512	**7,004**	**Net gains/(losses) on financial assets and financial liabilities**	**11,242**	**(1,009)**
1,071	(983)	Net gain/(loss) on derivatives	(5,046)	5,829
2,583	**6,021**	**Net gains/(losses) on financial instruments**	**6,196**	**4,820**

Note 14: Gains and Losses on Non-Financial Instruments

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
-	(4,232)	Actuarial gains/(losses) on ACC outstanding claims	(1,352)	479
-	(2,049)	Actuarial gains/(losses) on GSF liability	(322)	577
-	(332)	Foreign exchange gains/(losses)	(368)	(328)
(82)	7	Gains/(losses) on disposal or revaluation of property, plant and equipment	401	(210)
-	55	Other gains/(losses) on non-financial instruments	(8)	22
(82)	**(6,551)**	**Net gains/(losses) on non-financial instruments**	**(1,649)**	**540**

The GSF and ACC liabilities are valued by an independent actuary (refer notes 23 and 24). Actuarial gains/(losses) represent differences between actual results and what the actuary had assumed when previously calculating the liability and the effect of changes in actuarial assumptions (experience adjustments).

Note 15: Receivables

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
8,664	8,884	Tax receivables	8,957	8,772
2,746	2,865	ACC levy receivables	2,755	2,979
300	292	Other levies, fines and penalty receivables	254	286
465	504	Social benefit receivables	566	530
12,175	12,545	**Sovereign receivables**	12,532	12,567
66	756	Reinsurance receivables (refer to note 23)	1,064	1,409
4,369	4,170	Trade and other receivables	4,006	4,245
16,610	**17,471**	**Total receivables**	**17,602**	**18,221**
		By maturity		
15,245	14,994	Expected to be realised within one year	15,302	15,024
1,365	2,477	Expected to be outstanding for more than one year	2,300	3,197
16,610	**17,471**	**Total receivables**	**17,602**	**18,221**

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 actively managed.

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

Note 15: Receivables (continued)

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Tax Receivables		
Gross tax receivable	13,172	13,250
Impairment of tax receivables	(4,215)	(4,478)
Total tax receivables	**8,957**	**8,772**
Gross Tax Receivable		
Current	8,019	7,779
Past due	5,153	5,471
Total gross tax receivable	**13,172**	**13,250**
% past due	39.1%	41.3%
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	975	931
Between six months and one year	337	390
Between one year and two years	680	719
Greater than two years	3,161	3,431
Total tax receivables past due (Gross)	**5,153**	**5,471**
Impairment of Tax Receivables		
Opening balance	4,478	4,382
Impairment losses recognised during the year	868	1,030
Amounts written off as uncollectible	(1,131)	(934)
Closing balance	**4,215**	**4,478**
Net Tax Receivable		
Current	7,959	7,725
Past due	998	1,047
Total net tax receivable	**8,957**	**8,772**

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 (6.0%). 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.

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 (eg, 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.

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

Note 15: Receivables (continued)

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
ACC Levy Receivables		
Gross ACC levy receivables	2,848	3,063
Impairment of ACC levy receivables	(93)	(84)
Total ACC levy receivables	**2,755**	**2,979**

ACC levy receivables are short term, so their carrying amount provides a reasonable approximation of their fair value.

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Other Levies, Fines and Penalty Receivables		
Gross other levies, fines and penalty receivables	2,757	2,781
Impairment of other levies, fines and penalty receivables	(2,503)	(2,495)
Total other levies, fines and penalty receivables	**254**	**286**

Other levies, fines and penalty receivables comprise debtor portfolios administered by Ministry of Justice (ie, court fines) and IRD (ie, child support). These receivables are recorded at fair value, which on initial recognition represent the face value of the amount owed to the Crown, adjusted to reflect the amount expected to be recoverable. For the current year the initial adjustment from face value to fair value of these receivables was $293 million ($323 million in 2013/14), with the majority of the adjustment relating to child support debt administered by Inland Revenue ($226 million).

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Social Benefit Receivables		
Gross social benefit receivables	1,354	1,239
Impairment of social benefit receivables	(788)	(709)
Total social benefit receivables	**566**	**530**

Social benefit receivables comprise benefit overpayments, advances on benefits and recoverable special needs grants primarily administered by the Ministry of Social Development. Their carrying amount provides a reasonable approximation of their fair value.

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Trade and Other Receivables		
Gross trade and other receivables	4,074	4,337
Impairment of trade and other receivables	(68)	(92)
Total trade and other receivables	**4,006**	**4,245**

Trade and other receivables are relatively short term, with $3,736 million (2014: $4,055 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

Note 16: Marketable securities, deposits and derivatives in gain

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		By type		
35,391	37,616	Marketable securities	43,770	38,307
1,986	3,046	Long term deposits	5,214	3,844
2,797	3,303	Derivatives in gain	3,015	4,164
2,557	2,504	IMF financial assets	2,299	2,142
42,731	**46,469**	**Total marketable securities, deposits and derivatives in gain**	**54,298**	**48,457**
		By maturity		
23,765	30,081	Expected to be realised within one year	35,006	30,433
18,966	16,388	Expected to be held for more than one year	19,292	18,024
42,731	**46,469**	**Total marketable securities, deposits and derivatives in gain**	**54,298**	**48,457**

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 30.

Note 17: Share Investments

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		By maturity		
11,643	13,851	Expected to be realised within one year	15,161	11,428
9,591	10,675	Expected to be held for more than one year	10,247	9,168
21,234	**24,526**	**Total share investments**	**25,408**	**20,596**

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 30.

Note 18: Advances

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		By type		
16,361	16,037	Kiwibank mortgages	15,598	14,630
9,024	8,878	Student loans	8,864	8,716
1,241	2,058	Other advances	2,035	1,410
26,626	**26,973**	**Total advances**	**26,497**	**24,756**

Further information on the management of risks associated with these financial assets is provided in note 30.

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Kiwibank Loans and Advances		
		By maturity		
1,327	1,123	Expected to be repaid within one year	1,059	1,102
15,034	14,914	Expected to be outstanding for more than one year	14,539	13,528
16,361	**16,037**	**Total Kiwibank Loans and Advances**	**15,598**	**14,630**
		Impairment of Kiwibank Loans and Advances		
		Opening balance	59	72
		Impairment losses recognised on mortgages	17	3
		Amounts written off as uncollectible	(19)	(9)
		Impairment losses reversed	(4)	(7)
		Closing balance	**53**	**59**
		Collective impairment allowance	41	37
		Individual impairment allowance	12	22
		Impairment of Kiwibank Loans and Advances	**53**	**59**
		Ageing of Kiwibank Loans Past Due But Not Impaired		
		Less than six months	134	142
		Between six months and one year	-	-
		Greater than one year	-	-
		Total Kiwibank loans past due but not impaired	**134**	**142**

Kiwibank loans are measured at amortised cost. This fair value 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 loans is $15,704 million (2014: $14,613 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 18: Advances (continued)

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Student Loans		
14,790	14,802	Nominal value	14,837	14,235
(5,766)	(5,924)	Write-down on initial recognition and impairment	(5,973)	(5,519)
9,024	**8,878**	**Total student loans**	**8,864**	**8,716**
		Gross carrying value	10,580	10,163
		Impairment of student loans	(1,716)	(1,447)
		Total student loans	**8,864**	**8,716**
		By maturity		
		Expected to be repaid within one year	1,122	1,193
		Expected to be outstanding for more than one year	7,742	7,523
		Total student loans	**8,864**	**8,716**
		Movement During the Year		
8,752	8,716	Opening balance	8,716	8,288
1,586	1,529	Net new lending (excluding fees)	1,518	1,512
11	10	New lending - establishment fee	11	11
(668)	(606)	Initial write-down to fair value	(602)	(630)
(1,158)	(1,114)	Repayments made during the year	(1,114)	(1,032)
601	596	Interest unwind	604	579
(100)	(253)	Impairment losses (recognised)/reversed during the year	(269)	(12)
-	-	Other movements	-	-
9,024	**8,878**	**Closing balance student loans**	**8,864**	**8,716**
		Impairment of Student Loans		
		Opening balance	1,447	1,435
		Impairment losses recognised during the year	269	12
		Amounts written off as uncollectible	-	-
		Impairment losses reversed	-	-
		Closing balance	**1,716**	**1,447**

The student loan scheme is intended to provide a cost effective means of enabling a wide range of people to access tertiary education, gaining knowledge and skills that enhance the economic and social wellbeing of New Zealand. No interest on loans to New Zealand residents is charged and there are no repayments required from those with very low incomes. Loans of those who die or become bankrupt are written off.

Student loans are recognised initially by writing the amount lent down to fair value plus transaction costs. Subsequently student loans are measured at amortised cost using the effective interest method, and including the annual impairment figure.

Fair value on initial recognition of student loans is determined by projecting forward estimated repayments from borrowers under the scheme and discounting them back at an appropriate discount rate.

Note 18: Advances (continued)

	Actual 30 June 2015	Actual 30 June 2014
Significant assumptions behind the carrying value are:		
Effective interest rate - weighted average	7.0%	7.1%
Interest rate applied to loans for overseas borrowers	4.5%-6.2%	5.1%-6.2%
CPI	0.3%-2.5%	1.8%-2.5%
Future salary inflation	2.3%-3.5%	2.8%-3.5%

In contrast to 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 2015. It is determined by discounting the cash flows at an appropriate discount rate.

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Fair value of the student loan portfolio	9,267	8,924
Impact on fair value of a 1% increase in discount rate	(492)	(448)
Impact on fair value of a 1% decrease in discount rate	554	501

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 2015. At that date the fair value was calculated on a discount rate (including expenses) of 6.2% (2014: 6.6%) whereas a weighted average effective interest rate of 7.0% (2014: 7.1%) 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.

For the year ended 30 June 2015	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
Gross carrying amount											
Opening balance 1 July 2014	**129,449**	37,139	28,952	19,702	14,275	5,183	3,028	3,471	2,304	1,364	14,031
Additions	**7,229**	293	1,968	1,637	149	280	458	26	635	218	1,565
Disposals	**(1,211)**	(255)	(156)	(61)	(25)	(49)	(3)	(7)	(48)	-	(607)
Net revaluations	**3,064**	2,869	(167)	(400)	462	-	-	32	268	-	-
Other	**150**	(134)	106	156	134	(53)	1	(1)	132	(24)	(167)
Total gross carrying amount	**138,681**	**39,912**	**30,703**	**21,034**	**14,995**	**5,361**	**3,484**	**3,521**	**3,291**	**1,558**	**14,822**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2014	**13,143**	-	1,556	(7)	334	1,191	138	496	17	428	8,990
Eliminated on disposal	**(655)**	-	(77)	7	(19)	(15)	-	(6)	(13)	-	(532)
Eliminated on revaluation	**(2,159)**	-	(960)	(523)	(517)	-	-	-	(159)	-	-
Impairment losses charged to operating balance	**78**	-	60	-	82	-	-	-	2	118	(184)
Depreciation expense	**3,873**	-	1,270	523	432	174	293	27	210	26	918
Other	**(157)**	-	(60)	-	(56)	(96)	(27)	-	(38)	3	117
Total accumulated depreciation	**14,123**	**-**	**1,789**	**-**	**256**	**1,254**	**404**	**517**	**19**	**575**	**9,309**
Carrying value as at 30 June 2015	**124,558**	**39,912**	**28,914**	**21,034**	**14,739**	**4,107**	**3,080**	**3,004**	**3,272**	**983**	**5,513**
By holding											
Leasehold	**2,557**	9	202	-	2	-	-	-	2,284	-	60
Public Private Partnerships	**582**	22	398	162	-	-	-	-	-	-	-
Freehold (excluding PPP)	**121,419**	39,881	28,314	20,872	14,737	4,107	3,080	3,004	988	983	5,453
	124,558	**39,912**	**28,914**	**21,034**	**14,739**	**4,107**	**3,080**	**3,004**	**3,272**	**983**	**5,513**

The total amount of property, plant and equipment under construction is $1,745 million.

For the year ended 30 June 2014	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
Gross carrying amount											
Opening balance 1 July 2013	**122,796**	34,453	28,277	17,930	13,611	4,930	3,094	3,073	2,312	1,275	13,841
Additions	**6,672**	286	1,669	1,599	839	320	350	65	431	136	977
Disposals	**(1,432)**	(320)	(176)	(83)	(3)	(100)	(4)	(11)	(27)	-	(708)
Net revaluations	**2,145**	3,340	(904)	257	(89)	-	(417)	344	(367)	(20)	1
Other[1]	**(732)**	(621)	86	(1)	(83)	33	6	-	(45)	(27)	(80)
Total gross carrying amount	**129,449**	**37,138**	**28,952**	**19,702**	**14,275**	**5,183**	**3,029**	**3,471**	**2,304**	**1,364**	**14,031**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2013	**12,963**	-	2,493	-	56	1,065	-	456	16	240	8,637
Eliminated on disposal	**(813)**	-	(83)	-	(2)	(49)	-	(9)	(20)	-	(650)
Eliminated on revaluation	**(3,026)**	-	(2,100)	(466)	(129)	-	(144)	24	(211)	-	-
Impairment losses charged to operating balance	**346**	-	4	-	-	-	-	-	-	185	157
Depreciation expense	**3,805**	-	1,213	460	404	175	282	25	260	20	966
Other	**(132)**	-	29	(1)	5	-	-	-	(28)	(17)	(120)
Total accumulated depreciation	**13,143**	**-**	**1,556**	**(7)**	**334**	**1,191**	**138**	**496**	**17**	**428**	**8,990**
Carrying value as at 30 June 2014	**116,306**	**37,138**	**27,396**	**19,709**	**13,941**	**3,992**	**2,891**	**2,975**	**2,287**	**936**	**5,041**
By holding											
Leasehold	**1,970**	-	227	-	2	-	-	-	1,704	-	37
Public Private Partnerships	**313**	13	300	-	-	-	-	-	-	-	-
Freehold (excluding PPP)	**114,023**	37,125	26,869	19,709	13,939	3,992	2,891	2,975	583	936	5,004
	116,306	**37,138**	**27,396**	**19,709**	**13,941**	**3,992**	**2,891**	**2,975**	**2,287**	**936**	**5,041**

The total amount of property, plant and equipment under construction is $1,827 million.

1. "Other" mainly includes transfers to/from other asset categories (for example Assets held for sale).

Note 19: Property, Plant and Equipment (continued)

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. Property, plant and equipment owned by SOEs and mixed ownership companies has been pledged to secure borrowings and finance lease obligations of $2,827 million (2014: $1,836 million).

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 (ie, national parks, forest parks, conservation areas and recreational facilities) is included in the Land category.

Land and Buildings

Breakdown of land and buildings (total valuation over $500m)

30 June 2015	Actual Land $m	Actual Buildings $m	Actual Total $m
Housing stock	12,976	7,931	20,907
School property	3,420	8,843	12,263
State highway corridor land	9,307	9	9,316
Conservation estate	5,521	93	5,614
Hospitals	891	4,214	5,105
Rail network corridor land	3,360	-	3,360
Prisons and Department of Corrections	141	1,977	2,118
Defence Force land and buildings	620	1,214	1,834
Landcorp farmland and buildings	1,173	127	1,300
Ministry of Justice land and buildings	443	607	1,050
Police stations	163	531	694
Other	1,897	3,368	5,265
Total land and buildings	**39,912**	**28,914**	**68,826**

30 June 2014	Actual Land $m	Actual Buildings $m	Actual Total $m
Housing stock	11,361	7,307	18,668
School property	3,167	8,385	11,552
State highway corridor land	8,853	10	8,863
Conservation estate	5,432	59	5,491
Hospitals	782	4,093	4,875
Rail network corridor land	3,256	-	3,256
Prisons and Department of Corrections	167	1,947	2,114
Defence Force land and buildings	621	1,227	1,848
Landcorp farmland and buildings	1,109	121	1,230
Ministry of Justice land and buildings	423	495	918
Police stations	150	522	672
Other	1,817	3,230	5,047
Total land and buildings	**37,138**	**27,396**	**64,534**

Note 19: Property, Plant and Equipment (continued)

Description	Valuer/Reviewer	Approach	Timing
Housing stock	Quotable Value NZ Limited	Valuations based on market evidence.	Annual valuation with the latest completed as at 30 June 2015.
School property	Quotable Value Limited or experienced staff (reviewed by Quotable Value Limited)	Valuations based on market evidence where possible, or optimised depreciated replacement cost (ODRC).	Annual valuation with the latest completed as at 30 June 2015.
State highway corridor land and held properties	Darroch Ltd, a registered property valuation company, peer reviewed by Opus International Consultants Ltd with NZTA.	Valued using opportunity cost based on adjacent use as an approximation to fair value, or where fair value is not able to be reliably determined using market based evidence, DRC is used to determine fair value. Held properties are valued using opportunity cost based on adjacent use as an approximation to fair value, or a discounted cash flow calculation. Where fair value is not able to be reliably determined using market based evidence the cost approach is used to determine 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 and indexation was completed as at 30 June 2015. A selected valuation is completed on all held properties every year. The latest valuation that was indexed was completed on 30 June 2014.
Conservation estate (national parks, forest parks, conservation areas, reserves)	Corelogic 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 calculated average per hectare rate.	Annual valuation with the latest completed as at 30 June 2015.
Hospitals	Each District Health Board uses an independent valuer	Land values were based on market evidence while buildings were valued at ODRC.	Each DHB revalues land and buildings on a three to five year cycle with varying valuation dates.
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 2015.
NZ Defence Force Land and Buildings	Beca Valuations Limited and updated internally by NZ Defence Force for buildings	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 independent land and buildings valuation completed as at 30 June 2013 and buildings internally updated valuation completed as at 31 December 2013.

Note 19: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

	Actual 30 June 2015 $m	30 June 2014 $m
National Library	1,007	1,005
Te Papa	876	833
National Archives	624	623
Conservation	450	459
Other	47	55
	3,004	**2,975**

Description	Valuer/Reviewer	Approach	Timing
National Library collections	Webbs	The collection was divided into categories by format 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.	Valuations completed cyclically with all collections valued at least once every three years with the latest full valuation completed as at 30 June 2014.
Te Papa collections	History, Photography, Library Collections: Webbs Auckland Natural History Collection: Webbs Auckland & internal experts	Photography, History and Library Collections are valued based on market value by independent valuers. The Natural History Collection is valued at replacement cost value.	Valuations completed cyclically with all collections valued at least once every three years with the latest valuations completed as at 30 June 2015.
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. Documents of exceptional value (including Treaty of Waitangi) are valued independently based on overseas market research.	Valuations completed cyclically with all collections valued at least once every three years with the latest full valuation completed as at 30 June 2014.
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.	Assets are revalued at least once every five years. Buildings, structures, campsites and signs were valued at fair value effective as at 30 June 2014.

There are difficulties associated with obtaining an objective valuation for the specified cultural and heritage assets of the Government. For example, Crown research institutes own various collections, library resources and databases that are an integral part of the research work they undertake. These collections are highly specialised and there is no reliable basis for establishing a valuation. They have therefore not been valued for financial reporting purposes.

Note 19: Property, Plant and Equipment (continued)

State highways

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
State highways	21,034	19,709

Description	Valuer/Reviewer	Approach	Timing
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 DRC of the existing asset database. (See below for further comments.)	A full valuation is completed yearly where the majority of assets are indexed. The latest valuation completed as at 30 June 2015.

There are some uncertainties about the values assigned to different components (formation, bridges, etc) of the state highway network. These uncertainties include whether the New Zealand Transport Agency's (NZTA) databases have accurate quantities and lives and whether there is complete capture for some cost components. Some uncertainties are inherent, but those arising from 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 and costs have not been captured in the underlying databases relied upon by the valuer.

Additional 'brownfield' costs associated with road construction in urban areas are assessed as being the most significant part of the potential undervaluation, with the remaining due to incomplete records. An allowance to recognise these costs has been included for the current and the previous years. However, historic 'brownfield' costs cannot be reliably measured and are currently excluded from the valuation.

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

Specialist military equipment

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Specialist military equipment	3,080	2,891

Description	Valuer/Reviewer	Approach	Timing
Specialist military equipment	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 31 December 2013.

Note 19: Property, Plant and Equipment (continued)

Electricity generation assets

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Meridian Energy Limited	6,990	6,700
Mighty River Power Limited	5,267	4,814
Genesis Energy Limited	2,644	2,587
Inter segment eliminations	(162)	(160)
Total electricity generation assets	**14,739**	**13,941**

Description	Valuer/Reviewer	Approach	Timing
Meridian Energy: Hydro stations, wind and solar farms	Independent valuer	Based on a revenue approach assessing both the capitalisation of earnings and the discounted cash flow methodology.	A review of the carrying values of Meridian's assets is completed annually. If this indicates the carrying value is a fair representation of fair value a full revaluation is not completed.
Mighty River Power: Hydro and Geothermal stations	Independent valuer	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 2015.
Genesis Energy: Thermal and Hydro stations and Wind farms	Internal valuation independently reviewed by an independent valuer	Based on the present value of estimated future cash flows of the assets.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2013.

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

The following tables provide information on each of the entities' key assumptions as disclosed in the individual annual reports of the individual electricity generation companies (part of the State owned enterprises segment). The electricity price path assumptions, stated below, for each electricity generation company are substantially the same. However, the Meridian Energy and Mighty River Power assumption is conveyed in real terms while Genesis Energy's assumption is in nominal terms. For further information on the valuation of electricity generations assets, refer to the individual annual reports of each entity.

Note 19: Property, Plant and Equipment (continued)

Meridian Energy Limited

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Future NZ electricity price estimates	$63/MWh to $81/MWh by 2035 (in real terms)	+/- $3/MWh	$347 million / ($347 million)
Generation volume	13,159 GWh	+/- 250 GWh	$219 million / ($219 million)
Operating expenditure	$243 million pa	+/- $10 million p.a.	($128 million) / $128 million

Genesis Energy Limited

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Wholesale electricity price path	$76/MWh to $137/MWh by 2025 (in nominal terms)	+/- 10%	$527 million / ($440 million)
Generation volume	3320 GWh to 6112 GWh	+/- 10%	$527 million / ($440 million)
Discount rate	11.3% to 12.8%	+/- 1%.	$466 million / ($284 million)

Mighty River Power Limited

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Future wholesale electricity price path	$63/MWh to $97/MWh (in real terms)	+/- 10%	$800 million / ($803 million)
Discount rate	Not publicly available	+/- 0.5%	$(648 million) / $891 million
Operational expenditure	$168 million p.a.	+/- 10%	($251 million) / $251 million

Aircraft

	Actual	
	30 June 2015 $m	30 June 2014 $m
Aircraft (excluding military)	3,272	2,287

Description	Valuer/Reviewer	Approach	Timing
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 2015.

Note 19: Property, Plant and Equipment (continued)

Rail network

Recoverable amount $m	ODRC $m	30 June 2014 Carrying value $m		Recoverable amount $m	ODRC $m	30 June 2015 Carrying value $m
107	4,128	107	Network required for freight	99	4,298	99
14	719	719	Network not required for freight (including metro)	13	787	787
121	**4,847**	**826**	**Total rail infrastructure**	**112**	**5,085**	**886**
		78	Buildings			45
		32	Capital work in progress			52
		936	**Rail network**			**983**

Description	Valuer/Reviewer	Approach	Timing
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 2014 for buildings and 30 June 2015 for other rail network assets.

The rail network comprises around 4,000 kilometres of track (excluding yards and sidings) 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. The portion of 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 $200 million (2014: $204 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 $195 million (2014: $224 million) on the rail network during the year.

Note 19: Property, Plant and Equipment (continued)

Public Private Partnerships

	Actual	
	30 June 2015 $m	30 June 2014 $m
Auckland South Corrections Facility	328	239
Transmission Gully	162	-
Other	92	74
	582	**313**
Carrying value of assets by source		
Provided by private sector partner	560	300
Existing government assets	22	13
	582	**313**

A public private partnership (also known as a service concession arrangement) is an arrangement between the Government and a private sector partner. The assets in a public private partnership are recognised as assets of the Government. As the assets are progressively constructed, the Government recognises work-in-progress at cost. At the same time a financial liability of the same value is also recognised. When the assets are fully constructed, the total asset cost and the matching financial liability reflect the value of the future compensation to be provided to the private-sector partner for the assets. The Crown's obligation to pay for these assets is included in other borrowings.

Auckland South Corrections Facility

The Department of Corrections has entered into a 25 year service concession arrangement with Secure Future Wiri Limited to design, build, finance and operate a men's prison at Wiri through a Public Private Partnership. Under the agreement, the Department of Corrections has provided land to the contractor on which to build the prison. The prison commenced operations in May 2015. Responsibility for on-going operation and maintenance will revert to the Department at the end of the 25 year contract period.

Movements in carrying value for Auckland South Corrections Facility

	Actual	
Gross carrying amount	30 June 2015 $m	30 June 2014 $m
Opening balance 1 July	239	62
Assets provided by private sector partner(s)	81	174
Existing Government assets	9	-
Net revaluations	-	3
Total Gross Carrying Amount	**329**	**239**
Accumulated Depreciation and Impairment		
Opening balance 1 July	-	-
Depreciation expense	1	-
Total accumulated depreciation	1	-
Carrying value as at 30 June	**328**	**239**

Note 19: Property, Plant and Equipment (continued)

Transmission Gully Public Private Partnership

The New Zealand Transport Agency has entered into a Project Agreement with Wellington Gateway Partnership for the delivery of a new Transmission Gully State Highway through a Public Private Partnership. The Wellington Gateway Partnership will design, construct, finance, operate and maintain the piece of State Highway. Under the agreement, the New Zealand Transport Agency has provided land to the contractor on which to construct the State Highway. As the State Highway is currently under construction, no depreciation on the asset has been incurred to date. The agreement runs for 25 years after which responsibility for on-going operation and maintenance will revert to the Government.

Movements in carrying value for Transmission Gully

	Actual	
	30 June 2015	**30 June 2014**
Gross carrying amount	**$m**	**$m**
Opening balance 1 July	-	-
Assets provided by private sector partner(s)	162	-
Total Gross Carrying Amount	**162**	**-**

Note 20: Equity Accounted Investments

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
8,627	9,201	Tertiary Education Institutions	9,657	8,508
1,699	1,541	Other	2,261	1,563
10,326	**10,742**	**Total equity accounted investments**	**11,918**	**10,071**

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.

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

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Operating Results		
2,253	2,278	Revenue from Crown	2,259	2,238
2,361	2,887	Other revenue	3,085	2,533
(4,445)	(4,588)	Expenses	(4,659)	(4,528)
169	**577**	**Net surplus**	**685**	**243**
		Net worth		
		Assets		
1,392	1,364	Financial assets	1,792	1,364
8,669	8,898	Property, plant and equipment	9,173	8,535
343	810	Other assets	650	480
10,404	**11,072**	**Total assets**	**11,615**	**10,379**
		Liabilities		
193	222	Borrowings	230	222
1,584	1,649	Other liabilities	1,728	1,649
1,777	**1,871**	**Total liabilities**	**1,958**	**1,871**
8,627	**9,201**	**Net worth**	**9,657**	**8,508**

Air New Zealand's investment in Virgin Australia Holdings Limited

Air New Zealand on 4 July 2014 gained representation on the Board of Virgin Australia Holdings Limited. Until that date, this investment was treated as an investment in equity instruments as opposed to an equity accounted associate. The equity method of accounting is now applied. The value transferred from equity investments to associates is $417 million.

New Zealand Local Government Funding Agency (NZLGFA)

The Government holds $5 million of the $25 million paid-up capital of NZLGFA.

For the year ended 30 June 2015, NZLGFA recognised revenue of $222 million (2014: $149 million) and a surplus of $9 million (2014: $7 million). NZLGFA's assets and liabilities were $5,412 million (2014: $3,918 million) and $5,375 million (2014: $3,889 million) respectively. The Crown's share of the net assets is $7 million (2014: $6 million). The Crown is not a guarantor of the LGFA and has no share of any contingent liabilities of the LGFA.

Note 21: Payables

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		By type		
7,439	7,081	Accounts payable	7,599	7,591
4,435	4,419	Taxes repayable	4,354	4,526
11,874	**11,500**	**Total payables**	**11,953**	**12,117**
		By maturity		
11,154	10,690	Expected to be settled within one year	11,166	11,233
720	810	Expected to be outstanding for more than one year	787	884
11,874	**11,500**	**Total payables**	**11,953**	**12,117**

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 22: Borrowings

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		By type		
58,855	58,381	Government bonds	58,743	60,337
3,688	5,917	Treasury bills	6,734	3,147
190	179	Government retail stock	188	183
6,849	7,311	Settlement deposits with Reserve Bank	7,931	7,758
1,890	2,582	Derivatives in loss	6,261	2,245
1,994	2,088	Finance lease liabilities	1,788	1,501
30,924	31,440	Other borrowings	30,935	28,248
104,390	**107,898**	**Total borrowings**	**112,580**	**103,419**
		By maturity		
32,147	37,272	Expected to be settled within one year	39,157	39,072
72,243	70,626	Expected to be outstanding for more than one year	73,423	64,347
104,390	**107,898**	**Total borrowings**	**112,580**	**103,419**
		By guarantee		
75,602	79,702	Sovereign-guaranteed debt	84,008	77,461
28,788	28,196	Non-sovereign debt	28,572	25,958
104,390	**107,898**	**Total borrowings**	**112,580**	**103,419**

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 (refer note 29).

Other borrowings includes $4,663 million (2014: $3,958 million) of sovereign-issued debt administered by the Reserve Bank and New Zealand Debt Management Office (NZDMO). The remaining borrowings of $26,333 million (2014: $24,290 million) comprise non-sovereign-issued debt of Crown entities and SOEs, a large portion of which relates to Kiwibank deposits.

Note 22: Borrowings (continued)

Government bonds

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Government bonds measured at amortised cost	57,246	57,554
Government bonds measured at fair value	1,497	2,783
Total Government bonds	**58,743**	**60,337**

Government bonds are measured at amortised cost, unless they are managed and their performance is evaluated on a fair value basis. Where a bond 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 $61,269 million (2014: $58,523 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 government bonds are rated Aaa by Moody's and AA+ by S&P and Fitch. The rating outlook is stable with Moody's and S&P, and positive with Fitch.

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Government bonds measured at fair value		
Carrying value	1,497	2,783
Amount payable on maturity	1,345	2,630
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 amortised cost. 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.

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 act as 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 16). Settlement deposits are reported at amortised cost, 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.

Note 22: Borrowings (continued)

Other borrowings

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Other borrowings measured at amortised cost	24,273	22,943
Other borrowings measured at fair value	6,662	5,305
Total other borrowings	**30,935**	**28,248**

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 their performance is evaluated on a fair value basis.

The fair value of other borrowings measured at amortised cost is $24,345 million (2014: $22,944 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 flow 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.

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 from the amount actually payable on maturity where the effect of discounting cash flows is material.

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Other borrowings measured at fair value		
Carrying value	6,662	5,305
Amount payable on maturity	6,252	5,226
Fair value impact from changes in credit risk for the year	(356)	160
Cumulative fair value impact from changes in credit risk	(325)	22

Note 23: Insurance Liabilities

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		By entity		
30,383	35,307	ACC liability	32,518	29,948
364	2,288	EQC property damage liability	2,965	4,747
466	1,193	Southern Response liability	1,216	1,434
59	62	Other insurance liabilities	68	63
-	(331)	Inter-segment eliminations	(336)	(367)
31,272	**38,519**	**Total insurance liabilities**	**36,431**	**35,825**
		By component		
		Outstanding claims liability	34,045	33,358
		Unearned premium liability	1,867	2,196
		Unearned premium liability deficiency	519	271
		Other	-	-
		Total insurance liabilities	**36,431**	**35,825**
		By maturity		
		Expected to be settled within one year	6,950	9,706
		Expected to be outstanding for more than one year	29,481	26,119
		Total insurance liabilities	**36,431**	**35,825**
		Assets arising from insurance obligations are:		
		Receivables for premiums	2,475	2,689
		Reinsurance claim recoveries	1,064	1,409

Information on insurance expenses and underwriting results can be found in note 12. Additional information on the risks and uncertainties in relation to the Canterbury earthquakes can be found in note 32.

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.

Further information on these liabilities may also be found in the annual reports of each of these entities and on their respective websites.

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 to provide insurance cover after 30 June 2015.

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).

The remainder of the note provides a detailed analysis of the ACC insurance liability. This analysis includes a breakdown of the outstanding claims liability, unearned premium liability, and the unearned premium liability deficiency.

Note 23: 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 that occurred prior to balance date, whether or not the claims have been reported to or accepted by ACC. The PricewaterhouseCoopers actuarial report is signed by Mr Paul Rhodes, Fellow of the Institute and Faculty of Actuaries (UK), Mr Michael Playford and Mr Darryl Frank, Fellows of the Institute of Actuaries of Australia. Mr Rhodes and Mr Playford 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 2015 $m	**30 June 2014 $m**
The ACC liability comprises:		
ACC outstanding claims liability	30,328	27,696
ACC unearned premium liability	1,723	2,050
ACC unearned premium liability deficiency	467	202
Total ACC liability	**32,518**	**29,948**
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	71,940	76,628
Discount adjustment	(45,084)	(52,104)
Risk margin	3,472	3,172
Total outstanding ACC claims liability	**30,328**	**27,696**
Discounted central estimate of future payments for outstanding claims	25,112	22,898
Claims handling expenses	1,744	1,626
Outstanding claims liability before risk margin	26,856	24,524
Risk margin	3,472	3,172
Total outstanding ACC claims liability	**30,328**	**27,696**
Movement in Outstanding ACC Claims Liability		
Opening balance	27,696	27,162
Claims incurred for the year	3,909	3,642
Claims paid out in the year	(3,621)	(3,335)
Discount rate unwind	992	706
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	(107)	443
- change in discount rate	3,225	(93)
- change in inflation rate	(1,766)	(829)
Other movements	-	-
Closing outstanding ACC claims liability	**30,328**	**27,696**
Movement in ACC Unearned Premium Liability		
Opening balance	2,050	2,242
Earning of premiums previously deferred	(2,050)	(2,242)
Deferral of premiums on current year contracts	1,723	2,050
Other	-	-
Closing ACC unearned premium liability	**1,723**	**2,050**

Note 23: Insurance Liabilities (continued)

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	1,723	2,050
Adjusted for unearned premium relating to claims arising from medical misadventure premium liabilities without deficiency	(122)	(114)
Adjusted ACC unearned premium liability	**1,601**	**1,936**
Discounted central estimate of payments for insured future claims	1,868	1,952
Central estimate of discounted future reinsurance recoveries	-	-
Risk margin	200	186
Present value of expected cash flows for future accident claims	**2,068**	**2,138**
Total ACC unearned premium liability deficiency	**467**	**202**

Claims development historical analysis

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

	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	30 June 2015 $m
Estimate of ultimate claims costs:								
At the end of the accident year	7,103	7,035	7,517	6,877	6,794	7,265	7,193	
One year later	6,733	6,739	6,288	6,118	6,608	6,547		
Two years later	6,714	5,939	5,890	5,546	5,762			
Three years later	6,046	5,722	5,310	4,979				
Four years later	5,583	5,274	5,070					
Five years later	5,540	4,723						
Six years later	5,276							
Current estimate of cumulative claim costs	5,276	4,723	5,070	4,979	5,762	6,547	7,193	39,550
Cumulative payments	(1,774)	(1,472)	(1,381)	(1,357)	(1,377)	(1,378)	(894)	(9,633)
Outstanding claims undiscounted	**3,502**	**3,251**	**3,689**	**3,622**	**4,385**	**5,169**	**6,299**	**29,917**
Discount								(19,934)
Claims handling costs								1,966
2008 and prior claims (net present value)								18,365
Short tail outstanding claims								14
Total outstanding ACC claims liability								**30,328**

Note 23: 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 4.34% (2014: 5.01%) and a long term discount rate of 5.50% beyond 30 years (2014: 5.50% beyond 19 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 23: Insurance Liabilities (continued)

	30 June 2015 Next Year	30 June 2015 Beyond Next Year	30 June 2014 Next Year	30 June 2014 Beyond Next Year
Summary of assumptions				
Average weighted term to settlement from reporting date	15 years 7 months		15 years 8 months	
Weighted average risk margin	12.9%		12.9%	
Probability of adequacy of liability	75.0%		75.0%	
Weighted average risk margin for liability adequacy test	12.9%		12.9%	
Probability of adequacy of liability to cover unearned premiums	75.0%		75.0%	
Risk-free discount rate[1]	2.9%	2.8% to 5.5%	3.7%	4.0% to 5.5%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	2.6%	2.6% to 3.5%	3.1%	3.1% to 3.5%
Impairment benefits	0.1%	0.1% to 2.5%	1.9%	1.9% to 2.5%
Social rehabilitation benefits (serious and non-serious injury)	1.8%	1.8% to 2.7%	2.3%	2.3% to 2.7%
Hospital rehabilitation benefits	1.8%	1.8% to 2.7%	2.3%	2.3% to 2.7%
Medical costs	1.8%	1.8% to 2.7%	2.3%	2.3% to 2.7%
Superimposed inflation:				
Social rehabilitation benefits (serious injury)	2.8%	2.3% to 5.7%	1.8%	2.3% to 5.7%
Social rehabilitation benefits (non-serious injury)	4.3%	2.0% to 4.3%	1.0%	2.0% to 4.3%
Hospital rehabilitation benefits	5.0%	4.0% to 5.0%	5.0%	4.0% to 5.0%
Medical costs (GPs)	3.0%	3.0% to 4.0%	4.0%	3.0% to 4.0%
Medical costs (Radiology)	5.0%	5.0% to 5.8%	5.8%	5.0% to 5.8%
Medical costs (Physiotherapists)	2.0%	2.0%	2.3%	2.0% to 2.3%
Medical costs others (specialists)	2.5%	2.5% to 3.3%	3.3%	2.5% to 3.3%

1 The risk-free discount rate beyond 30 years is 5.5% (2014: the rate beyond 19 years was 5.5%).

Note 23: 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 2015 $m	30 June 2014 $m
Sensitivity of assumptions			
Average weighted term to settlement from reporting date	+1 year	(902)	(826)
	-1 year	930	852
Risk-free discount rate	+1%	(3,930)	(3,585)
	-1%	5,212	4,759
Inflation rates (including superimposed inflation)	+1%	5,370	4,917
	-1%	(4,106)	(3,754)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	587	1,053
	-1%	(446)	(792)
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims	+1%	2,517	2,433
	-1%	(1,860)	(1,792)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $26,856 million (2014: $24,524 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 2015. These estimated cash flows include the effects of assumed future inflation.

	Actual 30 June 2015 $m	30 June 2014 $m
No later than 1 year	2,137	1,966
Later than 1 year and no later than 2 years	1,578	1,482
Later than 2 years and no later than 5 years	4,184	3,990
Later than 5 years and no later than 10 years	6,411	6,247
Later than 10 years and no later than 15 years	5,836	5,861
Later than 15 years and no later than 20 years	5,619	5,839
Later than 20 years and no later than 25 years	5,567	5,965
Later than 25 years and no later than 30 years	5,519	6,031
Later than 30 years and no later than 35 years	5,456	6,014
Later than 35 years and no later than 40 years	5,300	5,878
Later than 40 years and no later than 45 years	5,038	5,608
Later than 45 years and no later than 50 years	4,639	5,199
Later than 50 years	14,656	16,548
Undiscounted outstanding claims liability	**71,940**	**76,628**

Note 24: Retirement Plan Liabilities

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
10,385	12,562	Government Superannuation Fund (GSF)	10,845	10,886
(5)	(2)	Other funds	(11)	(1)
10,380	**12,560**	**Total retirement plan liabilities**	**10,834**	**10,885**

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 2015. 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 2015 $m	Actual 30 June 2014 $m
Net GSF Obligation		
Present value of defined benefit obligation	14,932	14,560
Fair value of plan assets	(4,087)	(3,674)
Present value of unfunded defined benefit obligation	**10,845**	**10,886**
Present value of defined benefit obligation		
Opening defined benefit obligation	14,560	15,290
Expected current service cost	77	92
Expected unwind of discount rate	525	404
Actuarial losses/(gains)	647	(365)
Benefits paid	(877)	(861)
Closing defined benefit obligation	**14,932**	**14,560**
Fair value of plan assets		
Opening fair value of plan assets	3,674	3,382
Expected return on plan assets	216	183
Actuarial gains/(losses)	325	212
Funding of benefits paid by Government	721	727
Contributions from other entities	22	22
Contributions from members	37	41
Benefits paid	(877)	(861)
Other	(31)	(32)
Closing fair value of plan assets	**4,087**	**3,674**

Note 24: Retirement Plan Liabilities (continued)

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

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Personnel Expenses		
		Expected current service cost	77	92
		Expected unwind of discount rate on GSF obligation	525	404
		Expected return on plan assets	(216)	(183)
		Contributions from members and funding employers	(59)	(63)
		Other expenses	31	32
		Past service cost	-	-
395	359	Total included in personnel expenses	358	282
		Net (Gains)/Losses on Non-Financial Instruments		
-	2,049	Actuarial (gains)/losses recognised in the year	322	(577)
395	**2,408**	**Total GSF expense**	**680**	**(295)**

The Government expects to make a contribution of $742 million to GSF in the year ending 30 June 2016. 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:

	Actual 30 June 2015 %	Actual 30 June 2014 %
Summary of assumptions		
For following year		
Discount rate	2.9%	3.7%
Expected return on plan assets	5.5%	6.0%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation	1.6%	2.1%
Beyond next year		
Discount rates between 2 and 21 years	2.8% to 5.0%	4.0% to 5.5%
Discount rates between 22 and 29 years	5.1% to 5.4%	5.5%
Discount rate from 30 years onwards	5.5%	5.5%
Expected return on plan assets	5.5%	6.0%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation from years 2 to 12	1.6%	2.1%

Assumed inflation increases by 1.6% each year to year 11, then gradually increases, reaching 2.5% in year 31.

The defined benefit obligation increased in the year to 30 June 2015 by $372 million, mainly due to a decrease in the short and medium term discount rates over the year, partially offset by a reduction in the assumed rate of increase in the Consumer Price Index and strong investment returns.

The discount rate used to present value the pension cash flows associated with this obligation has a risk-free rate based on the market yield curve of New Zealand Government Bonds. Given the short-term nature of market data on Government Bonds in New Zealand, we also assume a single long-term equilibrium risk-free interest rate of 5.5% based on macroeconomic extrapolation. Discount rates are then smoothed over a minimum of 10 years from the end of the market yield curve to that long-term rate.

Note 24: Retirement Plan Liabilities (continued)

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

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Equity instruments	2,561	2,228
Other debt instruments	589	640
Cash and short term investments	307	282
Property	7	15
Other	623	509
Fair value of plan assets	**4,087**	**3,674**

The expected rate of return on the plan assets of 5.5% (2014: 6.0%) 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 2015 was 15.01%, or $542 million (2014: 11.86% or $395 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.

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 net GSF obligation		
	Change	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Sensitivity of assumptions			
Discount rate (Present value of the obligation)	+ 1%	(1,527)	(1,485)
	- 1%	1,850	1,800
Share price (Fair value of planned assets)	+ 10%	(256)	(223)
	- 10%	256	223
CPI	+ 1%	(1,704)	(1,657)
	- 1%	1,439	1,399

Note 24: 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 2015 $m	30 June 2014 $m	30 June 2013 $m	30 June 2012 $m	30 June 2011 $m
Present value of defined benefit obligation	14,932	14,560	15,290	16,557	13,311
Fair value of plan assets	(4,087)	(3,674)	(3,382)	(3,018)	(3,159)
Present value of unfunded defined benefit obligation	**10,845**	**10,886**	**11,908**	**13,539**	**10,152**
Experience adjustment - increase/(decrease) in plan assets	325	212	331	(210)	159
Less experience adjustment - increase/(decrease) in plan liabilities	157	68	(90)	28	388
Total experience adjustments - (losses)/gains	168	144	421	(238)	(229)
Changes in actuarial assumptions	(490)	433	830	(3,658)	(345)
Actuarial (losses)/gains recognised in the year	**(322)**	**577**	**1,251**	**(3,896)**	**(574)**

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $14,932 million (2014: $14,560 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 2015. These estimated cash flows include the effects of assumed future inflation.

	30 June 2015 $m	30 June 2014 $m
No later than 1 year	921	918
Later than 1 year and no later than 2 years	910	914
Later than 2 years and no later than 5 years	2,763	2,806
Later than 5 years and no later than 10 years	4,588	4,780
Later than 10 years and no later than 15 years	4,305	4,642
Later than 15 years and no later than 20 years	3,828	4,287
Later than 20 years and no later than 25 years	3,204	3,724
Later than 25 years and no later than 30 years	2,517	3,005
Later than 30 years and no later than 35 years	1,837	2,235
Later than 35 years and no later than 40 years	1,219	1,511
Later than 40 years and no later than 45 years	722	917
Later than 45 years and no later than 50 years	366	481
Later than 50 years	203	290
Undiscounted defined benefit obligation	**27,383**	**30,510**

Note 25: Provisions

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		By type		
3,174	3,264	Provision for employee entitlements	3,533	3,444
362	863	Provision for ETS credits	855	521
942	872	Provision for National Provident Fund guarantee	893	910
-	-	Aircraft Lease Return Costs	253	173
201	204	Provision for Water Infrastructure costs package (refer note 32)	234	394
1,432	1,524	Other provisions	1,453	1,513
6,111	**6,727**	**Total provisions**	**7,221**	**6,955**
		By maturity		
3,083	3,280	Expected to be settled within one year	3,764	3,487
3,028	3,447	Expected to be outstanding for more than one year	3,457	3,468
6,111	**6,727**	**Total provisions**	**7,221**	**6,955**

	Actual 30 June 2015 $m	Actual 30 June 2014 $m
Provision for employee entitlements		
Opening provision	3,444	3,374
Additional provisions recognised	1,948	1,769
Provision used during the period	(1,705)	(1,543)
Reversal of previous provision	(154)	(160)
Unwind of discount rate	-	4
Closing provision	**3,533**	**3,444**

The provision for employee entitlements represents annual leave, accrued long service leave, 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 applied rise from 2.9% next year to 5.5% in later years.

Other provisions are recognised where there is a present obligation, as a result of a past event, where it is probable that this obligation will be settled. Other provisions include rehabilitation and restoration provisions.

Note 25: Provisions (continued)

	Actual	
	30 June 2015 $m	30 June 2014 $m
Provision for ETS credits		
Opening provision	521	179
New provision recognised during the period (ETS expenses)	133	46
Provision used during the period (ETS revenue)	(138)	(13)
Transfer of units to Kyoto provision	-	24
(Gains)/losses on NZ Units	339	285
Closing provision	**855**	**521**

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 $NZ6.80 (30 June 2014: $NZ4.17).

The carbon price has been determined by the Ministry for the Environment based on the quoted NZU spot price at the end of the reporting date as published by OM Financial Limited on their CommTrade Carbon website. The price methodology will continue to be reviewed as the market for NZ Units develops.

	Actual	
	30 June 2015 $m	30 June 2014 $m
Provision for National Provident Fund guarantee		
Opening provision	910	977
Additional provisions recognised	-	-
Provision used during the period	(75)	(73)
Reversal of previous provision	(52)	26
Unwind of discount rate and effect of changes in discount rate	110	(20)
Closing provision	**893**	**910**

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 $893 million (2014: $910 million), represented by a gross estimated pension obligation of $929 million (2014: $943 million) with net investment assets valued at $36 million (2014: $33 million).

	Actual	
	30 June 2015 $m	30 June 2014 $m
Aircraft Lease Return Costs		
Opening provision	173	154
Additional provisions recognised	63	58
Provision used during the period	(29)	(22)
Other movements	46	(17)
Closing provision	**253**	**173**

Where a commitment exists to maintain aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease arrangements. The provision is based upon historical experience, manufacturers' advice and, where appropriate, contractual obligations.

Note 26: Net Worth

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
16,601	12,720	Taxpayer funds	19,354	13,218
56,509	62,142	Property, plant and equipment revaluation reserve	67,107	62,225
104	82	Closing investment revaluation reserve	101	58
(47)	(56)	Closing cash flow hedge reserve	(67)	33
(52)	(85)	Closing foreign currency translation reserve	(41)	(92)
-	-	Share based payment reserve	-	44
5,518	5,181	Net worth attributable to minority interests	5,782	5,211
78,633	**79,984**	**Total net worth**	**92,236**	**80,697**
		Taxpayer Funds		
13,344	13,300	Opening taxpayers funds	13,218	10,649
3,102	(634)	Operating balance (excluding minority interests)	5,771	2,939
-	-	Gain/(loss) on Government share offers in SOEs	-	(577)
155	65	Transfers from/(to) property, plant and equipment revaluation reserve	392	229
-	(11)	Other movements	(27)	(22)
16,601	**12,720**	**Closing taxpayer funds**	**19,354**	**13,218**
		Property, Plant and Equipment Revaluation Reserve		
56,648	62,225	Opening revaluation reserve	62,225	57,068
-	(39)	Net revaluations	5,274	5,386
(139)	(44)	Transfers from/(to) taxpayer funds	(392)	(229)
56,509	**62,142**	**Closing revaluation reserve**	**67,107**	**62,225**
		Class of Asset		
		Land	25,579	23,315
		Building	16,953	15,627
		State highways	12,489	11,882
		Electricity generation assets	9,277	8,528
		Specified cultural and heritage assets	1,407	1,468
		Specialist military equipment	311	319
		Rail network	13	30
		Other plant and equipment	1,078	1,056
		Closing revaluation reserve	**67,107**	**62,225**

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.

Note 26: Net Worth (continued)

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Net Worth Attributable to Minority Interests		
5,435	5,211	Opening minority interest	5,211	1,940
365	383	Operating balance attributable to minority interests	545	138
-	23	Increase in minority interest from Government share offers	41	3,305
(282)	(359)	Transactions with minority interests	(319)	(209)
-	(77)	Movement in reserves attributable to minority interests	246	5
-	-	Other movements	58	32
5,518	**5,181**	**Closing minority interest**	**5,782**	**5,211**
		Consisting of interests in:		
		Mighty River Power	1,537	1,430
		Meridian Energy	2,137	2,031
		Genesis Energy	826	847
		Air New Zealand	1,125	830
		Solid Energy[1]	-	13
		Crown Fibre Holdings Limited subsidiaries[2]	99	60
		New Zealand Post Group[3]	58	-
		Other	-	-
		Closing minority interest	**5,782**	**5,211**
		Minority share of Operating Balance		
		Mighty River Power	22	94
		Meridian Energy	111	69
		Genesis Energy	66	15
		Air New Zealand	379	40
		Solid Energy	(13)	(62)
		Crown Fibre Holdings Limited subsidiaries	(20)	(18)
		Other	-	-
		Operating balance attributable to minority interests	**545**	**138**

Transactions with minority interests include dividend payments and dividend reinvestments.

1. Solid Energy Limited was placed into voluntary administration on 13 August 2015 and is currently operating under a Deed of Company. Arrangement (refer to note 34). The net assets of the Company have been valued at nil in these financial statements.

2. The minority interests in Crown Fibre Holdings Limited relates to investments in some local fibre companies involved in the roll-out of ultra-fast broadband.

3. During the year, the Kiwibank Banking Group issued $150m of perpetual, subordinated, unsecured, non-cumulative, loss absorbing capital notes (PCNs) to the public. The PCNs are deemed to be a compound financial instrument and contain both liability and equity components. The liability component of the PCNs is classified as other borrowings. The holders of the PCNs have no residual interest in the New Zealand Post Group or the Crown and there is no guarantee that any interest or dividends will be paid on the PCNs. Further information on the PCNs can be found in the financial statements of New Zealand Post Group.

Note 27: 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
- when formulating revenue strategy, having regard to efficiency and fairness, including predictability and stability of tax rates
- 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.

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.

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

Long Term Fiscal Objectives - Fiscal Strategy Report 2015[8]

Debt

Manage total debt at prudent levels. Reduce net debt to a level no higher than 20 percent of GDP by 2020. Work towards achieving this earlier as conditions permit. Beyond 2020, maintain net debt within a range of around 10% to 20% of GDP over the economic cycle.

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% of GDP.

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[8] The long-term fiscal objectives are stated in the *Fiscal Strategy Report* 2015.

Note 27: Capital Objectives and Fiscal Policy (continued)

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, start building up net worth ahead of the full fiscal impact of the demographic change expected in the mid-2020s.

Short Term Fiscal Intentions		
Fiscal Strategy Report 2014	**Fiscal Strategy Report 2015**	**Fiscal Position 2015**[9]
Debt Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 34% of GDP in 2017/18. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 23.8% in 2017/18 and to be 20.0% of GDP in 2019/20.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 31.4% per cent of GDP in 2018/19. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 22.9% in 2018/19, 20.9% of GDP in 2019/20 and 19.7% of GDP in 2020/21.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2015 was 38.7% of GDP (2014: 37.8%). Net core Crown debt (excluding NZS Fund and advances) at 30 June 2015 was 25.2% of GDP (2014: 25.6%).
Operating balance 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. The operating balance (before gains and losses) is forecast to be 0.2% of GDP in 2014/15. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 1.3% of GDP in 2014/15.	**Operating balance** 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. The operating balance (before gains and losses) is forecast to be -0.3% of GDP in 2014/15, 0.1% of GDP in 2015/16 and 1.3% of GDP in 2018/19. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 2.3% of GDP in 2018/19.	**Operating balance** The operating (before gains and losses) for the year ended 30 June 2015 was a surplus of 0.2% of GDP (2014: a deficit of 1.2%). The operating surplus for the year ended 30 June 2015 was 2.4% of GDP (2014: 1.3%).
Expenses 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% of GDP by 2015/16. Core Crown expenses are forecast to be 29.9% of GDP in 2017/18. Total Crown expenses are forecast to be 38.8% of GDP in 2017/18. This assumes a new operating allowance of $1.5 billion in Budget 2015, growing at 2% for Budgets thereafter (GST exclusive).	**Expenses** 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% of GDP by 2015/16. Core Crown expenses are forecast to be 29.0% of GDP in 2018/19. Total Crown expenses are forecast to be 37.7% of GDP in 2018/19. This assumes a new operating allowance of $1 billion in Budget 2016 and $2.5 billion in Budget 2017.	**Expenses** Core Crown expenses for the year ended 30 June 2015 were 30.1% GDP (2014: 30.4%). Total Crown expenses for the year ended 30 June 2015 were 39.2% of GDP (2014: 39.2%).

9 GDP for the year ended 30 June 2015 was $240,571 million (2014: $234,184 million revised).

Fiscal Strategy Report 2014	Fiscal Strategy Report 2015	Fiscal Position 2015
Revenues Total Crown revenues are forecast to be 40.3% of GDP in 2017/18. Core Crown revenues are forecast to be 31.1% of GDP in 2017/18. Core Crown tax revenues are forecast to be 28.5% of GDP in 2017/18.	**Revenues** Total Crown revenues are forecast to be 39.2% of GDP in 2018/19. Core Crown revenues are forecast to be 30.6% of GDP in 2018/19. Core Crown tax revenues are forecast to be 28.2% of GDP in 2018/19.	**Revenues** Total Crown revenues for the year ended 30 June 2015 were 39.5% of GDP (2014: 38.1%). Core Crown revenues for the year ended 30 June 2015 were 30.0% of GDP (2014: 28.7%). Core Crown tax revenues for the year ended 30 June 2015 were 27.7% of GDP (2014: 26.3%).
Net worth Total Crown net worth is forecast to be 34.9% of GDP in 2017/18. Total net worth attributable to the Crown is forecast to be 32.8% of GDP in 2017/18.	**Net worth** Total Crown net worth is forecast to be 34.6% of GDP in 2018/19. Total net worth attributable to the Crown is forecast to be 32.8% of GDP in 2018/19.	**Net worth** Total Crown net worth as at 30 June 2015 was 38.3% of GDP (2014: 34.5%). Total net worth attributable to the Crown as at 30 June 2015 was 35.9% of GDP (2014: 32.2%).

Note 28: Commitments

	Actual 30 June 2015 $m	30 June 2014 $m
Capital Commitments		
State highways	4,060	2,327
Aircraft (excluding military)	2,517	2,083
Specialist military equipment	420	732
Land and buildings	1,122	878
Other property, plant and equipment	441	897
Other capital commitments	694	919
Tertiary Education Institutions	480	201
Total capital commitments	**9,734**	**8,037**
Operating Lease Commitments		
Non-cancellable accommodation leases	3,088	3,059
Other non-cancellable leases	2,291	2,340
Tertiary Education Institutions	540	494
Total operating lease commitments	**5,919**	**5,893**
Total commitments	**15,653**	**13,930**
By source		
Core Crown	4,453	4,916
Crown entities	7,231	5,465
State-owned enterprises	4,887	4,847
Inter-segment eliminations	(918)	(1,298)
Total commitments	**15,653**	**13,930**
By Term		
Capital Commitments		
One year or less	4,284	3,863
From one year to two years	2,309	1,591
From two to five years	2,967	2,107
Over five years	174	476
Total capital commitments	**9,734**	**8,037**
Operating Lease Commitments		
One year or less	1,131	921
From one year to two years	1,023	970
From two to five years	1,691	1,810
Over five years	2,074	2,192
Total operating lease commitments	**5,919**	**5,893**
Total commitments	**15,653**	**13,930**

The state highways capital commitment has increased compared to the previous year to include the commitments resulting from the implementation of the Transmission Gully project ($1.1 billion), the Auckland Transport Package Loan ($37 million) and the accelerated Regional State Highway package ($97 million).

Note 29: 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 2015 where they are expected to be material but not remote. Where there is an obligation under New Zealand GAAP, amounts have been recognised in the financial statements.

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 (eg, 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 2015 $m	Actual 30 June 2014 $m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	a	310	222
Uncalled capital	b	7,337	5,662
Legal proceedings and disputes	c	247	604
Other contingent liabilities	d	379	357
Total quantifiable contingent liabilities		**8,273**	**6,845**
By source			
Core Crown		8,025	6,568
Crown entities		30	44
State-owned enterprises		218	233
Total quantifiable contingent liabilities		**8,273**	**6,845**

Note 29: 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.

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 2015 $m	Actual 30 June 2014 $m
New Zealand Export Credit Office guarantees	i	177	93
Air New Zealand letters of credit and performance bonds	ii	58	52
Housing New Zealand Crown mortgage portfolio	iii	26	26
Other guarantees and indemnities		49	51
Total guarantees and indemnities		**310**	**222**

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 29: 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".

		Actual	
	Note	30 June 2015 $m	30 June 2014 $m
Asian Development Bank	i	3,193	2,728
International Monetary Fund - promissory notes	ii	1,337	1,013
International Monetary Fund - arrangements to borrow	iii	1,164	937
International Bank for Reconstruction and Development	iv	1,625	968
Other uncalled capital		18	16
Total uncalled capital		**7,337**	**5,662**

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 29: Contingent Liabilities and Contingent Assets (continued)

Southern Response Earthquake Services Ltd

In addition to the uncalled capital above, the Crown Support Deed agreed with Southern Response Earthquake Services Ltd includes two capital instruments:

- a $500 million preference share facility under the Crown's agreement dated 5 April 2012 of which $100 million has already been called and paid, with the other $400 million called but unpaid as at 30 June 2015

- $500 million of uncalled ordinary shares under an amended Crown Support Deed dated 30 January 2013 by which Southern Response may issue a call notice but only after Southern Response's investments, reinsurance and existing Crown support (the remaining $400 million convertible preference share facility discussed above) is exhausted.

As at 30 June 2015, no call has been made on the uncalled ordinary capital facility. However, it is now considered probable that approximately $333 million of this subscription will be called and paid in the near future. There is also a possibility that the remaining $167 million will be called due to significant complexities that exist in settling Christchurch earthquake claims. The extent to which the subscription is called and paid depends on the ultimate cost of settling earthquake claims, which continues to be subject to significant uncertainty.

If this Crown Support Deed was 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. However, as Southern Response is part of the Crown there would be no impact on the overall Crown operating balance.

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.

		Actual	
	Note	30 June 2015 $m	30 June 2014 $m
Tax disputes	i	148	563
Duty disputes	ii	79	1
Other legal proceedings and disputes		20	40
Total legal proceedings and disputes		**247**	**604**

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) Duty disputes

Duty disputes represent the disputed assessments of revenue amounts in relation to the performance of the New Zealand Customs Service's statutory role and associated estimated legal costs. The New Zealand Customs Service is currently defending these assessments of revenue.

Note 29: Contingent Liabilities and Contingent Assets (continued)

d) Other quantifiable contingent liabilities

	Note	Actual 30 June 2015 $m	30 June 2014 $m
Transpower capital expenditure recovery	i	47	90
Unclaimed monies	ii	120	112
Air New Zealand partnership	iii	76	82
Canterbury Earthquake Recovery Authority - Red Zone	iv	48	-
Mighty River Power carbon credits	v	35	-
Other contingent liabilities		53	73
Total other contingent liabilities		**379**	**357**

i) Transpower New Zealand Limited

Transpower has previously had a contingent liability relating to capital expenditure that was not approved by the regulator. If this expenditure was not subsequently approved it cannot be recovered from customers. On 6 August 2015 the Commerce Commission ruled on what could be recovered from customers, providing clarity over the year end position.

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) Canterbury Earthquake Recovery Authority – Red Zone

The Canterbury Earthquake Recovery Authority has an obligation arising from the proposed offer to current and former owners of uninsured, vacant and commercial properties in the red zone. As at 30 June 2015 the liability was contingent on Ministerial approval of the new offer. Subsequent to balance date the Residential Red Zone Offer Recovery Plan was approved. As a result of the approval a number of vacant, insured commercial and uninsured properties, are entitled to new Crown offers. The Crown's liability for property settlements under the terms of the new offer have been informed by an actuarial valuation prepared by Linda Caradus of Melville Jessup Weaver, a firm of consulting actuaries.

v) Mighty River Power Limited

Mighty River Power limited is involved in a contract dispute with New Zealand Carbon Farming (NZCF) over the purchase of carbon credits under a 15 year contract. The most commercially significant issue is whether or not Mighty River Power Limited will be required to buy additional units over the life of the contract. On this issue the High Court ruled in favour of Mighty River Power which has subsequently been appealed by NZCF and is expected to be heard in the first half of 2016.

Note 29: 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.

Party indemnified	Instrument of indemnification	Actions indemnified
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.
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.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines.
Genesis Energy Limited	Deed between Genesis Power Limited and the Crown	The agreement sees the Crown compensate Genesis in the event that Genesis has less gas than it requires 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.
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: • any breach of the warranty provided, and • any third-party claims that are a result of acts or omissions prior to 1 November 1992. 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.

Note 29: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
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 11CE of the District Courts Act 1947 and Section 4F of the Justices of the Peace 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 with the approval of the Minister, 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 approved and 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 29: 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: In relation to letters of credit issued on behalf of the Crown. 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.
	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

Litigation involving ACC arises almost exclusively from challenges to operational decisions made by ACC through the statutory review and appeal process. No accrual has been made for contingent liabilities which could arise as these disputes are issue based and ACC's active management of litigation means that it will be either settling or defending, depending on the merits of the issue in dispute. The ACC Board believes the resolution of outstanding appeals will not have any material effect on the financial statements of ACC.

ii) Air New Zealand litigation

Air New Zealand is defending two class actions in the United States. One makes allegations of anti-competitive conduct against many airlines in relation to pricing in the air cargo business. Following settlements, four airlines including Air New Zealand continue to defend the claim. A similar, previously reported class action filed in Australia was discontinued against Air New Zealand in June 2014 resulting in legal costs of $3 million being recovered by Air New Zealand.

A second class action in the United States, alleges that Air New Zealand together with other airlines acted anti-competitively in respect of fares and surcharges on trans-Pacific routes.

Note 29: Contingent Liabilities and Contingent Assets (continued)

Allegations of anti-competitive conduct in the air cargo business in Hong Kong and Singapore were the subject of proceedings by the Australian Competition and Consumer Commission (ACCC). Following a defended hearing, the Federal Court released its decision in October 2014, finding in favour of Air New Zealand. The ACCC has appealed the decision. The appeal will be defended and is to be heard in August 2015. In the event that a Court determined that Air New Zealand had breached competition laws, the Group would have potential liability for damages or (in Australia) pecuniary penalties. No other significant contingent liability claims are outstanding at balance date.

iii) Kiwibank

In June 2013, a group called Fair Play on Fees announced plans for a representative action against banks in New Zealand in relation to certain default fees charged to New Zealand relation to certain default fees charged to New Zealand customers. In November 2013, the group issued proceedings against Kiwibank. The potential outcome of the proceedings cannot be determined with any certainty at this stage.

iv) Television New Zealand Limited (TVNZ)

In the normal course of business various legal claims have been made against TVNZ. Given the stage of proceedings and uncertainty as to the outcomes of the claims, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

v) Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge certain 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.

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. Entities managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with *PBE IPSAS 19: 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.

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.

Note 29: Contingent Liabilities and Contingent Assets (continued)

The relativity mechanism has now been triggered, and in future years, additional costs are expected to be incurred in accordance with the relativity mechanism as Treaty settlements are reached. However, no value can be placed on these at this point in time, as there is uncertainty as to when each negotiation will settle, and the value of any settlement when reached. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

Contingent assets

	Note	Actual 30 June 2015 $m	30 June 2014 $m
Contingent assets			
Tax disputes	i	103	90
Suspensory loans issued to integrated schools	ii	25	31
Transpower	iii	75	16
Other contingent assets		35	12
Total contingent assets		**238**	**149**
By source			
Core Crown		160	129
Crown entities		3	4
State-owned enterprises		75	16
Total quantifiable contingent assets		**238**	**149**

Tax disputes

A contingent asset is recognised when the Inland Revenue has advised 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 cash collectable from the disputes process based on experience and similar prior cases, net of losses carried forward.

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.

Transpower New Zealand Limited

Transpower operates its revenue setting methodology within an economic value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. Under Commerce Commission regulations, Transpower is required to pass onto or claim from customers over time the economic value of the gains or losses. Transpower's contingent asset includes the provisional balance from the EV accounts at 30 June 2015. These figures will not be finalised until October 2015.

Note 30: Financial Instruments

The Government has devolved responsibility for the financial management of its financial portfolios to its sub-entities such as the Treasury (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:

- Social policy purposes. Primarily held to achieve social policy objectives. A large portion of the financial instruments for social policy purposes relates to student loans to support tertiary education policy. The associated risk for the Student Loan portfolio is that borrowers will default on their obligation.

- Investment purposes. Primarily held for the purpose of generating returns to assist in funding long-term obligations. The main investment portfolios are managed by ACC and the NZ Superannuation Fund. Associated risks include performance of the New Zealand and global markets.

- Funding purposes. Primarily financial assets and liabilities are held to finance the Government's borrowing requirements and provide funds to Government entities. Examples include Government bonds and Treasury bills. Financing activity exposes the Government to financial risks from interest rates and global demand for New Zealand Government bonds.

- Central bank purposes. Primarily held for the Reserve Bank's foreign reserve management and market operations. The main financial risks to which the Reserve Bank is exposed includes foreign exchange risks, liquidity risks and financial stability risks.

- Commercial purposes. Primarily held for by entities that operate on a commercial basis, who will hold financial instruments arising from their normal business activity. The main examples are State owned enterprises (including the mixed ownership model companies). Associated risks include interest rates risks, foreign exchange risks and price risks).

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. Detailed risk management policy disclosure of Government reporting entities can be found in an individual entity's Annual Report.

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 revenue and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in note 35 to the financial statements.

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

- analysis of financial assets and financial liabilities

- fair value measurement

- derivative disclosures

- risk management, and

- sensitivity analysis.

Note 30: Financial Instruments (continued)

Analysis of financial assets and financial liabilities

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 the operating balance. Changes in the value of an instrument may be reported in the statement of financial performance or directly in other comprehensive revenue and expense depending on its designation.

Financial assets

	Note	Actual 30 June 2015 $m	30 June 2014 $m
By class			
Cash and cash equivalents		11,982	11,888
Reinsurance, trade and other receivables	15	5,070	5,654
Long-term deposits	16	5,214	3,844
Derivatives in gain	16	3,015	4,164
Marketable securities	16	43,770	38,307
IMF financial assets	16	2,299	2,142
Share investments	17	25,408	20,596
Student loans	18	8,864	8,716
Kiwibank loans	18	15,598	14,630
Other advances	18	2,035	1,410
Total financial assets		**123,255**	**111,351**
By valuation methodology			
Amortised cost (loans and receivables)		50,064	47,735
Fair value			
Available for sale		822	811
Held for trading		3,090	4,222
Fair value through the operating balance		69,279	58,583
Total financial assets at fair value		73,191	63,616
Total financial assets		**123,255**	**111,351**

As at 30 June 2015, the carrying value of financial assets that had been pledged as collateral was $3,660 million (2014: $1,006 million). These transactions are conducted under terms that are usual and customary to standard securities borrowing. The increase in collateral pledged is largely as a result of securities pledged as collateral by Reserve Bank. For more information refer to the individual entity's annual report.

Note 30: Financial Instruments (continued)

Financial liabilities

	Note	Actual 30 June 2015 $m	30 June 2014 $m
By class			
Issued currency		5,336	4,964
Accounts payable	21	7,599	7,591
Borrowings:	22		
Government bonds		58,743	60,337
Treasury bills		6,734	3,147
Government retail stock		188	183
Settlement deposits with Reserve Bank		7,931	7,758
Derivatives in loss		6,261	2,245
Finance lease liabilities		1,788	1,501
Other borrowings		30,935	28,248
Total borrowings		112,580	103,419
Total financial liabilities		**125,515**	**115,974**
By valuation methodology			
Amortised cost (loans and receivables)		111,095	105,641
Fair value			
Held for trading		6,261	2,245
Fair value through the operating balance		8,159	8,088
Total financial liabilities at fair value		14,420	10,333
Total financial liabilities		**125,515**	**115,974**

Fair Value Measurement

The following tables detail 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 the operating balance. 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. Fair values are determined according to the following hierarchy:

- Quoted Market Price - Financial instruments with quoted prices for identical instruments in active markets (level 1).
- Valuation Technique Using Observable Inputs - Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets, and financial instruments valued using models where all significant inputs are observable (level 2).
- Valuation Technique with Significant Non-observable Inputs - Financial instruments valued using models where one or more significant inputs are not observable (level 3).

Note 30: Financial Instruments (continued)

	Actual As at 30 June 2015 $m	As at 30 June 2014 $m
Financial assets		
Quoted market price	32,919	29,532
Observable market inputs	36,514	30,964
Significant non-observable inputs	3,758	3,120
Total financial assets at fair value	**73,191**	**63,616**
Financial liabilities		
Quoted market price	1,819	3,379
Observable market inputs	12,502	6,871
Significant non-observable inputs	99	83
Total financial liabilities at fair value	**14,420**	**10,333**
Net financial instruments at fair value	**58,771**	**53,283**

Significant non-observable inputs

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

	Actual As at 30 June 2015 $m	As at 30 June 2014 $m
Financial assets	3,758	3,120
Financial liabilities	99	83
Net financial instruments	**3,659**	**3,037**
Opening balance	3,037	3,010
Total gains/(losses) recognised in the statement of financial performance	394	22
Total gains/(losses) recognised in the statement of comprehensive revenue and expense	(14)	59
Purchases	796	948
Sales	(346)	(343)
Issues	186	143
Settlements	(253)	(822)
Transfers into and out of non-observable inputs	(141)	20
Closing balance	**3,659**	**3,037**

Note 30: Financial Instruments (continued)

Derivatives

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.

	Carrying Value As at 30 June 2015			Carrying Value As at 30 June 2014		
	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m
Foreign exchange	328	2,940	**(2,612)**	409	169	**240**
Foreign exchange options	1	3	**(2)**	2	1	**1**
Cross currency swaps	998	1,076	**(78)**	2,216	543	**1,673**
Interest rate swaps	996	1,688	**(692)**	502	1,104	**(602)**
Interest rate options	-	-	**-**	-	-	**-**
Futures	27	1	**26**	4	7	**(3)**
Other derivatives	665	553	**112**	1,031	421	**610**
Total derivatives	**3,015**	**6,261**	**(3,246)**	**4,164**	**2,245**	**1,919**

	Notional Value As at 30 June 2015			Notional Value As at 30 June 2014		
	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m
Foreign exchange	10,595	48,330	**58,925**	22,726	9,835	**32,561**
Foreign exchange options	19	75	**94**	12	85	**97**
Cross currency swaps	7,233	9,260	**16,493**	13,926	3,950	**17,876**
Interest rate swaps	35,977	49,829	**85,806**	26,004	43,453	**69,457**
Interest rate options	115	-	**115**	-	-	**-**
Futures	3,648	5,254	**8,902**	2,785	1,674	**4,459**
Other derivatives	21,157	14,264	**35,421**	16,607	12,562	**29,169**
Total derivatives	**78,744**	**127,012**	**205,756**	**82,060**	**71,559**	**153,619**

Note 30: Financial Instruments (continued)

Derivatives in loss liquidity analysis

The following table shows the undiscounted cash flows of derivatives in loss based on the earliest date on which the Government can be required to pay. Some derivatives are settled on a net basis and others on a gross basis.

As at 30 June 2015	Total cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Derivatives in loss settled gross						
- inflow	74,288	62,292	3,265	3,879	3,653	1,199
- outflow	76,723	64,589	3,363	3,893	3,476	1,402
Total settled gross	(2,435)	(2,297)	(98)	(14)	177	(203)
Derivatives in loss settled net	3,518	1,095	324	760	616	723
Total net cash flows	**1,083**	**(1,202)**	**226**	**746**	**793**	**520**

As at 30 June 2014	Total cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Derivatives settled gross						
- inflow	45,139	33,208	3,449	5,672	2,042	768
- outflow	41,842	32,091	2,618	4,911	1,505	717
Total settled gross	3,297	1,117	831	761	537	51
Derivatives in loss settled net	3,138	723	394	469	769	783
Total net cash flows	**6,435**	**1,840**	**1,225**	**1,230**	**1,306**	**834**

Note 30: Financial Instruments (continued)

Risk management

The Government's activities expose it primarily to the financial risks of changes in interest rates, foreign exchange rates, risk of default and liquidity risk. 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 entities who manage 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, and foreign currency risk. Refer to pages 110-111 for further derivative information.

Interest rate risk

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. This 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.

Note 30: Financial Instruments (continued)

Foreign currency risk

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:

	30 June 2015 $m	30 June 2014 $m
Financial Assets		
New Zealand Dollar	56,107	82,027
United States Dollar	40,496	9,778
Yen	4,019	2,636
Euro	4,870	3,981
Other	17,763	12,929
Total financial assets	**123,255**	**111,351**
Financial Liabilities		
New Zealand Dollar	67,958	104,264
United States Dollar	36,410	2,226
Yen	3,996	1,703
Euro	4,401	1,001
Other	12,750	6,780
Total financial liabilities	**125,515**	**115,974**
Net Financial Assets/(Liabilities)		
New Zealand Dollar	(11,851)	(22,237)
United States Dollar	4,086	7,552
Yen	23	933
Euro	469	2,980
Other	5,013	6,149
Net Financial Assets/(Liabilities)	**(2,260)**	**(4,623)**

Note 30: Financial Instruments (continued)

Credit risk

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 2015, the fair value of collateral held that could be sold or repurchased was $19,884 million (2014: $19,233 million). The majority of this relates to Kiwibank Limited, who can enforce their collateral in satisfying the debt in the event of the borrower failing to meet its contractual obligations.

Concentrations of credit exposure classified by credit rating, geography and industry of the counterparty are provided in the following tables.

Kiwibank loans consist mainly of residential lending. Therefore, these financial assets have been classified as non-rated and individuals for the purposes of credit risk.

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

As at 30 June 2015	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**	**Total $m**
Cash and cash equivalents	39	10,807	1,036	62	38	**11,982**
Trade and other receivables	-	453	611	-	4,006	**5,070**
Long-term deposits	-	3,876	1,338	-	-	**5,214**
Derivatives in gain	398	1,435	640	171	371	**3,015**
Marketable securities	14,911	19,754	2,487	2,928	3,690	**43,770**
IMF financial assets	-	-	-	2,299	-	**2,299**
Share investments	378	2,580	5,408	4,824	12,218	**25,408**
Student loans	-	-	-	-	8,864	**8,864**
Kiwibank loans	-	-	-	-	15,598	**15,598**
Other advances	-	677	180	57	1,121	**2,035**
Total credit exposure by credit rating	**15,726**	**39,582**	**11,700**	**10,341**	**45,906**	**123,255**

As at 30 June 2014	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**	**Total $m**
Cash and cash equivalents	122	10,689	994	27	56	11,888
Trade and other receivables	-	573	838	-	4,243	5,654
Long-term deposits	6	2,749	1,074	-	15	3,844
Derivatives in gain	-	2,068	1,889	59	148	4,164
Marketable securities	13,108	17,016	1,878	1,474	4,831	38,307
IMF financial assets	-	-	-	2,142	-	2,142
Share investments	216	2,074	4,490	3,625	10,191	20,596
Student loans	-	-	-	-	8,716	8,716
Kiwibank loans	-	-	-	-	14,630	14,630
Other advances	-	390	176	36	808	1,410
Total credit exposure by credit rating	13,452	35,559	11,339	7,363	43,638	111,351

Note 30: Financial Instruments (continued)

	30 June 2015 $m	30 June 2014 $m
Financial Assets		
Concentration of credit exposure by geographical area		
USA	24,572	17,354
Europe	19,995	18,547
Japan	4,473	4,305
Australia	7,901	6,580
New Zealand	52,077	53,436
Other	14,237	11,129
Total financial assets	**123,255**	**111,351**
Concentration of credit exposure by industry		
Sovereign issuers	23,361	17,464
Supranational	5,483	4,364
NZ banking	12,001	14,604
Foreign banking	12,162	13,253
Individuals	24,706	24,131
Other	45,542	37,535
Total financial assets	**123,255**	**111,351**

At 30 June 2015, 15.2% (2014: 15.2%) 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.

Liquidity risk

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.

Financial Liabilities (excluding derivatives)	30 June 2015 $m	30 June 2014 $m
Less than 1 year	52,518	50,394
1-2 years	5,184	8,458
2-5 years	40,675	33,580
5-10 years	26,997	29,462
More than 10 years	12,790	10,576
Total contractual cash flows	**138,164**	**132,470**
Total carrying value	**119,254**	**113,729**

Note 30: Financial Instruments (continued)

The government holds loan commitments of $2,452 million (2013: $2,281 million) which all have contractual cashflows of less than one year.

In addition to the above financial liabilities, the Crown has entered into various financial guarantees and indemnities totalling $310 million (2014: $222 million) which expose the Crown to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 29. 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 2015 was $857 million (2014: $771 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

Sensitivity analysis

The sensitivity of the fair value of the Government's financial assets and liabilities to changes in interest rates, NZ exchange rate and share prices are shown below. Any change would impact the operating balance and net worth of the Government.

	Impact on operating balance		Impact on net worth	
	2015 $m	**2014 $m**	**2015 $m**	**2014 $m**
Increase in interest rates 1% (100 basis points)	**(492)**	(455)	**(442)**	(405)
Decrease in interest rate 1% (100 basis points)	**539**	478	**490**	428
NZ dollar exchange rate strengthens by 10%	**(907)**	(1,332)	**(890)**	(1,311)
NZ dollar exchange rate weakens by 10%	**1,043**	1,453	**1,035**	1,441
Share prices strengthen by 10%	**2,522**	1,996	**2,522**	1,996
Share prices weaken by 10%	**(2,522)**	(1,996)	**(2,522)**	(1,996)

Interest rate sensitivity

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 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 the operating balance 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 30: Financial Instruments (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 table above. The impact is net of any hedging by way of interest rate derivatives.

The Government's sensitivity to interest rates has not changed significantly since last year. Interest rate sensitivity on financial instruments have a minor impact compared with other longer-dated obligations such as ACC outstanding claims liability and the GSF defined benefit obligations (refer note 23 and note 24 for sensitivity information for these long-term liabilities).

Foreign currency sensitivity

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.

The Government's sensitivity to foreign currency has decreased during the current period. This change is largely in relation to financial instrument portfolios held by NZS Fund and NZDMO offset by changes in relation to ACC's financial instrument portfolio.

Equity market sensitivity

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 above 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 99% of the Government's total share investments (2014: 97%).

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 31: 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 SOEs, 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 32: Canterbury Earthquakes

These consolidated financial statements include both revenue and expenses for the Government as well as the best estimate of the Government's significant assets and liabilities in relation to the earthquakes and aftershocks that have occurred in the Canterbury region. In addition, the Crown is spending money on a number of capital projects in the Canterbury region. These projects, when capitalised, form part of the Crown's property, plant and equipment balance.

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

					Actual		
	Note	30 June 2015 $m	30 June 2014 $m	30 June 2013 $m	30 June 2012 $m	30 June 2011 $m	Total to date $m
EQC insurance claims	a	(444)	(242)	(107)	662	7,444	7,313
Local Infrastructure	b	66	109	483	729	195	1,582
Land zoning	c	(1)	97	(8)	258	653	999
Southern Response support package	d	325	124	(53)	156	355	907
Christchurch central city rebuild	e	179	473	115	-	-	767
Crown assets	f	335	96	28	12	-	471
Other earthquake costs	g	129	249	17	96	413	904
Total Crown net earthquake costs		**589**	**906**	**475**	**1,913**	**9,060**	**12,943**
Gross earthquake expenses		904	918	815	2,823	13,574	19,034
Earthquake related revenue (eg, reinsurance)		(315)	(12)	(340)	(910)	(4,514)	(6,091)
Total Crown net earthquake costs		**589**	**906**	**475**	**1,913**	**9,060**	**12,943**
Operating and capital expenses							
Operating expenses		(55)	326	266	1,900	9,060	11,497
Capital expenditure		644	580	209	13	-	1,446
Total Crown net earthquake costs		**589**	**906**	**475**	**1,913**	**9,060**	**12,943**

Overall, net earthquake costs in 2015 reflected a focus on the rebuild rather than recovery. As a result a number of capital projects are underway, including the central city rebuild.

The measurement of the Government's earthquake-related assets and liabilities contain a number of uncertainties. 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 other independent experts to make a number of assessments such as the 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 continues to exist 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 is tested against emerging experience over time, the level of this uncertainty will reduce.

The significant assets and obligations where uncertainty exists are summarised in the following table.

Note 32: Canterbury Earthquakes (continued)

	Note	30 June 2015 $m	30 June 2014 $m
Canterbury earthquake-related obligations			
EQC property damage liability	a	2,741	4,441
Southern Response property damage liability	d	1,216	1,434
Total insurance liabilities		3,957	5,875
Provision for Canterbury Red Zone support package		3	66
Provision for water infrastructure costs	b	234	394
Other provisions		22	35
Total provisions		259	495
Inter-segment eliminations		(336)	(367)
Total Canterbury earthquake-related obligations		**3,880**	**6,003**
Canterbury earthquake-related receivables			
EQC reinsurance receivables		962	1,225
Southern Response reinsurance receivables		102	184
Total reinsurance receivables	h	1,064	1,409
Red Zone insurance recoveries	c	344	403
Other receivables		31	11
Total other receivables		375	414
Inter-segment eliminations		(336)	(367)
Total Canterbury earthquake-related receivables		**1,103**	**1,456**
Net Canterbury earthquake-related obligations		**2,777**	**4,547**

These results do not represent the total fiscal impact to the Government of the earthquakes, as some costs will not be determined until further decisions and actions on the recovery from the earthquakes are made. Instead they represent the costs to 30 June 2015, refer to note 29 for further information.

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

The final costs of the Canterbury earthquakes may differ from these estimates.

a) Earthquake Commission (EQC) insurance claims

EQC's obligation (and reinsurance recoveries) in relation to the Canterbury earthquakes has been valued by an independent actuary (Melville Jessup Weaver) as at 30 June 2015. The actuary considered that overall the information and data supplied to Melville Jessup Weaver was adequate and appropriate for the purposes of their valuation.

The key sources of uncertainty in estimating the obligation are:

- a complex land claims environment as policy, engineering and legal difficulties are worked through, and
- complexity of the remaining dwelling claims and the expectation that some claims will need to be reopened to rectify outstanding issues.

Consequently there continues to be a degree of unavoidable uncertainty regarding the future claims costs. However, as dwelling claims continue to be settled and complex land settlements increase, the level of uncertainty will reduce as the valuation and its assumptions can be tested against the emerging claims experience.

Note 32: Canterbury Earthquakes (continued)

During the 2014/15 financial year, a declaratory judgment requested by the Commission, enabled the Commission to confirm the claim settlement methodology in regards to Increased Flooding Vulnerability (IFV) and provided guidance on determining the policy for settlement of Increased Liquefaction Vulnerability (ILV) claims. One of the key determinations from the declaratory judgment was that Diminution of Value (DOV) is a permitted settlement method for IFV and ILV as it best reflects the loss in particular situations.

While the declaratory judgement's guidance around ILV and IFV claims subsequently helped to clarify the assumptions used to derive the outstanding claims liability reported, actual settlement may deviate as experience of applying the ILV and IFV policy emerges.

Other 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 single monetary limit and are therefore subject to greater volatility.

These financial statements include a net EQC recovery of $444 million for the year ended 30 June 2015 relating to the Canterbury earthquakes (2014: $242 million net recovery). This net 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 better information regarding these claims.

	30 June 2015 $m	30 June 2014 $m
Movement in Outstanding EQC Insurance Liability - Canterbury earthquakes		
Opening balance	4,441	6,634
Net claims incurred/reassessed for the year	(455)	(368)
Claims paid out in the year	(1,245)	(1,825)
Closing outstanding EQC insurance liability - Canterbury earthquakes	**2,741**	**4,441**

During the year, $1.2 billion was paid out to settle claims (2014: $1.8 billion). This takes the total for settling approved claims to $8.8 billion, leaving an outstanding insurance liability estimate of $2.7 billion, some of which is expected to be offset by reinsurance proceeds.

b) Local infrastructure

In 2013, the Government entered into a cost sharing agreement with the Christchurch City Council (CCC) covering various items including the Crown contribution to three waters infrastructure (waste water, storm water and fresh water) response and rebuild costs and local roading. The agreement set 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). The cost sharing agreement allowed for an independent review of CCC's infrastructure recovery costs and programme with any costs of the rebuild work as the basis of any final discussions on horizontal infrastructure cost sharing. This review was carried out during the year. The agreement also acknowledges there is the possibility of unforeseen circumstances, so both parties can review the agreement in the future.

While best available information has been used to provide the estimate of water infrastructure recovery costs, significant uncertainties remain with regard to policy decisions on eligible expenditure, and the estimation of future eligible costs and validation of costs incurred to date.

The movement in the provision for water infrastructure costs during the year is set out below.

Note 32: Canterbury Earthquakes (continued)

	30 June 2015 $m	30 June 2014 $m
Movement in provision for Water Infrastructure costs		
Opening provision	394	769
Provision used during the period	(176)	(391)
Unwind of discount rate and effect of changes in discount rate	16	16
Closing provision	**234**	**394**

While costs associated with water infrastructure are recognised upfront, the repair of local roadways is recognised in the year of repair, consistent with the approach taken to all subsidised local roading repairs. 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. NZTA have entered into a loan agreement with the Crown to fund the ongoing NZTA contribution above this amount over the next two years.

During the year, $50 million (2014: $93 million) was incurred for costs associated with the repair of local roadways taking the total costs of local roading repairs to date to $374 million.

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 2015. The net effect of the re-estimation of the red zone support package was a reversal of expenses of $31 million in the current year (2014: $73 million). The actuary has used the latest available data to prepare this valuation. The amount included is the best estimate using this data rather than a final cost. It is acknowledged that there have been limitations on the data available from insurers particularly in relation to land recoveries.

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.

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).

Finity Consulting Pty Limited (the Appointed Actuary) has prepared the independent actuarial estimate of the Southern Response claims liability as at 30 June 2015. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The movement in Southern Response’s property damage liability is set out below:

Note 32: Canterbury Earthquakes (continued)

	30 June 2015 $m	30 June 2014 $m
Movement in Outstanding Southern Response Claims Liability		
Opening balance	1,434	1,744
Net claims incurred/reassessed for the year - Canterbury earthquakes	334	87
Claims paid out in the year	(552)	(397)
Closing outstanding Southern Response claims liability	**1,216**	**1,434**

During the 2015 financial year $325 million of net expenses were recognised in relation to Southern Response support (2014: $124 million net expenses). Southern Response support costs include claims costs, net of insurance recoveries, plus the operating costs of the company.

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 uncertainties regarding Southern Response's outstanding claims liability are similar to those of EQC (with the exception of risks associated with land claims).

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 2015, $179 million (2014: $473 million) has been recognised relating to both capital and operating costs for these projects. Of these projects, the Bus Interchange is the most significant in the current year and was substantially complete at 30 June 2015.

f) Crown assets

Costs associated with Crown assets were $335 million (2014: $96 million) and include capital expenditure on Canterbury hospitals, the University of Canterbury and Lincoln University, the Justice and Emergency Services Precinct, Canterbury schools, and housing.

g) Other earthquake costs

Other costs represent various other initiatives raised in support of Canterbury. The 2015 net cost includes the operating costs of the Canterbury Earthquake Recovery Authority (CERA), net operating and capital expenses incurred by Crown entities other than EQC, state highway repairs.

h) Reinsurance receivables

Associated with both EQC and Southern Response's insurance liabilities are reinsurance receivables. The movement in the Crown's total reinsurance receivable balance is set out below.

	30 June 2015 $m	30 June 2014 $m
Reinsurance receivables		
Opening balance	1,409	3,135
Reinsurance recognised/reassessed during the year	(25)	(160)
Reinsurance received during the year	(320)	(1,566)
Closing balance	**1,064**	**1,409**

Note 33: Impact of Adoption of NZ PBE Standards

These financial statements, including the comparatives, have been prepared in accordance with Public Sector PBE Accounting Standards (PBE Standards) – Tier 1. These standards are based on International Public Sector Accounting Standards (IPSAS). Previously published financial statements have been prepared in accordance with NZ equivalents to International Financial Reporting Standards as applicable for public benefit entities (NZ IFRS (PBE)).

This note explains how the transition from previous GAAP to PBE standards has affected the reported financial position and financial performance for the year ended 30 June 2014.

	Revenue $m	Expense $m	OBEGAL $m	Assets $m	Liabilities $m	Net Assets $m
Closing balance 30 June 2014	89,396	92,170	(2,933)	256,083	175,304	80,779
(a) Tax revenue recognition	89	-	89	660	858	(198)
(b) Initial recognition of sovereign revenue	(293)	(293)	-	-	-	-
Other minor items	7	(35)	42	81	(35)	116
Restated 30 June 2014	**89,199**	**91,842**	**(2,802)**	**256,824**	**176,127**	**80,697**

a) Under NZ PBE standards the recognition point of some tax revenue changed to ensure the tax was recognised when the taxable event occurred, rather than when an assessment was filed (the previous policy).

b) The initial recognition of sovereign revenue has changed so that sovereign revenue is initially recognised at fair value (net of impairment expenses). This compares to the previous policy of showing revenue at the gross amount with a separate impairment expense. The impairment expense is now netted off against revenue instead of shown separately.

Note 34: Subsequent Events

The following significant policy decisions and events occurred after 30 June 2015 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 New Zealand

On 13 August 2015 the Board of Solid Energy New Zealand Limited placed that company and all associated companies into voluntary administration. Subsequently, on 17 September 2015, a Deed of Company Arrangement (DOCA) was approved by creditors that will allow the company to continue to trade while it undertakes an orderly, managed sale of its assets over the next two-and-a-half years.

Under the DOCA:

- Solid Energy will engage an investment bank and undertake an orderly, managed sale of its assets over the next two-and-a-half years.
- The existing Board will continue to govern Solid Energy, and be monitored by and report to the Deed Administrators and a monitoring committee of certain creditors.
- Solid Energy's debt will be restructured and divided into two tranches.
- All costs incurred in the normal course of ongoing trading will be paid when they fall due and rank ahead of all other debt.
- Existing Crown indemnities for site rehabilitation costs will be restructured to provide certainty for future mine owners and affected local authorities and assist the asset sale process.
- Participant creditors get what's left at the end, after payment of all trade creditors and employees, as settlement of their debt. If the proceeds are less than the outstanding debt, the participant creditors release the shortfall.
- If any assets cannot reasonably be sold they will be put into a safe and secure state, all employee entitlements will be fully met, and the asset will be disclaimed.

The Crown will continue to take responsibility for site rehabilitation costs associated with Solid Energy's activity as detailed in the Deed of Indemnity. On execution of the DOCA, existing Crown indemnities were restructured by extinguishing the existing indemnities and providing new indemnities on a mine by mine basis. The value of these new indemnities has been made transferrable to future mine owners by permitting them to be 'cashed out' to an escrow agent prior to sale. The escrow agent will hold the funds and reimburse certified rehabilitation work carried out by future owners. Local authorities have also been given direct access to claim against the new indemnities (once cash out has occurred) in the event of non-performance of mine owners obligations.

These financial statements reflect the assumption that there is no residual value in Solid Energy for the Crown. Therefore, with the exception of site rehabilitation obligations which have been indemnified by the Crown, the net assets of Solid Energy have been valued at nil by adjusting the asset value to agree to the value of Solid Energy's liabilities.

Note 35: Significant Accounting Policies

Revenue

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
Income tax	The earning of assessable income during the taxation period by the taxpayer
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
Other indirect taxes	When the debt to the Crown arises
ACC levies	The levy revenue is earned evenly over the levy period
Other 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 for the services unless an alternative method better represents the stage of completion of the transaction.

Interest revenue

Interest revenue is accrued using the effective interest 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 revenue each period.

Dividend revenue

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

Note 35: Significant Accounting Policies (continued)

Rental revenue

Rental revenue 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 revenue.

Donated or subsidised assets

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

If control of the donated assets is conditional on the satisfaction of performance obligations, the revenue is deferred and recognised when the conditions are satisfied.

Gains

Gains may be reported in the Statement of Financial Performance when assets are revalued or liabilities are devalued in certain circumstances as described in the accounting policies for those assets and liabilities. For the purposes of reporting OBEGAL these gains are excluded from total revenue and presented elsewhere 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 have been met.

Grants and subsidies

Where grants and subsidies are at the government's discretion until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria for the grant or subsidy have been fulfilled and notice has been given to the government.

Interest expense

Interest expense is accrued using the effective interest 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.

Losses

Losses may be reported in the Statement of Financial Performance when assets are devalued or liabilities are revalued in certain circumstances as described in the accounting policies for those assets and liabilities. For the purposes of reporting OBEGAL these losses are excluded from total expenses and presented elsewhere in the Statement of Financial Performance.

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 revenue and expense when hedge accounting is applied.

Note 35: Significant Accounting Policies (continued)

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 revenue and expense.

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 revenue and expense.

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.

Receivables arising from sovereign revenue will be initially recognised at fair value. 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

Non-derivative financial assets

Financial assets are designated into the following categories: loans and receivables at amortised cost, financial assets available-for-sale, financial assets held-for-trading and financial assets designated as fair value through the Operating Balance. 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 at amortised cost
Student loans	All designated as loans and receivables at amortised cost
Kiwibank mortgages	All designated as loans and receivables at amortised cost
Other advances	Generally designated as loans and receivables at amortised cost
IMF financial assets	All designated as loans and receivables at amortised cost
Share investments	Generally designated as fair value through the Operating Balance
Marketable securities	Generally designated as fair value through the Operating Balance
Long-term deposits	Generally designated as loans and receivables at amortised cost

Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method (refer interest revenue policy). Loans and receivables issued with durations of 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.

Note 35: Significant Accounting Policies (continued)

Financial assets held-for-trading and financial assets designated at fair value through the Operating Balance 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 at fair value through the Operating Balance 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 revenue and expense, 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 revenue and expense include any related foreign exchange component. At derecognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive revenue and expense, 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 market 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.

Non-derivative financial liabilities

Financial liabilities are designated into the following categories: amortised cost, financial liabilities held-for-trading and financial liabilities designated as fair value through the Operating Balance. 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.

Major financial liability type	Designation
Accounts payable	All designated at amortised cost
Government stock	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

Note 35: Significant Accounting Policies (continued)

Financial liabilities held-for-trading and financial liabilities designated at fair value through the Operating Balance 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 at fair value through the Operating Balance 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 are subsequently measured at amortised cost using the effective interest 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.

Derivative financial instruments

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 adopting hedge accounting, 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.

(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 revenue and expense 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 revenue and expense is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive revenue and expense 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 revenue and expense is transferred to the statement of financial performance.

Note 35: Significant Accounting Policies (continued)

(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.

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, their cost is deemed to be fair value, usually determined through an assessment of current replacement cost at the date of acquisition.

Inventories include unissued currency and harvested agricultural produce (eg, logs, 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

Measurement on initial recognition

Items of property, plant and equipment (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, as revenue in the statement of financial performance.

Capitalisation of borrowing costs

Generally, Government borrowings are not directly attributable to individual assets. Therefore, borrowing costs incurred during the period, including any that could be allocated as a cost of completing and preparing assets for their intended use are expensed rather than capitalised.

Subsequent measurement

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

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.

Class of PPE	Accounting policy
Land and buildings	Land and buildings are recorded at fair value and, for buildings, less depreciation accumulated since the assets were last revalued. Land associated with the rail network and state highways is valued using an estimate based on adjacent use, as an approximation to fair value. Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where applicable. 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. 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.

Note 35: Significant Accounting Policies (continued)

Class of PPE	Accounting policy
Specialist military equipment	Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation accumulated since the assets were last revalued. 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.
State highways	State highways are recorded on a depreciated replacement cost basis less depreciation accumulated since the assets were last revalued.
Rail network	Rail infrastructure used for freight services (freight only and dual use lines required for freight operations) are recorded at fair value less depreciation accumulated since the assets were last revalued. Rail infrastructure not required for freight operations and used for metro services is recorded on a depreciated replacement cost basis less depreciation accumulated since the assets were last revalued.
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation accumulated since the assets were last revalued.
Electricity distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation	Electricity generation assets are recorded at fair value less depreciation accumulated since the assets were last revalued.
Specified cultural and heritage assets	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 and, for non-land assets, less subsequent accumulated depreciation. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation. For example, Crown research institutes own various collections, library resources and databases that are an integral part of the research work they undertake. These collections are highly specialised and there is no reliable basis for establishing a valuation. They have therefore not been valued for financial reporting purposes.
Other plant and equipment	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.

Revaluation

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 added 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 deducted from that reserve. Otherwise, losses are reported in the statement of financial performance.

Note 35: Significant Accounting Policies (continued)

Depreciation

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 150 years
Specialist military equipment (SME)	5 to 55 years
State highways: Pavement (surfacing) Pavement (other) Bridges	 7 years 50 years 70 to 105 years
Rail Network: Track and ballast Tunnels and bridges Overhead traction and signalling	 25 to 40 years 60 to 100 years 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.

Impairment

For assets held at cost, 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.

Disposal

Realised gains and losses arising from disposal of PPE are generally recognised in the statement of financial performance when the significant risks and rewards of ownership of the asset have transferred to the acquirer. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to taxpayer funds.

Note 35: Significant Accounting Policies (continued)

Public private partnerships

A public private partnership (also known as a service concession arrangement) is an arrangement between the Government and a private sector partner in which the private sector partner uses specified assets to supply a public service on behalf of the Government for a specified period of time and is compensated for its services over the period of the arrangement. The costs of the specified assets are financed by the private sector partner, except where existing assets of the Government (generally land) are allocated to the arrangement. Payments made by the Government to a private sector partner over the period of a service concession arrangement cover the costs of the provision of services, interest expenses and repayment of the liability incurred to acquire the specified assets.

The assets in a public private partnership are recognised as assets of the Government. If the assets are progressively constructed, the Government progressively recognises work-in-progress at cost and a financial liability of the same value is also recognised. When the assets are fully constructed, the total asset cost and the matching financial liability reflect the value of the future compensation to be provided to the private-sector partner for the assets.

Subsequent to initial recognition:

- the assets are accounted for in accordance with the accounting policy applicable to the classes of property, plant and equipment that the specified assets comprise, and
- the financial liabilities are measured at amortised cost.

Equity accounted investments

NZ GAAP determines the combination bases for entities that make up the Government reporting entity and is used by public benefit entities to determine whether they control another entity.

However, NZ GAAP is not clear about how the definitions of control and significant influence should be applied in some circumstances in the public sector, for example, 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 their 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 accumulated 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.

Note 35: Significant Accounting Policies (continued)

Intangible assets

Intangible assets are initially recorded at cost.

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.

Where an intangible asset with a market value is internally generated for nil or nominal consideration it is initially reported at cost, which by definition is nil/nominal.

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 when the significant risks and rewards of ownership have transferred to the acquirer.

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 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 property, plant and equipment.

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 the liability, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

Note 35: Significant Accounting Policies (continued)

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 liability for long-term employee entitlements is 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 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 the Operating Balance.

Reinsurance

Premiums paid to reinsurers are recognised as reinsurance expense 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 and outstanding claims, are recognised as revenue 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.

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, where the lessor substantially retains the risks and rewards of ownership, are 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.

Note 35: Significant Accounting Policies (continued)

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 more than remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Commitments are classified as:

- Capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date.

- 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 those penalty or exit costs (ie, the minimum future payments).

Interest commitments on debts, commitments for funding, and commitments relating to employment contracts are not separately reported as commitments.

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.

Comparatives referred to as Budget 14 were forecasts published in the *2014 Budget Economic and Fiscal Update,* while Budget 15 were forecasts published in the *2015 Budget Economic and Fiscal Update* adjusted for any PBE transition reclassifications. 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, government 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. Investments in Crown entities and SOEs are reported at historic cost with no impairment. This ensures losses in those entities are reflected in the appropriate segment.

- 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).

- State-owned enterprises: This group includes entities governed by the State-owned Enterprises Act 1986, and (for the purposes of these statements) also includes Air New Zealand, Mighty River Power, Meridian Energy and Genesis Energy. This group represents entities that undertake commercial activity.

Note 35: Significant Accounting Policies (continued)

Functional analysis is also provided of a number of financial statements 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 Financial Statements of the Government.

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.

Statement of Unappropriated Expenditure

for the year ended 30 June 2015

Parliament's approval for the incurring of expenses or capital expenditure is generally given either by means of an Appropriation Act or an Imprest Supply Act followed by an Appropriation Act.[10]

Expenses or capital expenditure that is incurred without an appropriation or other authority (such as an Imprest Supply Act) or that is incurred under imprest supply but not included in an Appropriation (Supplementary Estimates) Act by the end of the financial year, is classed as "unappropriated expenditure" and remains so until it is subsequently validated by Parliament.

Unappropriated expenditure is subject to specific requirements in the Public Finance Act 1989:

- it must be disclosed in the annual financial statements of the Government, and of the relevant administering department, and
- it must be retrospectively validated by Parliament through the passing of an Appropriation (Confirmation and Validation) Act.

This statement reports all expenses and capital expenditure that were incurred without, in excess, or outside the scope, of existing appropriations. The table below details the different categories of unappropriated expenditure for the year ended 30 June 2015.

<table>
<tr><th>Category of unappropriated expenditure</th><th>Reporting requirements to Parliament under the Act</th></tr>
<tr><td>A. Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989</td><td>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.</td></tr>
<tr><td>B. With Cabinet authority to use imprest supply but in excess of appropriation prior to the end of the financial year</td><td rowspan="5">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.</td></tr>
<tr><td>C. With Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year</td></tr>
<tr><td>D. In excess of appropriation and without prior Cabinet authority to use imprest supply</td></tr>
<tr><td>E. Outside scope of an appropriation and without prior Cabinet authority to use imprest supply</td></tr>
<tr><td>F. Without appropriation and without prior Cabinet authority to use imprest supply</td></tr>
</table>

10 Imprest Supply Acts authorise the Government to incur expenses and capital expenditure, in advance of the passing of an Appropriation Act, up to a specified amount. Cabinet rules require any use of imprest supply to be authorised by a specific Cabinet decision or in some instances by delegated authority to joint ministers. All expenses and capital expenditure incurred under an Imprest Supply Act must be subsequently approved by Parliament prior to the end of the financial year. If not approved by Parliament prior to the end of the financial year, then the expenditure must be validated in an Appropriation (Confirmation and Validation) Act.

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation name	**Authority at time of breach $000**	**Amount exceeding appropriation $000**
(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			
Ministry of Education			
Education	*Non-Departmental Other Expense*		
	Early Childhood Education	1,607,342	16,029
Ministry of Transport			
Transport	*Non-Departmental Other Expense*		
	SuperGold Card - public transport concessions for cardholders	26,100	16
New Zealand Police			
Police	*Departmental Output Expense*		
	Police Primary Response Management	380,041	2,272
	General Crime Prevention Services	159,700	647
	Investigations	379,701	2,044

Department Vote	*Expense type* Appropriation name	**Authority at time of breach $000**	**Amount exceeding appropriation $000**

(B) Expenses and capital expenditure incurred with Cabinet authority to use imprest supply but in excess of appropriation prior to the end of the financial year

None this year

Department Vote	*Expense type* Appropriation name	**Authority at time of breach $000**	**Amount without or exceeding appropriation $000**

(C) Expenses and capital expenditure incurred with Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year

None this year

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation name	**Authority at time of breach $000**	**Amount without or exceeding appropriation $000**
(D) Expenses and capital expenditure incurred in excess of appropriation and without prior Cabinet authority to use imprest supply			
Canterbury Earthquake Recovery Authority			
Canterbury Earthquake Recovery	*Non-Departmental Other Expenses* Impairment of Improvements	51,000	24,390
Ministry of Business, Innovation and Employment			
Commerce and Consumer Affairs	*Non-Departmental Output Expense* Enforcement of Dairy Sector Regulation and Auditing of Milk Price Setting	853	82
Ministry for Culture and Heritage			
Arts, Culture and Heritage	*Non-Department Output Expense* Protection of Taonga Tūturu	79	50
Ministry of Justice			
Justice	*Non-Departmental Output Expense* Legal Aid	125,555	4,805
Parliamentary Service			
Parliamentary Service	*Non-Departmental Other Expenses* Travel of Former MPs	1,000	118
Ministry of Education			
Education[11]	*Departmental Output Expense* *Policy Advice* *1 July 2013 – 30 June 2014*	11,776	587
Tertiary Education[11]	*Departmental Output Expense* *Policy Advice* *1 July 2013 – 30 June 2014*	5,347	509

11 This expenditure in excess of appropriation was omitted from the 30 June 2014 Statement of Unappropriated Expenditure but was subsequently validated in the 2014 Appropriation (Confirmation and Validation) Bill.

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation name	Amount without or exceeding appropriation $000
(E) Expenses and capital expenditure incurred outside scope of an appropriation and without prior Cabinet authority to use impress supply		
Crown Law		
Attorney General	*Departmental Output Expense*	
	Conduct of Criminal Appeals from Crown Prosecutions	61
Ministry of Business, Innovation and Employment		
Housing	*Departmental Output Expense*	
	Building and Construction Ministerial Servicing	52
Ministry of Transport		
Transport	*Non-Departmental Capital Expenditure*	
	Rail – New Zealand Railways Corporation Loans	10,750

Department Vote	*Expense type* Nature of expense or capital expenditure	Amount without appropriation $000
(F) Expenses and capital expenditure incurred without appropriation and without prior Cabinet authority to use imprest supply		
Ministry of Business, Innovation and Employment		
Commerce and Consumer Affairs	Impairment of debts owed to the Crown	18
Labour	Impairment of debts owed to the Crown	18
Tourism	Impairment of debts owed to the Crown	41
Canterbury Earthquake Recovery Authority		
Canterbury Earthquake Recovery	Crown Asset Depreciation	453
	Cost of vesting land to the Christchurch City Council	4,119
	Transaction costs associated with the purchase of land	4,582
	Christchurch Bus Interchange	3,505
Ministry of Transport		
Transport	KiwiRail Equity Injection	1,535

Statement of Unappropriated Expenditure (continued)

Department	*Expense type*	**Amount without appropriation**
Vote	Nature of expense or capital expenditure	**$000**
Other unappropriated expenditure outside categories (A) to (F) above		
Ministry of Social Development		
Social Development[12]	*Non-Departmental Output Expense*	
	Short-Term Housing in Canterbury	131

12 This expenditure was included in an Appropriation (Supplementary Estimate) Act by the end of the financial year but was unappropriated for a limited time during the year because the use of imprest supply had not been approved when the expenditure was initially incurred.

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2015

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 2015

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.

Statement of Trust Money (continued)

for the year ended 30 June 2015

Department Trust Account	**As at 30 June 2014 $000**	**Contributions** $000	**Distributions** $000	**Revenue** $000	**Expenses** $000	**As at 30 June 2015 $000**
Department of Conservation						
Bonds/Deposits Trust	7,779	114	(867)	230	-	7,256
Conservation Project Trust	1,315	627	(690)	23	-	1,275
National Parks Trust	121	69	(54)	3	-	139
Walkways Trust	11	-	-	-	-	11
Wildlife and Reserves Trusts [1]	-	-	-	-	-	-
Department of Corrections						
Prisons Trust	2,354	16,161	(16,327)	-	-	2,188
Crown Law Office						
Legal Claims Trust	284	340	(370)	4	(5)	253
Ministry of Business, Innovation and Employment						
Coal and Minerals Deposits Trust	77	60	(73)	-	-	64
Criminal Assets Management and Enforcement Regulators Association Trust	15	-	-	1	-	16
Employment Relations Service Trust	28	129	(89)	1	(11)	58
Employment Relations Act Security of Costs Trust	4	-	-	-	-	4
New Zealand Immigration Service Trust	1,543	2,055	(2,324)	30	(2)	1,302
Official Assignee's Office Trust	23,776	42,351	(12,162)	1,586	(27,144)	28,407
Patent Co-operation Treaty Fees Trust	99	1,177	(1,143)	5	(4)	134
Petroleum Deposits Trust	81	10	(10)	-	-	81
Proceeds of Crime Trust	48,104	29,961	(5,652)	1,569	(10,431)	63,551
Radio Frequencies Tender Trust	226	-	-	-	-	226
Residential Tenancies Bond Trust	420,750	208,162	(171,377)	23,204	(23,204)	457,535
Weathertight Services Financial Assistance Trust	-	3,799	(3,799)	-	-	-
Ministry of Culture and Heritage						
Dictionary of New Zealand Biography Trust	14	-	-	-	-	14
New Zealand Historical Atlas Trust	142	-	-	5	-	147
New Zealand History Research Trust	1,512	-	(68)	55	-	1,499
New Zealand Oral History Awards Trust	1,069	-	(138)	39	-	970
War History Trust	474	-	-	19	(203)	290
New Zealand Customs Services						
Alcohol Liquor Advisory Council Trust	1,315	12,634	(12,981)	-	-	968
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	9,617	77,575	(8,775)	-	-	78,417
Heavy Engineering Research Association Trust	163	1,691	(1,706)	-	-	148
Maritime Safety Authority Trust [1]	-	-	-	-	-	-
New Zealand Customs Service IBM MSA Trust [1]	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	112	8,868	(8,456)	-	-	524
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	12	78,237	(77,983)	-	-	266

Statement of Trust Money (continued)

for the year ended 30 June 2015

Department Trust Account	**As at 30 June 2014 $000**	**Contributions** $000	**Distributions** $000	**Revenue** $000	**Expenses** $000	**As at 30 June 2015 $000**
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	3,426	4,409	(1,472)	153	(1,684)	4,832
Conferences Trust	2	-	-	-	-	2
Ministry of Foreign Affairs and Trade						
Afghanistan New Zealand Aid Programme Trust	609	1,606	(1,809)	6	-	412
Cook Island Trust	231	1,961	(1,971)	10	-	231
Fred Hollows Foundation New Zealand - Pacific Regional Blindness Prevention Programme Trust	808	1,556	(2,371)	10	-	3
Government Administration Building, Niue Trust	288	-	-	5	-	293
Kiribati Sustainable Towns Programme Trust	-	-	-	-	-	-
New Zealand/France Friendship Trust	16	182	(110)	1	(23)	66
Niue Primary School Infrastructure Project Trust	5,398	-	(3,571)	100	-	1,927
Tuvalu Ship to Shore Transport Project Trust	1,514	1,433	-	25	-	2,972
Ministry of Health						
Health Benefits Offices Trust	875	6,993,705	(6,994,224)	-	732	1,088
Medicines Review Objectors Deposit Trust [1]	-	-	-	-	-	-
Inland Revenue Department						
Child Support Agency Trust	17,394	260,880	(262,075)	-	-	16,199
KiwiSaver Returned Transactions Trust	44	102	-	-	-	146
KiwiSaver Employer Trust [1]	-	-	-	-	-	-
Reciprocal Child Support Agreement Trust	396	12,546	(12,504)	-	-	438
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust	9,115	237	(2,794)	2,070	(1,437)	7,191
Interloan Billing System Trust	40	-	-	736	(697)	79
Macklin Bequest Fund Trust	286	-	-	11	(12)	285
New Zealand 1990 Scholarship Trust [1]	763	-	(763)	-	-	-
Ministry of Justice						
Courts Law Trust	14,486	30,537	(27,000)	-	-	18,023
Election Candidates Deposit Trust [1]	-	-	-	-	-	-
Employment Court Trust	695	196	(541)	-	-	350
Fines Trust	40,590	208,920	(211,143)	-	-	38,367
Foreign Currency Euro Fund Trust [1]	-	-	-	-	-	-
Foreign Currency United States Dollar Trust	-	-	-	-	-	-
Legal Complaints Review Officer Trust	6	1	(6)	-	-	1
Maori Land Court Trust	60	4	(21)	-	-	43
Supreme Court Trust	101	64	(113)	-	-	52
Victims' Claims Trust	-	31	(27)	-	-	4

Statement of Trust Money (continued)

for the year ended 30 June 2015

Department Trust Account	As at 30 June 2014 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2015 $000
Land Information New Zealand						
Crown Forestry Licences Trust	108	7,242	(6,928)	-	-	422
Deposits Trust [1]	-	-	-	-	-	-
Endowment Rentals Trust	1	248	(248)	-	-	1
Hunter Gift for the Settlement of Discharged Soldiers Trust	55	1	-	-	-	56
New Zealand Police						
Bequests, Donations and Appeals Trust	70	12	(82)	-	-	-
Found Money Trust	137	189	(255)	-	-	71
Money in Custody Trust	11,539	21,189	(20,020)	-	-	12,708
Reparation Trust	8	15	(18)	-	-	5
Rewards Monies Trust [1]	-	-	-	-	-	-
Ministry for Primary Industries						
MAF Overfishing Account Trust	3,035	3,652	(2,565)	100	-	4,222
MAF Fish Forfeit Property Trust	1,913	376	(67)	56	-	2,278
Meat Board Levies Trust	-	68,664	(68,669)	5	-	-
National Animal Identification Tracing Trust	284	3,069	(3,352)	-	-	1
Seized Timber Trust	1	20	(11)	-	-	10
Ministry of Social Development						
Australian Dollar Embargoed Arrears Trust	1,026	7,150	(7,617)	-	-	559
Australian Recovery Debt Trust	2	12	(12)	-	-	2
Maintenance Trust	251	459	(604)	2	-	108
Netherlands Recovery Debt Trust	4	152	(145)	-	-	11
Overseas Debt Recovery Trust [1]	-	-	-	-	-	-
WR Wallace Trust	405	-	(69)	88	-	424
Treasury						
Genesis Share Offer Trust	167	-	-	95	(232)	30
Meridian Share Offer Trust	66	-	-	3	(44)	25
Mighty River Share Offer Trust	4	-	-	-	(1)	3
Trustee Act 1956 Trust	4,780	1,199	(159)	88	(86)	5,822
Total	**641,996**	**8,116,039**	**(7,958,380)**	**30,338**	**(64,488)**	**765,505**

1 Inoperative trust account

ADDITIONAL FINANCIAL INFORMATION

Fiscal Indicator Analysis

for the year ended 30 June 2015

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 92 to 94) 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.

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Core Crown Cash Flows from Operations		
66,030	66,032	Tax receipts	66,348	61,321
771	821	Other sovereign receipts	889	747
1,737	1,921	Interest, profits and dividends	1,806	1,627
2,307	2,442	Sale of goods & services and other receipts	2,433	2,397
(24,021)	(23,944)	Transfer payments and subsidies	(23,895)	(23,447)
(42,419)	(42,757)	Personnel and operating costs	(42,064)	(41,989)
(3,884)	(4,043)	Finance costs	(3,922)	(3,642)
(291)	(7)	Forecast for future new operating spending	-	-
875	555	Top-down expense adjustment	-	-
1,105	**1,020**	**Net core Crown operating cash flows**	**1,595**	**(2,986)**
(2,600)	(2,486)	Net purchase of physical assets	(1,955)	(1,867)
(1,423)	(759)	Net increase in advances	(570)	(716)
(2,060)	(1,452)	Net purchase of investments	(1,525)	(865)
628	628	Government share offer programme	628	2,325
(326)	-	Forecast for future new capital spending	-	-
370	375	Top-down capital adjustment	-	-
(5,411)	**(3,694)**	**Net Core Crown capital cash flows**	**(3,422)**	**(1,123)**
(4,306)	**(2,674)**	**Residual cash deficit**	**(1,827)**	**(4,109)**
		The residual cash deficit is funded as follows:		
		Debt programme cash flows		
		Market:		
8,046	8,201	Issue of government bonds	8,058	7,716
(8,805)	(8,684)	Repayment of government bonds	(8,684)	(2,196)
720	3,380	Net issue/(repayment) of short-term borrowing[1]	4,179	(935)
(39)	2,897	Total market debt cash flows	3,553	4,585
		Non market:		
-	-	Issue of government bonds	-	-
(1,427)	(1,152)	Repayment of government bonds	(482)	-
(500)	(480)	Net issue/(repayment) of short-term borrowing	(480)	-
(1,927)	(1,632)	Total non-market debt cash flows	(962)	-
(1,966)	**1,265**	**Total debt programme cash flows**	**2,591**	**4,585**
		Other borrowing cash flows		
1,136	1,682	Net (repayment)/issue of other New Zealand dollar borrowing	3,207	(674)
(842)	(1,769)	Net (repayment)/issue of foreign currency borrowing	(2,757)	1,083
294	**(87)**	**Total other borrowing cash flows**	**450**	**409**
		Investing cash flows		
5,830	2,120	Other net sale/(purchase) of marketable securities and deposits	795	(1,510)
152	511	Issues of circulating currency	372	274
(4)	(1,135)	Decrease/(increase) in cash	(2,381)	351
5,978	**1,496**	**Total investing cash flows**	**(1,214)**	**(885)**
4,306	**2,674**	**Residual cash deficit funding**	**1,827**	**4,109**

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

Fiscal Indicator Analysis – Debt

as at 30 June 2015

Forecast Budget 2014 $m	Forecast Budget 2015 $m		Actual 30 June 2015 $m	Actual 30 June 2014 $m
		Gross and net core Crown debt analysis:		
104,390	**107,898**	Total borrowings	**112,580**	**103,419**
		Core Crown net debt:		
86,246	91,162	Core Crown borrowings[1]	95,649	89,090
(767)	(1,168)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(2,493)	(622)
85,479	**89,994**	**Gross sovereign-issued debt[2]**	**93,156**	**88,468**
63,248	71,777	Less core Crown financial assets[3]	76,434	68,047
22,231	**18,217**	**Core Crown net debt (including NZS Fund)[4]**	**16,722**	**20,421**
26,280	29,104	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	29,769	25,757
48,511	**47,321**	**Core Crown net debt (excluding NZS Fund)**	**46,491**	**46,178**
15,056	14,352	Advances	14,140	13,753
63,567	**61,673**	**Core Crown net debt (excluding NZS Fund and advances)[6]**	**60,631**	**59,931**
26.4%	*25.7%*	*As a percentage of GDP*	*25.2%*	*25.6%*
		Gross debt:		
85,479	89,994	Gross sovereign-issued debt[2]	93,156	88,468
(7,245)	(7,684)	Less Reserve Bank settlement cash and bank bills	(8,631)	(8,112)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash[7]	1,600	1,600
79,834	**83,910**	**Gross sovereign-issued debt excluding settlement cash and bank bills**	**86,125**	**81,956**
33.1%	*35.0%*	*As a percentage of GDP*	*35.8%*	*35.0%*

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. Core Crown net debt represents GSID less financial assets.

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 SOEs and 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 20).

Mixed ownership companies

In addition to the core Crown's direct investment in the mixed ownership companies (Air New Zealand, Genesis Energy, Meridian Energy and Mighty River Power) a number of Crown Financial Institutions (CFIs) have invested in the companies as part of their normal investment activities. These investments have the effect of reducing the overall minority interest.

Company	% minority interest before CFI investment	% minority interest after CFI investment
Air New Zealand	48.04%	45.44%
Genesis Energy	48.77%	46.14%
Meridian Energy	48.98%	44.87%
Mighty River Power	48.87%	46.01%

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 2015:

SOEs	Balance date	Information reported to
AsureQuality Limited	30 September	30 June 2015
Crown entities		
New Zealand Symphony Orchestra	31 December	30 June 2015
School boards of trustees	31 December	31 December 2014
TEIs	31 December	30 June 2015

Annual reports

The results presented in the following tables use Crown accounting policies and classifications. As a consequence the results may differ from those published in individual annual reports and profit announcements.

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

	30 June 2015				30 June 2014			
	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions $m	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions $m
State-owned enterprises								
Airways Corporation of New Zealand Limited	186	172	15	4	181	169	12	3
AsureQuality Limited	189	179	11	10	173	162	13	10
Landcorp Farming Limited	224	219	(20)	7	246	232	55	5
New Zealand Post Group	2,241	2,149	144	5	2,176	2,073	107	14
KiwiRail Holdings Limited	769	871	(96)	-	836	1,005	(174)	-
Transpower New Zealand Limited	1,046	785	115	166	1,004	799	216	197
Kordia Group Limited	249	239	9	-	303	312	(9)	4
New Zealand Railways Corporation	-	1	3	-	-	1	(1)	-
Other State-owned enterprises	507	678	(171)	3	561	741	(176)	11
Total State-owned enterprises	**5,411**	**5,293**	**10**	**195**	**5,480**	**5,494**	**43**	**244**
Air New Zealand Limited	4,981	4,608	834	246	4,695	4,444	152	105
Genesis Energy Limited	2,067	1,982	142	146	1,961	1,948	50	121
Meridian Energy Limited	2,912	2,614	247	385	2,517	2,311	230	261
Mighty River Power Limited	1,240	1,202	49	260	1,258	1,085	213	173
Less minority interests	-	-	(384)	(476)	-	-	(194)	(166)
Total mixed ownership companies	**11,200**	**10,406**	**888**	**561**	**10,431**	**9,788**	**451**	**494**
Intra-segmental eliminations	(436)	(490)	(209)		(423)	(374)	(66)	
Total SOE segment	**16,175**	**15,209**	**689**	**756**	**15,488**	**14,908**	**428**	**738**
Crown Entities								
Accident Compensation Corporation	5,444	5,364	1,611	-	5,679	4,649	2,145	-
Crown Asset Management	7	2	11	34	9	4	21	67
Crown Fibre Holdings Limited	29	132	(103)	-	16	171	(154)	-
Crown Research Institutes	660	638	19	4	647	633	22	2
Callaghan Innovation	232	230	2	-	179	176	1	-
District Health Boards	13,065	13,097	(32)	-	12,793	12,796	(4)	-
Earthquake Commission	349	(308)	658	-	222	(67)	289	-
Housing New Zealand Corporation	1,209	995	108	108	1,146	1,000	182	90
Museum of New Zealand Te Papa	59	65	(5)	-	53	61	(8)	-
New Zealand Fire Service Commission	366	374	(3)	-	361	349	5	-
New Zealand Lotteries Commission	848	650	199	-	943	715	226	-
New Zealand Transport Agency	2,289	2,265	(43)	-	2,163	1,974	189	-
Public Trust	68	70	(2)	-	69	68	5	-
Schools	6,968	6,887	75	-	6,759	6,714	40	-
Southern Response Earthquake Services	52	360	(329)	-	(3)	111	(116)	-
Tertiary Education Commission	2,851	2,831	20	16	2,819	2,816	2	-
TEIs	-	-	685	-	-	-	242	-
Television New Zealand	344	322	26	-	353	336	15	-
Other Crown entities	2,105	2,116	27	1	1,911	1,867	18	4
Total Crown entities	**36,945**	**36,090**	**2,924**	**163**	**36,119**	**34,373**	**3,120**	**163**
Intra-segmental eliminations	(651)	(459)	(138)	-	(714)	(452)	(204)	-
Total Crown entities segment	**36,294**	**35,631**	**2,786**	**163**	**35,405**	**33,921**	**2,916**	**163**

The results presented in the following tables use Crown accounting policies and classifications. As a consequence the results may differ from those published in individual annual reports and profit announcements.

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

	30 June 2015 Purchase of PPE $m	Total PPE $m	Total assets $m	Total borrowings $m	Total liabilities $m	Equity $m	30 June 2014 Equity $m
State-owned enterprises							
Airways Corporation of New Zealand Limited	21	125	174	38	87	87	77
AsureQuality Limited	4	28	84	15	43	41	40
Landcorp Farming Limited	62	1,351	1,775	330	363	1,412	1,428
New Zealand Post Limited	34	150	19,170	17,683	18,003	1,167	1,045
KiwiRail Holdings Limited	276	1,449	1,729	235	435	1,294	1,182
Transpower New Zealand Limited	329	4,454	5,454	3,826	4,351	1,103	1,456
Kordia Group Limited	11	73	165	14	74	91	80
New Zealand Railways Corporation	-	3,363	3,381	-	-	3,381	3,272
Other State-owned enterprises	13	136	626	354	680	(54)	51
Total State-owned enterprises	**750**	**11,129**	**32,558**	**22,495**	**24,036**	**8,522**	**8,631**
Air New Zealand Limited	1,063	4,303	7,280	2,363	4,805	2,475	1,853
Genesis Power Limited	40	2,940	3,477	1,010	1,686	1,791	1,880
Meridian Energy Limited	130	6,928	7,456	1,263	2,876	4,580	4,634
Mighty River Power Limited	103	5,419	6,060	1,433	2,720	3,340	3,219
Total mixed ownership companies	**1,336**	**19,590**	**24,273**	**6,069**	**12,087**	**12,186**	**11,586**
Intra-segmental eliminations	(1)	133	(422)	(127)	(114)	(308)	(1,165)
Total SOE segment	**2,085**	**30,852**	**56,409**	**28,437**	**36,009**	**20,400**	**19,052**
Crown entities							
Accident Compensation Corporation	10	31	35,854	264	34,351	1,503	(109)
Crown Asset Management	-	-	23	-	-	23	44
Crown Fibre Holdings Limited	98	384	572	32	82	490	324
Crown Research Institutes	47	452	729	1	175	554	528
Callaghan Innovation	8	32	140	-	86	54	44
District Health Boards	361	5,691	7,155	2,399	4,547	2,608	2,507
Earthquake Commission	3	17	2,537	-	2,961	(424)	(1,081)
Housing New Zealand Corporation	331	20,918	21,773	1,983	4,153	17,620	15,562
Museum of New Zealand Te Papa	17	1,261	1,293	-	11	1,282	1,244
New Zealand Fire Service Commission	58	647	784	4	97	687	674
New Zealand Lotteries Commission	10	20	91	2	68	23	22
New Zealand Transport Agency	1,650	30,358	31,050	264	716	30,334	28,678
Public Trust	1	4	576	522	536	40	43
Schools	210	1,469	3,045	122	940	2,105	1,928
Southern Response Earthquake Services	-	1	1,107	-	1,214	(107)	(111)
Tertiary Education Commission	1	2	69	26	41	28	24
TEIs	-	-	9,657	-	-	9,657	8,508
Television New Zealand	41	110	288	2	64	224	198
Other	37	219	1,842	525	938	904	843
Total Crown entities	**2,883**	**61,616**	**118,585**	**6,146**	**50,980**	**67,605**	**59,870**
Intra-segmental eliminations	(1)	(200)	(841)	(506)	(574)	(267)	(323)
Total Crown entities segment	**2,882**	**61,416**	**117,744**	**5,640**	**50,406**	**67,338**	**59,547**

The results presented in the following tables use Crown accounting policies and classifications. As a consequence the results may differ from those published in individual annual reports and profit announcements.

Glossary of Terms

Commercial sector balance sheet

Consists of the assets and liabilities held by companies with commercial objectives, predominantly SOEs.

Comparatives (Budget 2014 and Budget 2015)

Comparatives referred to as Budget 2014 were forecasts published in the *2014 Budget Economic and Fiscal Update* while comparatives referred to as Budget 2015 were forecasts published in *the 2015 Budget Economic and Fiscal Update*.

Contingent assets

Revenue 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 43 to 46).

Core Crown expenses

The day-to-day expenditure (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 revenue, 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).

Financial sector balance sheet

Consists of the assets and liabilities held by the Crown to finance or pre-fund government expenditure.

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 SOEs) 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 SOEs, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

Core Crown net debt

Core Crown net debt 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 Crowns share of total assets and liabilities and excludes minority interest's share of those assets and liabilities.

Public Sector PBE Accounting Standards (PBE standards)

The reporting and measurement framework under which these financial statements are prepared. These standards are approved by the External Reporting Board in New Zealand, based on requirements of the international public sector accounting standards issued by the International Public Sector Accounting Standards Board, adjusted where appropriate for the New Zealand context.

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 SOEs 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.

Social sector balance sheet

Consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations.

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 SOEs 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 SOEs and Crown entities that are not explicitly guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs. Also known as the Government Reporting Entities (which are listed on pages 43 to 46).