Financial Statements of the Government of New Zealand

for the year ended 30 June 2010

978-0-478-35070-8 (Print)
978-0-478-35071-5 (Online)

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978-0-478-35071-5 (Online)

Internet

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

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Ministerial Statement

While New Zealand has weathered the global financial crisis and emerged from the recession, the *Financial Statements of the Government for the year ended 30 June 2010* demonstrate that the effects will be with us for some time.

The outturns in these financial statements are broadly consistent with the Treasury's forecasts in the *2010 Budget Economic and Fiscal Update*.

Core Crown expenses for the year were flat, as one-off expenses from 2008/09 including the provision for deposit guarantee scheme losses and KiwiRail write-down were offset by increased spending on health, education and benefits.

At the same time core Crown tax revenue declined by $3.9 billion due to the October 2008 and April 2009 personal tax cuts, the one-off structured finance transactions recognised in 2008/09, and the impact of the recession.

As a result the operating balance before gains and losses deteriorated to a deficit of $6.3 billion.

The recovery in world financial markets enabled our large investment funds (the New Zealand Superannuation Fund, the Accident Compensation Corporation and the Earthquake Commission) to recoup some of the losses they sustained during the financial crisis. Once these gains are taken into account, the headline operating deficit improved markedly, from $10.5 billion last year to $4.5 billion this year.

As expected, core Crown net debt deteriorated to $26.7 billion or 14.1% of GDP, and total Crown net worth declined for a second consecutive year.

The Canterbury earthquake of 4 September has had a devastating impact on affected communities. While it is not reflected in these annual accounts, the quake is expected to have an effect on the government's books in the 2010/11 year. The next fiscal forecasts will be published in the *Half Year Economic and Fiscal Update* in December.

This underscores the importance of rebuilding a strong fiscal position so the government can continue to help protect New Zealanders from the impacts of shocks in the future.

Hon Bill English
Minister of Finance
30 September 2010

Statement of Responsibility

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

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

John Whitehead
Secretary to the Treasury
30 September 2010

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 2010 and its operations for the year ended on that date.

Hon Bill English
Minister of Finance
30 September 2010

COMMENTARY

Introduction

These financial statements[1] contain the audited results for the year ended 30 June 2010. In addition to previous years, the audited results are compared to two sets of forecasts:

- the Original Budget for the year as published in the *2009 Budget Economic and Fiscal Update*, and
- the Estimated Actuals forecast as published in the *2010 Budget Economic and Fiscal Update* (the "forecast").

This commentary should be read in conjunction with the financial statements on pages 28 to 164.

At a Glance

Table 1 – Financial results

Year ended 30 June	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
$million								
Core Crown tax revenue	47,468	50,973	53,477	56,747	54,681	**50,744**	51,580	50,652
Core Crown expenses	44,895	49,320	54,004	56,997	64,002	**64,013**	65,282	64,791
Operating balance before gains and losses	7,075	7,091	5,860	5,637	(3,893)	**(6,315)**	(7,739)	(6,927)
Operating balance	5,931	9,542	8,022	2,384	(10,505)	**(4,509)**	(5,729)	(3,179)
Gross debt	35,478	33,903	30,647	31,390	43,356	**53,591**	50,973	53,810
Net debt	19,879	16,163	13,380	10,258	17,119	**26,738**	27,319	26,642
Total Crown net worth	54,240	83,971	96,827	105,514	99,515	**94,988**	89,949	96,479

These financial results do not include the fiscal impact of the Canterbury earthquake which occurred on 4 September 2010, after the end of the financial year. Please refer to the subsequent events note on page 153 for further discussion of this event.

[1] The financial statements of the Government of New Zealand refer to both core Crown and total Crown results. Core Crown includes Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand. Total Crown includes the core Crown, State-owned Enterprises and Crown Entities.

Summary

The economic recovery continues…

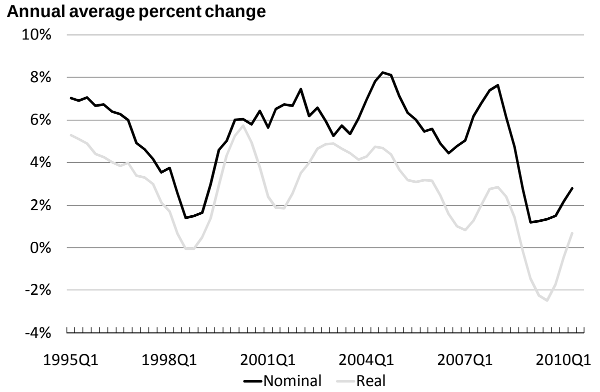
The New Zealand economy suffered a sharp fall in the rate of growth in nominal GDP as a result of the global financial crisis (figure 1). Annual nominal GDP growth, however, remained positive as it was supported by the strength of our major trading partners, particularly Australia and China.

Strong demand from China led to a rapid recovery in New Zealand's commodity prices and terms of trade, boosting nominal GDP in the March and June quarters of 2010.

While the impact of the overseas recovery on the demand for our exports has been strong, the domestic economy is showing cautious growth. The recovery in business investment and labour markets has been muted as profitability has not yet reached previous levels.

Tax revenue reflects this lower profitability and subdued labour markets.

Figure 1 – Nominal and Real GDP growth

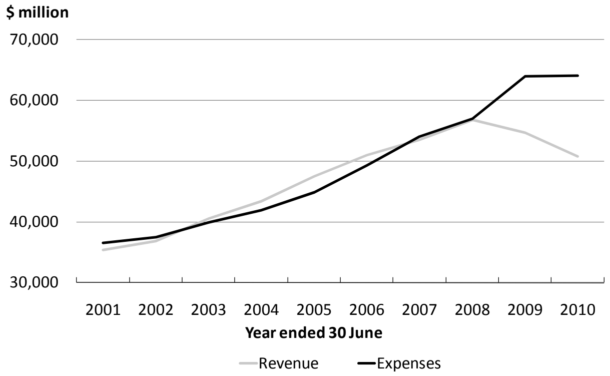


Source: The Treasury

As the gap between revenue and expenses widens…

While core Crown tax revenue declined for the second consecutive year, expenses remained flat year-on-year. This increasing divergence has lead to a continuation of operating deficits (figure 2).

Figure 2 – Core Crown tax revenue and core Crown expenses



Source: The Treasury

Core Crown tax revenue fell as both tax cuts and recessionary impacts continued to reduce the Crown's income. Included in the previous year's revenue was $1.4 billion in relation to tax on structured finance transactions not previously recognised. Excluding this one-off revenue the decrease in revenue since last year was $2.5 billion. Figure 7 on page 8 summarises the movements for the year.

In contrast core Crown expenses were flat compared to last year. This follows a large increase in last year's expenses compared to 2008. As with tax revenue, the previous year's expenses included some "exceptional" items (eg, deposit guarantee provisioning and a loss on the purchase of KiwiRail). Excluding these expenses, Core Crown expenses rose by $1.1 billion from last year.

Resulting in an operating deficit...

With revenues falling and expenses remaining static, the operating deficit before gains and losses (OBEGAL) increased $2.4 billion from last year to reach $6.3 billion for the year ended 30 June 2010.

Recovery in investment markets, however, contributed to the Crown making a net gain for the year of $1.8 billion (recovering some of the $6.6 billion loss incurred in the previous year).

Overall, the operating deficit was smaller than last year at $4.5 billion.

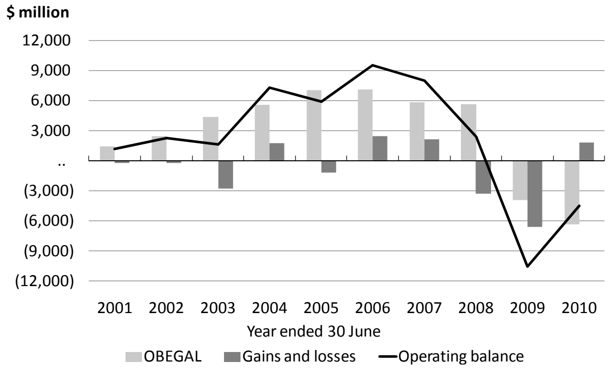
Leading to increased borrowings...

Combining the cash impact of the operating results with capital expenditure and advances, the Crown recorded a residual cash deficit for the year of $9.0 billion. This deficit was funded through an increase in borrowings, primarily through the domestic bond programme (figure 4).

And a reduction in net worth

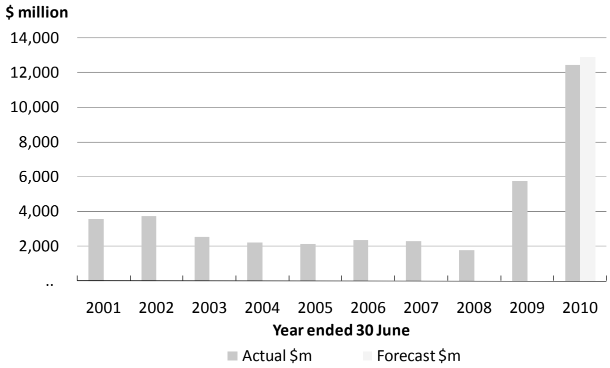
Operating deficits have led to a decline in net worth. The Crown's net worth fell $4.5 billion to just under $95.0 billion at 30 June 2010.

Figure 3 – Components of the operating deficit



Source: The Treasury

Figure 4 – Cash proceeds from issue of market domestic bonds



Source: The Treasury

Fiscal Strategy

The financial statements of the Government provide a snapshot of the progress the Government has made in implementing its fiscal strategy as set out in the *Fiscal Strategy Report*.

Figure 5 – Financial results against the long-term fiscal objectives outlined in the *2010 Fiscal Strategy Report*

Fiscal Strategy	Financial Results	Actual 30 June 2010 $million	Actual 30 June 2009 $million	Forecast Original Budget $million	Forecast Estimated Actuals $million
Operating revenue Ensure sufficient revenue to meet the operating balance objective	Taxation as a % of GDP	26.8%	29.6%	29.5%	26.7%
	Core Crown taxation revenue ...	50,744	54,681	51,580	50,652
	... combined with other core Crown revenue ...	5,472	4,801	5,191	5,754
Operating expenses Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective	... fund core Crown expenses...	(64,013)	(64,002)	(65,282)	(64,791)
	... and with SOE and Crown entity results and core Crown gains and losses...	3,288	(5,985)	2,782	5,206
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	... result in an operating surplus or deficit...	(4,509)	(10,505)	(5,729)	(3,179)
	...with income in SOEs, CEs and the NZS Fund retained...	(3,667)	5,683	(3,068)	(5,368)
	... and some items not impacting cash ...	3,185	2,855	2,125	3,644
	... leaving operating cash flows to ...	**(4,991)**	**(1,967)**	**(6,672)**	**(4,903)**
	... build up assets in the NZS Fund ...	(250)	(2,243)	(250)	(250)
	... meet the capital expenditure budget ...	(1,778)	(1,625)	(2,347)	(2,018)
	... and make advances (e.g. to students and DHBs).	(1,981)	(2,804)	(2,596)	(1,899)
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP	The resulting cash requirement...	**(9,000)**	**(8,639)**	**(11,865)**	**(9,070)**
	... when combined with opening net debt ...	17,119	10,258	15,482	17,119
	... and other fair value movements in financial assets and financial liabilities ...	619	(1,778)	(28)	453
	... results in a closing net debt ...	**26,738**	**17,119**	**27,319**	**26,642**
	... as a % of GDP	**14.1%**	**9.3%**	**15.6%**	**14.1%**

Revenue

Ensure sufficient revenue to meet the operating balance objective (Fiscal Strategy)

Table 2 – Breakdown of revenue

Year ended 30 June	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
$ million								
Core Crown tax revenue	47,468	50,973	53,477	56,747	54,681	50,744	51,580	50,652
Core Crown other revenue	3,577	4,762	4,734	5,072	4,801	5,472	5,191	5,754
Core Crown revenue	51,045	55,735	58,211	61,819	59,482	56,216	56,771	56,406
Crown entities, SOEs and eliminations	14,322	15,690	16,378	19,660	20,024	18,509	21,163	19,274
Total Crown revenue	65,367	71,425	74,589	81,479	79,506	74,725	77,934	75,680
% of GDP								
Core Crown tax revenue	30.8%	31.5%	31.2%	31.1%	29.6%	26.8%	29.5%	26.7%
Core Crown other revenue	2.3%	2.9%	2.8%	2.8%	2.6%	2.9%	3.0%	3.0%
Core Crown revenue	33.1%	34.5%	33.9%	33.9%	32.2%	29.7%	32.4%	29.8%
Crown entities, SOEs and eliminations	9.3%	9.7%	9.5%	10.8%	10.9%	9.8%	12.1%	10.2%
Total Crown revenue	42.4%	44.2%	43.5%	44.7%	43.1%	39.5%	44.5%	39.9%

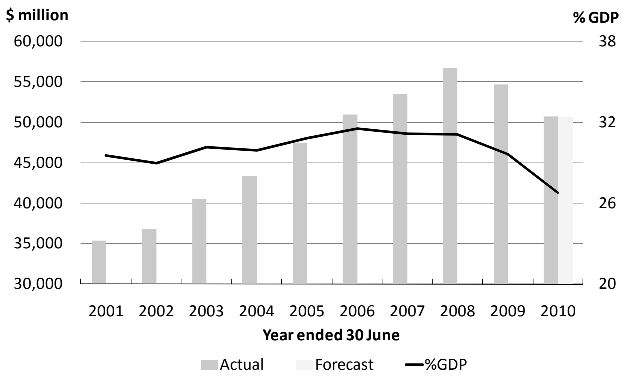
Total revenue has declined over the year, falling by $4.8 billion to $74.7 billion. A reduction in core Crown tax revenue is the main reason for the decrease (figure 6).

Core Crown Tax Revenue

Although core Crown tax revenue was close to forecast at $50.7 billion, it has decreased by $3.9 billion (7.2%) on the previous year and $6.0 billion since 2008. Figure 7 summarises the movements from last year. Specifically:

- Declining profits (both corporate and individual) and declining interest rates (reducing the withholding tax revenue) continued into the 2010 financial year reflecting the lagged effect of the recession.
- While October 2008 and April 2009 personal income tax cuts occurred in the previous financial year, 2010 was the first full year at the lower tax rates.
- Tax revenue in 2009 included $1.4 billion in relation to structured finance transactions which was "one-off" type revenue.
- Despite rising unemployment, growth in aggregate salaries and wages added to source deduction tax income, while growth in domestic consumption was reflected in an increase in GST revenue.

Figure 6 – Core Crown tax revenue



Source: The Treasury

Figure 7 – Movement in core Crown tax revenue ($ billion)

Year ended 30 June	
2009 core Crown tax revenue	54.7
Recessionary impacts	(2.4)
Tax cuts	(1.5)
Tax on structured finance transactions	(1.4)
Growth in income and domestic consumption	1.0
Other movements	0.3
2010 core Crown tax revenue	50.7

Source: The Treasury

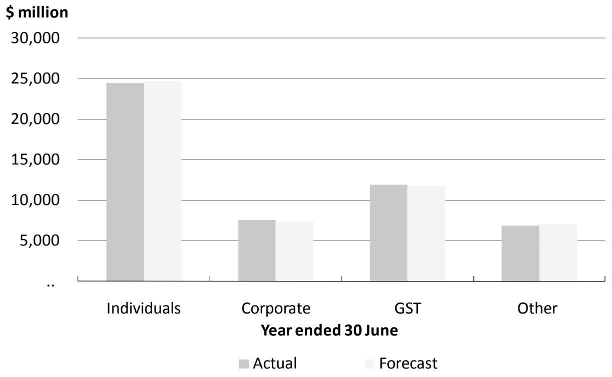
Revenue (continued)

Compared to forecast, core Crown tax revenue was $92 million (0.2%) more than expected. Included in this result were the following significant items (figure 8):

- Both corporate tax and GST revenue were higher than expected (by $225 million and $210 million respectively) as both business profits and domestic consumption began to show signs of recovery.

- In contrast, individuals tax revenue (including source deductions) and other tax revenue were lower than forecast (by $230 million and $113 million respectively) reflecting weaker than expected final 2009 income tax assessments and wage growth, and lower than expected customs and excise duties.

Figure 8 – Core Crown tax revenue against forecast



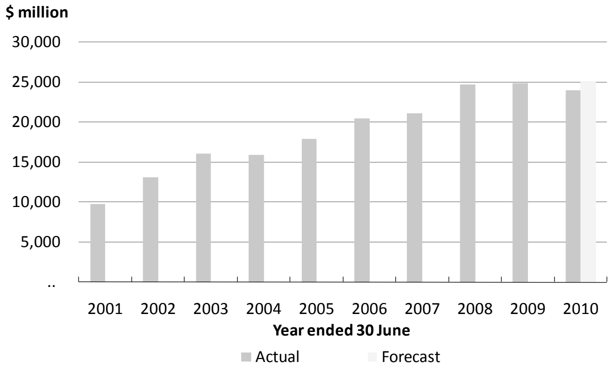
Source: The Treasury

Other Revenue

Other revenue includes other sovereign revenue (eg, ACC levies), sales of goods and services (eg, postal services), interest income and dividend income.

Other revenue has reduced by $0.9 billion over the year to $24.0 billion (figure 9). This reduction in revenue is largely associated with the SOE sector. However, reductions in SOE revenue were largely offset by reductions in SOE operating expenses.

Figure 9 – Other revenue



Source: The Treasury

Expenses

Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective (Fiscal Strategy)

Table 3 – Breakdown of expenses

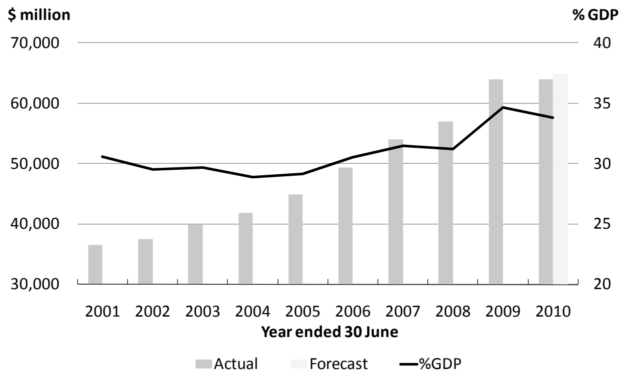
Year ended 30 June	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
$ million								
Social security and welfare	14,682	15,598	16,768	17,877	19,382	21,185	21,139	21,234
Health	8,813	9,547	10,355	11,297	12,368	13,128	13,397	13,137
Education	7,930	9,914	9,269	9,551	11,455	11,724	11,284	11,779
Core government services	2,567	2,507	4,817	3,371	5,293	2,974	3,620	3,793
Law and order	1,977	2,235	2,699	2,894	3,089	3,191	3,267	3,276
Other core Crown expenses	8,926	9,519	10,096	12,007	12,415	11,811	12,575	11,572
Core Crown expenses	44,895	49,320	54,004	56,997	64,002	64,013	65,282	64,791
Crown entities, SOEs and eliminations	13,397	15,015	14,725	18,845	19,397	17,027	20,391	17,816
Total Crown expenses	58,292	64,334	68,729	75,842	83,399	81,040	85,673	82,607
% of GDP								
Social security and welfare	9.5%	9.7%	9.8%	9.8%	10.5%	11.2%	12.1%	11.2%
Health	5.7%	5.9%	6.0%	6.2%	6.7%	6.9%	7.7%	6.9%
Education	5.1%	6.1%	5.4%	5.2%	6.2%	6.2%	6.4%	6.2%
Core government services	1.7%	1.6%	2.8%	1.8%	2.9%	1.6%	2.1%	2.0%
Law and order	1.3%	1.4%	1.6%	1.6%	1.7%	1.7%	1.9%	1.7%
Other core Crown expenses	5.8%	5.9%	5.9%	6.6%	6.7%	6.2%	7.2%	6.1%
Core Crown expenses	29.1%	30.5%	31.5%	31.2%	34.7%	33.8%	37.3%	34.2%
Crown entities, SOEs and eliminations	8.7%	9.3%	8.6%	10.3%	10.5%	9.0%	11.6%	9.4%
Total Crown expenses	37.8%	39.8%	40.0%	41.6%	45.2%	42.8%	48.9%	43.6%

Total Crown expenses fell by $2.4 billion from the previous year. Significant expense decreases were experienced by the SOE sector (offsetting decreases in operating revenue) and Accident Compensation Corporation (insurance expenses decreased by $0.8 billion due to lower claims costs). Core Crown expenses, however, increased marginally compared to last year (figure 10).

Core Crown Expenses

Core Crown expenses remained fairly flat compared to the previous year. Figure 11 on the next page illustrates that, although flat, there were some significant increases and decreases in different types of expenditure.

Figure 10 – Core Crown expenses



Source: The Treasury

Expenses (continued)

Increases in expenses from last year included:

- Health and education expenses increased by $1.1 billion primarily as a result of new spending initiatives.

- Benefit expenses increased by $1.5 billion across a number of benefit types. $1.2 billion of this increase was due to an increase in the number of recipients while indexation of benefits led to an increase of $0.5 billion. Policy changes and decreases in the average payment (before indexation) decreased expenses by $0.2 billion.

  The largest increases were to New Zealand Superannuation and unemployment benefits (which rose by $0.5 billion and $0.3 billion respectively).

Decreases in expenses from last year included:

- Two items of extraordinary 2009 expenditure stemming from the introduction of the retail deposit guarantee scheme ($0.8 billion) and the write down of the investment in KiwiRail ($0.3 billion). Neither expense was repeated in the 2010 financial year.

- Impairments on tax receivables and student loans were $1.5 billion lower in 2010 compared to 2009. The large asset impairments in 2009 were a reflection of the recessionary impacts on debt recovery.

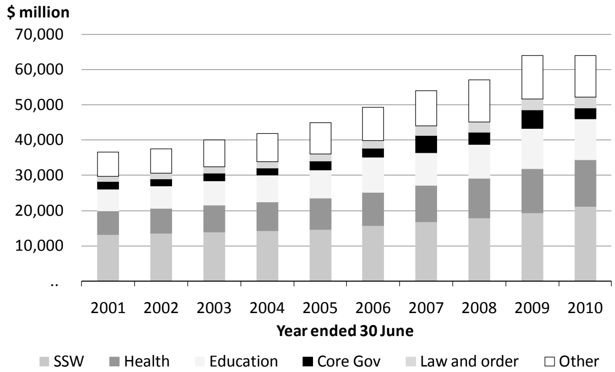
- The discontinuation of the KiwiSaver employer tax credit resulted in a $0.2 billion reduction to core Crown expenses.

Figure 11 – Movement in core Crown expenses

Year ended 30 June	
2009 core Crown expenses	64.0
Health expenses	0.8
Education expenses	0.3
Benefit expenses	1.5
Deposit guarantee scheme	(0.8)
KiwiRail write-off	(0.3)
Asset impairments	(1.5)
Kiwisaver	(0.2)
Other movements	0.2
2010 core Crown expenses	64.0

Source: The Treasury

Figure 12 – Core Crown expenses by sector



Source: The Treasury

Compared to the 2010 Budget, core Crown expenses were $0.8 billion lower than forecast. The largest variance from forecast relates to asset impairment expenses which were $0.3 billion lower than expected. Other underspends were across a number of departments and expense types.

Operating Balance

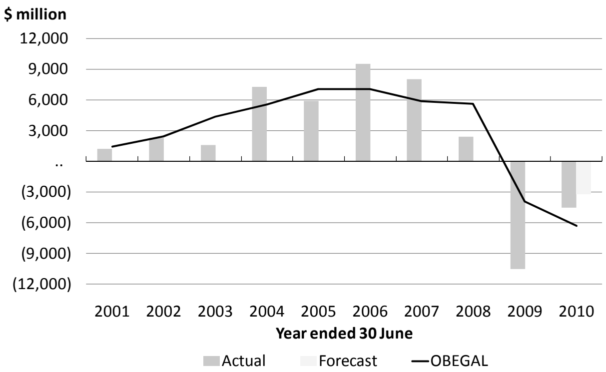
Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective (Fiscal Strategy)

Table 4 – Total Crown operating balance

Year ended 30 June	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
$ million								
Total Crown Operating balance before gains and losses	7,075	7,091	5,860	5,637	(3,893)	(6,315)	(7,739)	(6,927)
Total Crown gains/(losses)	(1,144)	2,451	2,162	(3,253)	(6,612)	1,806	2,010	3,748
Total Crown Operating balance	5,931	9,542	8,022	2,384	(10,505)	(4,509)	(5,729)	(3,179)
% of GDP								
Total Crown Operating balance before gains and losses	4.6%	4.4%	3.4%	3.1%	(2.1)%	(3.3)%	(4.4)%	(3.7)%
Total Crown gains/(losses)	(0.7)%	1.5%	1.3%	(1.8)%	(3.6)%	1.0%	1.1%	2.0%
Total Crown Operating balance	3.8%	5.9%	4.7%	1.3%	(5.7)%	(2.4)%	(3.3)%	(1.7)%

This year's operating deficit of $4.5 billion compares to a deficit of $10.5 billion last year (figure 13). While the recovery of financial markets resulted in the Crown recording net gains for the year, the reduction in tax revenue meant that, excluding those gains, the Crown's deficit widened.

Figure 13 – Operating balance



Source: The Treasury

Operating Balance Before Gains and Losses

The operating deficit before gains and losses (OBEGAL) has increased by $2.4 billion to $6.3 billion. A reduction in revenue while maintaining the expense base at existing levels has resulted in this widening of the gap between revenue and expenses.

The OBEGAL deficit is $0.6 billion better than forecast. While revenue was as expected, expenses were less than forecast (primarily in relation to core Crown expenses).

Operating Balance (continued)

Gains and Losses

The Crown recorded net gains of $1.8 billion this year (compared to net losses of $6.6 billion last year).

Table 5 – Gains and losses

Year ended 30 June $ million	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
ACC actuarial gain/(loss)	(1,432)	(706)	(481)	(1,709)	(4,491)	410	-	219
GSF actuarial gain/(loss)	(851)	206	1,133	(1,098)	(695)	(1,231)	(12)	(408)
Kyoto net position	-	(303)	20	(226)	768	(15)	-	-
Investment portfolios:								
NZS Fund	557	1,130	1,313	(995)	(3,495)	1,750	1,129	2,317
ACC	439	681	419	(543)	(181)	745	(27)	974
Earthquake Commission	125	504	(84)	(166)	(349)	37	129	175
Other gains/(losses)	18	939	(158)	1,484	1,831	110	791	471
	(1,144)	2,451	2,162	(3,253)	(6,612)	1,806	2,010	3,748

Each year the Government Superannuation Fund (GSF) estimates the present value of pension commitments that exist in respect of its defined benefit beneficiaries. The GSF scheme recorded an actuarial loss of $1.2 billion in 2010 (compared to a loss of $0.7 billion last year). This loss represents an increase in the liability predominantly as a result of an increase in the long term inflation assumption (meaning that future benefit payments will be higher than previously estimated).

The ACC actuarial gain of $0.4 billion compares to an actuarial loss of $4.5 billion in the previous year. This improvement reflects both a reduction in the number of claims and the cost of those claims.

The NZS Fund recorded a gain of $1.8 billion this year contributing to an operating balance of $1.7 billion for the year (refer table 6 below). The investment return for the year was 15.45% (compared to -22.14% last year). Declines in equity markets in the last quarter of the year resulted in an operating balance that was $0.4 billion lower than forecast. Since inception the Fund has returned 5.49% (annualised). This annualised return is 0.51% less than the rolling yield on 90 day Treasury bills.

Table 6 – NZS Fund results

Year ended 30 June $ million	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
Opening net worth	3,956	6,555	9,855	12,973	14,212	13,688	13,275	13,688
Revenue	191	359	436	385	383	433	397	400
Current tax expense	(234)	(468)	(707)	(237)	(4)	27	-	(141)
Inter-entity expenses	-	-	171	63	400	(421)	(350)	(360)
Other expenses	(22)	(52)	(119)	(97)	(77)	(81)	(111)	(97)
Gains/(losses)	557	1,130	1,313	(995)	(3,495)	1,750	1,129	2,317
Operating balance	492	969	1,094	(881)	(2,793)	1,708	1,065	2,119
Gross contribution from the Crown	2,107	2,337	2,048	2,104	2,243	250	250	250
Other movements in reserves	-	(6)	(24)	16	26	10	-	9
Closing net worth	6,555	9,855	12,973	14,212	13,688	15,656	14,590	16,066

The total Crown gain of $1.8 billion was $1.9 billion lower than forecast. The Budget 2010 forecasts were produced based on the peak of investment markets in March and assumed markets would remain at those levels. Since then investment returns have fallen and some previous gains have been reversed. In addition, the GSF actuarial loss was $0.8 billion higher than forecast.

Debt

Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP (Fiscal Strategy)

Table 7 – Net debt[2] and Gross debt[3]

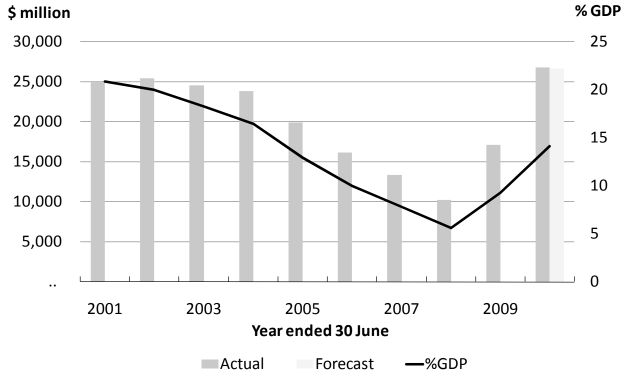
Year ended 30 June	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
Net debt ($m)	19,879	16,163	13,380	10,258	17,119	26,738	27,319	26,642
Net debt (% GDP)	12.9%	10.0%	7.8%	5.6%	9.3%	14.1%	15.6%	14.1%
Gross debt ($m)	35,478	33,903	30,647	31,390	43,356	53,591	50,973	53,810
Gross debt (% GDP)	23.0%	21.0%	17.9%	17.2%	23.5%	28.3%	29.1%	28.4%

Net Debt

Net debt increases as a result of cash deficits and declines as a result of cash surpluses. It also fluctuates in line with valuation movements in the underlying financial assets and liabilities of the Crown and movements in the amounts of currency issued to New Zealand banks.

The $9.6 billion increase in net debt over the year (figure 14) was primarily due to the residual cash deficit of $9.0 billion recorded this year (refer table 8).

Figure 14 – Net debt



Source: The Treasury

Table 8 – Movement in net debt

Year ended 30 June $ million	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
Opening net debt	23,858	19,879	16,163	13,380	10,258	17,119	15,482	17,119
Net core Crown cash flow from operations	(8,560)	(8,859)	(8,586)	(7,292)	1,967	4,991	6,672	4,903
Contributions to NZS Fund	2,107	2,337	2,048	2,104	2,243	250	250	250
Purchase of physical assets	1,372	1,826	1,755	1,433	1,625	1,778	2,347	2,018
Advances and capital injections	1,977	1,711	1,990	1,698	2,804	1,981	2,596	1,899
Core Crown residual cash (surplus)/deficit	(3,104)	(2,985)	(2,793)	(2,057)	8,639	9,000	11,865	9,070
Movements in circulating currency	(188)	(165)	(81)	(86)	(475)	(15)	(181)	(34)
Other valuation changes in financial assets and financial liabilities	(687)	(566)	91	(979)	(1,303)	634	153	487
Closing net debt	19,879	16,163	13,380	10,258	17,119	26,738	27,319	26,642

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

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

Debt (continued)

While the residual cash deficit was as forecast, the deficit was $0.4 billion larger than last year, despite the reduction in contributions to the NZS Fund.

Figure 15 summarises the movement in residual cash over the year. Specifically:

- While core Crown tax revenue decreased by $3.9 billion, core Crown tax receipts were only lower by $0.7 billion. The main difference was that most of the cash received in respect of the structured finance tax settlements was received in the current financial year (compared with revenue which was recognised in the previous year).

Figure 15 – Movements in residual cash ($billion)

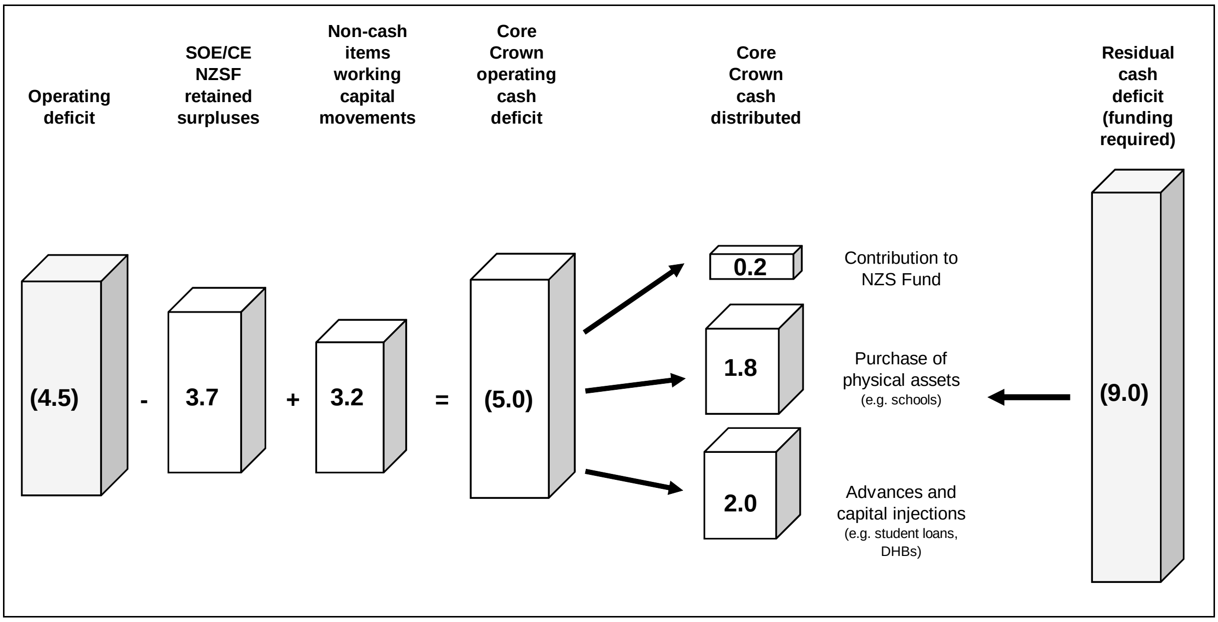
Year ended 30 June	
2009 core Crown residual cash	(8.6)
Tax receipts	(0.7)
Benefit payments	(1.7)
Other operating cash flows	(0.6)
Reduction in NZS Fund contributions	2.0
2009 purchase of KiwiRail	0.7
Other movements	(0.1)
2010 core Crown residual cash	(9.0)

Source: The Treasury

- The increase in benefit payments was in line with the increase in benefit expenses. A number of the decreases in core Crown expenses did not have an immediate cash impact (eg, asset impairments and the deposit guarantee provision). The cash impact of other core Crown expense movements resulted in a reduction in other operating cash flows.

- Offsetting the increase in the operating cash deficit was the reduction in NZS Fund contributions and last year's acquisition of KiwiRail.

Figure 16 – Reconciliation of the operating deficit and core Crown residual cash for the year ended 30 June 2010 ($billion)

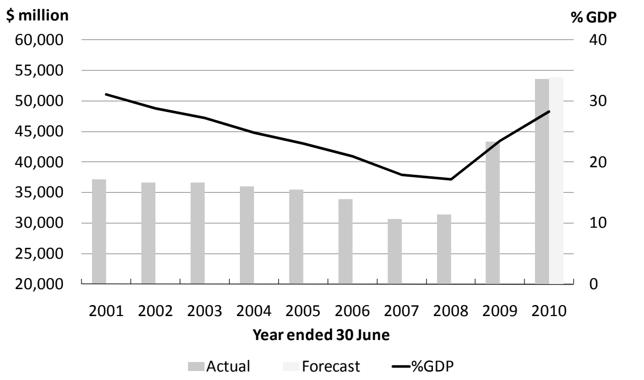


Debt (continued)

Gross Debt

Gross debt has increased by $10.2 billion since last year (figure 17). The majority of this increase came from the issue of $12.4 billion of bonds offset by the repayment of a $4.2 billion bond maturity in July 2009. When combined with the proceeds from non-market domestic bonds, the net issuance of domestic bonds increased gross debt by $8.4 billion (table 9).

Figure 17 – Gross debt



Source: The Treasury

As a result of the strong demand for bonds in the early part of 2009/10 the New Zealand Debt Management Office (NZDMO) increased the 2009/10 domestic bond programme by $2 billion to $10.5 billion in December 2009. In April 2010 a further $2 billion increase was approved, allowing the issue of bonds up to $12.5 billion. These increases enabled the NZDMO to continue issuance over the fiscal year in line with market demand. The funding generated from the bond issuance contributed to an increase in the Government's cash position at year end.

Also contributing to the increase in gross debt was an increase of $1.5 billion to the Crown's position with the International Monetary Fund (IMF). This increase was matched by an increase in IMF financial assets resulting in no change to net debt.

Table 9 – Cash proceeds from net bond issuance

Year ended 30 June $ million	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
Domestic bonds (market)	2,146	2,375	2,294	1,757	5,775	12,424	8,919	12,869
Repayment of domestic bonds (market)	(2,797)	(2,574)	(2,777)	-	(2,750)	(4,197)	(4,247)	(4,197)
Net increase/(decrease) in market domestic bonds	(651)	(199)	(483)	1,757	3,025	8,227	4,672	8,672
Domestic bonds (non-market)	459	740	570	130	541	799	948	805
Repayment of domestic bonds (non-market)	(338)	(375)	(421)	-	(515)	(656)	(672)	(656)
Net increase/(decrease) in non-market domestic bonds	121	365	149	130	26	143	276	149
Net total bond issuance/(repayment)	(530)	166	(334)	1,887	3,051	8,370	4,948	8,821

Net Worth

Ensure net worth remains at a level sufficient to act as a buffer to economic shocks (Fiscal Strategy)

Table 10 – Movement in net worth

Year ended 30 June $ million	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
Opening net worth	39,595	54,240	83,971	96,827	105,514	99,515	95,698	99,515
Operating balance	5,931	9,542	8,022	2,384	(10,505)	(4,509)	(5,729)	(3,179)
Property, plant and equipment revaluations	8,197	20,199	5,232	6,214	4,235	196	(1)	323
Other movements in reserves	518	(10)	(398)	89	271	(214)	(19)	(180)
Closing net worth	54,240	83,971	96,827	105,514	99,515	94,988	89,949	96,479

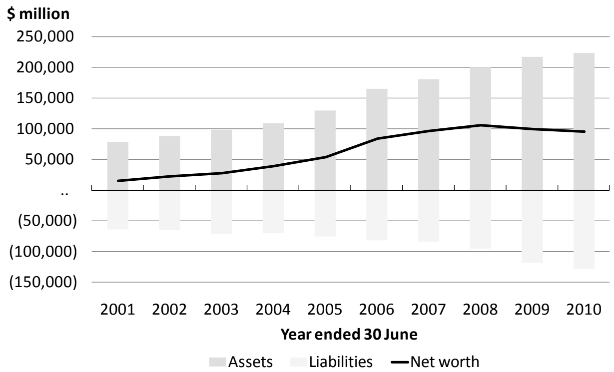
While the size of the balance sheet increased (assets increased by $6.2 billion and liabilities increased by $10.7 billion) the continuation of operating deficits meant the Crown's net worth decreased for the second year in a row (figure 18).

Assets grew by just under 3%. Kiwibank mortgages increased by $1.9 billion while the property, plant and equipment held by the Crown increased by $3.2 billion.

Growth in liabilities was 9% mainly due to an increase in gross debt as discussed in the previous section.

The composition of the balance sheet remained similar to last year with property, plant and equipment and borrowings making up just over 50% of assets and liabilities respectively.

Figure 18 – Net worth



Source: The Treasury

Table 11 – Composition of the statement of financial position

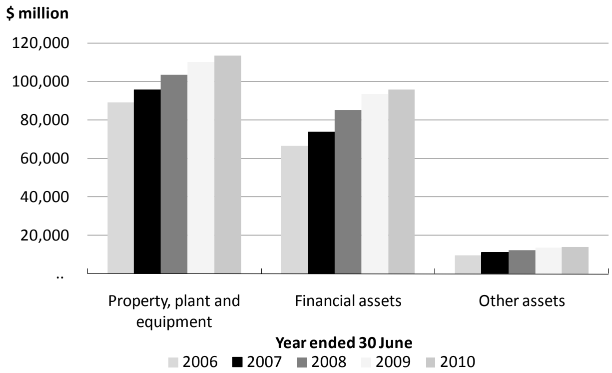
Year ended 30 June $ million	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Forecast Original Budget	Forecast Estimated Actuals
Property, plant and equipment	67,494	89,141	95,598	103,329	110,135	113,330	110,251	113,634
Financial assets	42,005	66,396	73,718	85,063	93,359	95,971	97,953	99,063
Other assets	19,714	9,503	11,031	12,443	13,657	14,054	14,028	13,815
Total assets	129,212	165,040	180,347	200,835	217,151	223,355	222,232	226,512
Borrowings	37,728	40,027	41,898	46,110	61,953	69,733	76,423	73,643
Other liabilities	37,243	41,042	41,622	49,211	55,683	58,634	55,860	56,390
Total liabilities	74,972	81,069	83,520	95,321	117,636	128,367	132,283	130,033
Net worth	54,240	83,971	96,827	105,514	99,515	94,988	89,949	96,479

Net Worth (continued)

Assets

Total Crown assets increased by $6.2 billion this year to reach $223.4 billion by 30 June 2010 (figure 19).

Figure 19 – Total Crown assets



Source: The Treasury

Property, plant and equipment increased by $3.2 billion (2.9%) since 2009. Asset purchases of $6.6 billion were offset by depreciation of $3.5 billion and disposals of $0.4 billion. The remaining movements related to asset revaluations and foreign exchange movements.

Significant asset purchases by sector were:

- Transport and communications – including state highways and KiwiRail ($2.3 billion)
- Economic and industrial – including the energy SOE's ($1.2 billion)
- Education – including school property ($0.8 billion)
- Law and order – including correctional facilities ($0.5 billion).

Asset revaluations were small compared with previous years. An increase in the value of the Crown's electricity generation assets was largely offset by decreases in the value of specialised military equipment and the Crown's buildings (particularly the value of school buildings which has decreased due to impairment for potential weather-tightness issues).

Financial assets (eg, advances) increased by $2.6 billion over the year. The majority of this increase was in relation to Kiwibank mortgages which increased by $1.9 billion.

Other assets (eg, intangible assets) increased by $0.4 billion. The majority of this increase was in relation to the Crown's investment in Tertiary Education Institutions (reflecting the increase in the net worth of these entities).

Net Worth (continued)

Liabilities

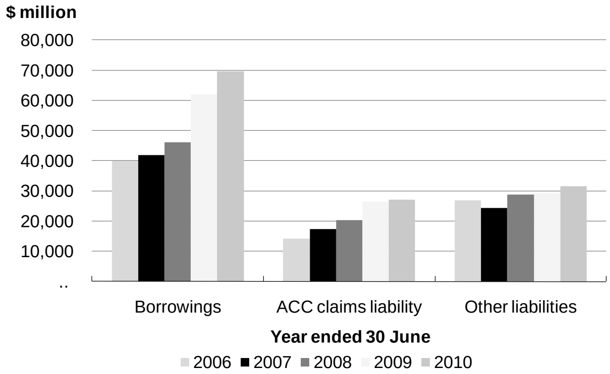
Total Crown liabilities increased by $10.7 billion (9.1%) compared to June 2009 (figure 20). The largest increase related to borrowings (an increase of $7.8 billion or 12.6%).

Borrowings are a combination of gross debt (discussed earlier), the financial liabilities of Crown entities and SOE's and liabilities associated with the Reserve Bank's settlement cash and bank bills.

Figure 21 summarises the increase in borrowings over the year. While gross debt[4] increased by $10.2 billion, a portion of that increase related to debt held by other government reporting entities (which is excluded from total Crown borrowings). In addition, Reserve Bank settlement cash and Reserve Bank bills decreased by $2.2 billion over the year. This decrease was offset by Kiwibank deposits increasing by $2.0 billion (mirroring the increase in their loan book).

The ACC claims liability increased by $0.6 billion in comparison to the previous year. This follows an increase of $5.8 billion in 2009 (compared to 2008). The large 2009 increase was largely due to predicted increases in medical and rehabilitation costs along with a decrease in the discount rate used to calculate the present value of expected payments.

Figure 20 – Total Crown liabilities



Source: The Treasury

Figure 21 – Increase in borrowings

Year ended 30 June	
2009 Borrowings	61.9
Increase in gross debt	10.2
Increase in gross debt held by Crown entities and SOE's	(2.1)
Reduction in settlement cash and Reserve bank bills	(2.2)
Increase in Kiwibank deposits	2.0
Other movements	(0.1)
2010 Borrowings	69.7

Source: The Treasury

While reductions in claims rates and estimated medical costs and rehabilitation costs reduced the claims liability, this was partially offset by the occurrence of new injuries resulting in a $0.6 billion decrease in the claims liability. In addition, the mid-term discount rate decreased adding $1.2 billion to the liability.

Other liabilities (eg, accounts payable) increased by $2.3 billion. The main increase was in retirement plan liabilities.

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

Historical Financial Information

Year ended 30 June $ million	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual
Statement of financial performance										
Core Crown tax revenue	35,345	36,809	40,518	43,358	47,468	50,973	53,477	56,747	54,681	50,744
Core Crown other revenue	2,497	3,136	2,922	2,861	3,577	4,762	4,734	5,072	4,801	5,472
Core Crown revenue	37,842	39,945	43,440	46,219	51,045	55,735	58,211	61,819	59,482	56,216
Crown entities, SOE revenue and eliminations	7,259	10,003	13,170	13,051	14,322	15,690	16,378	19,660	20,024	18,509
Total Crown revenue	**45,101**	**49,948**	**56,611**	**59,271**	**65,367**	**71,425**	**74,589**	**81,479**	**79,506**	**74,725**
Social security and welfare	13,207	13,485	13,907	14,252	14,682	15,598	16,768	17,877	19,382	21,185
Health	6,660	7,032	7,501	8,111	8,813	9,547	10,355	11,297	12,368	13,128
Education	6,136	6,473	7,016	7,585	7,930	9,914	9,269	9,551	11,455	11,724
Core government services	2,148	1,890	2,130	2,091	2,567	2,507	4,817	3,371	5,293	2,974
Other core Crown expenses	8,408	8,633	9,343	9,843	10,903	11,754	12,795	14,901	15,504	15,002
Core Crown expenses	36,559	37,513	39,897	41,882	44,895	49,320	54,004	56,997	64,002	64,013
Crown entities, SOE expenses and eliminations	7,120	9,964	12,347	11,816	13,397	15,015	14,725	18,845	19,397	17,027
Total Crown expenses	**43,679**	**47,476**	**52,245**	**53,698**	**58,292**	**64,334**	**68,729**	**75,842**	**83,399**	**81,040**
OBEGAL	**1,422**	**2,471**	**4,366**	**5,573**	**7,075**	**7,091**	**5,860**	**5,637**	**(3,893)**	**(6,315)**
Gains/(losses)	(214)	(185)	(2,745)	1,736	(1,144)	2,451	2,162	(3,253)	(6,612)	1,806
Operating balance	**1,208**	**2,286**	**1,621**	**7,309**	**5,931**	**9,542**	**8,022**	**2,384**	**(10,505)**	**(4,509)**
Statement of financial position										
Property, plant and equipment	45,954	50,536	52,667	57,940	67,494	89,141	95,598	103,329	110,135	113,330
Financial assets	21,419	22,497	27,799	32,654	42,005	66,396	73,718	85,063	93,359	95,971
Other assets	11,467	14,846	18,461	18,756	19,714	9,503	11,031	12,443	13,657	14,054
Total assets	**78,840**	**87,879**	**98,927**	**109,351**	**129,212**	**165,040**	**180,347**	**200,835**	**217,151**	**223,355**
Borrowings	38,130	38,492	39,327	37,720	37,728	40,027	41,898	46,110	61,953	69,733
Other liabilities	25,260	26,562	31,588	32,036	37,243	41,042	41,622	49,211	55,683	58,634
Total liabilities	**63,390**	**65,055**	**70,915**	**69,756**	**74,972**	**81,069**	**83,520**	**95,321**	**117,636**	**128,367**
Net worth	**15,450**	**22,825**	**28,012**	**39,595**	**54,240**	**83,971**	**96,827**	**105,514**	**99,515**	**94,988**
Debt Indicators										
Net debt	24,908	25,388	24,531	23,858	19,879	16,163	13,380	10,258	17,119	26,738
Gross debt	37,194	36,650	36,617	36,017	35,478	33,903	30,647	31,390	43,356	53,591

Historical Financial Information (continued)

Year ended 30 June as % of GDP	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual
Nominal GDP (revised)	119,643	127,085	134,318	144,902	154,069	161,591	171,650	182,478	184,546	189,295
Statement of financial performance										
Core Crown tax revenue	29.5%	29.0%	30.2%	29.9%	30.8%	31.5%	31.2%	31.1%	29.6%	26.8%
Core Crown other revenue	2.1%	2.5%	2.2%	2.0%	2.3%	2.9%	2.8%	2.8%	2.6%	2.9%
Core Crown revenue	31.6%	31.4%	32.3%	31.9%	33.1%	34.5%	33.9%	33.9%	32.2%	29.7%
Crown entities, SOE and elimination revenue	6.1%	7.9%	9.8%	9.0%	9.3%	9.7%	9.5%	10.8%	10.9%	9.8%
Total Crown revenue	**37.7%**	**39.3%**	**42.1%**	**40.9%**	**42.4%**	**44.2%**	**43.5%**	**44.7%**	**43.1%**	**39.5%**
Social security and welfare	11.0%	10.6%	10.4%	9.8%	9.5%	9.7%	9.8%	9.8%	10.5%	11.2%
Health	5.6%	5.5%	5.6%	5.6%	5.7%	5.9%	6.0%	6.2%	6.7%	6.9%
Education	5.1%	5.1%	5.2%	5.2%	5.1%	6.1%	5.4%	5.2%	6.2%	6.2%
Core government services	1.8%	1.5%	1.6%	1.4%	1.7%	1.6%	2.8%	1.8%	2.9%	1.6%
Other core Crown expenses	7.0%	6.8%	7.0%	6.8%	7.1%	7.3%	7.5%	8.2%	8.4%	7.9%
Core Crown expenses	30.6%	29.5%	29.7%	28.9%	29.1%	30.5%	31.5%	31.2%	34.7%	33.8%
Crown entities, SOE and elimination expenses	6.0%	7.8%	9.2%	8.2%	8.7%	9.3%	8.6%	10.3%	10.5%	9.0%
Total Crown expenses	**36.5%**	**37.4%**	**38.9%**	**37.1%**	**37.8%**	**39.8%**	**40.0%**	**41.6%**	**45.2%**	**42.8%**
OBEGAL	**1.2%**	**1.9%**	**3.3%**	**3.8%**	**4.6%**	**4.4%**	**3.4%**	**3.1%**	**-2.1%**	**-3.3%**
Gains/(losses)	-0.2%	-0.1%	-2.0%	1.2%	-0.7%	1.5%	1.3%	-1.8%	-3.6%	1.0%
Operating balance	**1.0%**	**1.8%**	**1.2%**	**5.0%**	**3.8%**	**5.9%**	**4.7%**	**1.3%**	**-5.7%**	**-2.4%**
Statement of financial position										
Property, plant and equipment	38.4%	39.8%	39.2%	40.0%	43.8%	55.2%	55.7%	56.6%	59.7%	59.9%
Financial assets	17.9%	17.7%	20.7%	22.5%	27.3%	41.1%	42.9%	46.6%	50.6%	50.7%
Other assets	9.6%	11.7%	13.7%	12.9%	12.8%	5.9%	6.4%	6.8%	7.4%	7.4%
Total assets	**65.9%**	**69.2%**	**73.7%**	**75.5%**	**83.9%**	**102.1%**	**105.1%**	**110.1%**	**117.7%**	**118.0%**
Borrowings	31.9%	30.3%	29.3%	26.0%	24.5%	24.8%	24.4%	25.3%	33.6%	36.8%
Other liabilities	21.1%	20.9%	23.5%	22.1%	24.2%	25.4%	24.2%	27.0%	30.2%	31.0%
Total liabilities	**53.0%**	**51.2%**	**52.8%**	**48.1%**	**48.7%**	**50.2%**	**48.7%**	**52.2%**	**63.7%**	**67.8%**
Net worth	**12.9%**	**18.0%**	**20.9%**	**27.3%**	**35.2%**	**52.0%**	**56.4%**	**57.8%**	**53.9%**	**50.2%**
Debt Indicators										
Net debt	20.8%	20.0%	18.3%	16.5%	12.9%	10.0%	7.8%	5.6%	9.3%	14.1%
Gross debt	31.1%	28.8%	27.3%	24.9%	23.0%	21.0%	17.9%	17.2%	23.5%	28.3%

REPORT OF THE AUDITOR-GENERAL

OFFICE OF THE AUDITOR-GENERAL
Te Mana Arotake

To the Readers of the Financial Statements of the Government of New Zealand for the year ended 30 June 2010

I have audited the financial statements of the Government of New Zealand for the year ended 30 June 2010, using my staff, resources and appointed auditors and their staff.

Unqualified Opinion

In our opinion, the financial statements of the Government of New Zealand on pages 28 to 164:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Government of New Zealand's financial position as at 30 June 2010; and
  - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 30 September 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Government and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Government and the Auditor

The Treasury is responsible for preparing financial statements for the Government in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Government as at 30 June 2010. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Minister of Finance is responsible for forming an opinion that those financial statements fairly reflect the financial position and operations of the Government for that year. The responsibilities of the Treasury and the Minister of Finance arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 30 of the Public Finance Act 1989.

Independence

The Auditor-General, as an Officer of Parliament, is constitutionally and operationally independent of the Government. Prior to commencing my role as Auditor-General on 5 October 2009, I was Deputy Commissioner of the New Zealand Police. Thus the Deputy Auditor-General deals with all matters relating to the New Zealand Police or the Independent Police Conduct Authority. Other than this matter, and in exercising the functions and powers under the Public Audit Act 2001 as the auditor of public entities, the Auditor-General has 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 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Note	Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Revenue			
51,052	50,234	Taxation revenue	2	50,347	54,145
4,860	4,663	Other sovereign revenue	2	4,682	4,118
55,912	**54,897**	**Total revenue levied through the Crown's sovereign power**		**55,029**	**58,263**
16,049	14,335	Sales of goods and services	3	14,331	15,356
3,159	3,294	Interest revenue and dividends	4	2,315	2,997
2,814	3,154	Other revenue	5	3,050	2,890
22,022	**20,783**	**Total revenue earned through operations**		**19,696**	**21,243**
77,934	**75,680**	**Total revenue (excluding gains)**		**74,725**	**79,506**
		Expenses			
21,175	21,400	Transfer payments and subsidies	6	21,213	19,962
18,324	18,710	Personnel expenses	7	18,477	18,064
4,126	4,144	Depreciation and amortisation	8	4,229	4,305
34,855	32,102	Other operating expenses	9	31,338	34,116
3,349	3,571	Interest expenses	10	2,777	3,070
3,890	3,135	Insurance expenses	11	3,006	3,882
254	-	Forecast new operating spending		-	-
(300)	(455)	Top-down expense adjustment		-	-
85,673	**82,607**	**Total expenses (excluding losses)**		**81,040**	**83,399**
(7,739)	**(6,927)**	**Operating balance before gains/(losses)**		**(6,315)**	**(3,893)**
1,416	3,916	Net gains/(losses) on financial instruments	12	2,522	(2,634)
204	(205)	Net gains/(losses) on non-financial instruments	13	(960)	(4,165)
1,620	**3,711**	**Total gains/(losses)**		**1,562**	**(6,799)**
390	37	Net surplus from associates and joint ventures		227	212
(5,729)	**(3,179)**	**Operating balance (including minority interest)**		**(4,526)**	**(10,480)**
-	-	Operating balance attributable to minority interest in Air New Zealand		17	(25)
(5,729)	**(3,179)**	**Operating balance**		**(4,509)**	**(10,505)**

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

Statement of Comprehensive Income

for the year ended 30 June 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
(5,729)	**(3,179)**	**Operating balance (including minority interest)**	**(4,526)**	**(10,480)**
		Other comprehensive income		
(1)	323	Revaluation of physical assets	129	4,087
-	-	Share of associates revaluation of physical assets	67	148
(18)	(205)	Effective portion of changes in the fair value of cash flow hedges	(112)	333
-	-	Net change in fair value of cash flow hedges transferred to operating profit	(62)	-
3	(3)	Net change in fair value of cash flow hedges transferred to the hedged item	(3)	(153)
-	24	Foreign currency translation differences for foreign operations	(11)	15
(3)	5	Valuation gains/(losses) on investments available for sale taken to reserves	3	22
(1)	(1)	Other movements	(1)	-
(20)	**143**	**Total other comprehensive income**	**10**	**4,452**
(5,749)	**(3,036)**	**Total comprehensive income**	**(4,516)**	**(6,028)**
		Attributable to:		
-	-	- minority interest in Air New Zealand	(34)	34
(5,749)	(3,036)	- the Crown	(4,482)	(6,062)
(5,749)	**(3,036)**	**Total comprehensive income**	**(4,516)**	**(6,028)**

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 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Total Crown expenses		
25,073	24,412	Social security and welfare	24,206	23,273
370	377	GSF pension expenses	333	655
12,815	12,723	Health	12,673	12,042
12,147	12,642	Education	12,440	12,465
3,582	3,652	Core government services	2,830	5,137
3,515	3,486	Law and order	3,354	3,250
1,761	1,783	Defence	1,771	1,712
8,868	8,014	Transport and communications	7,991	9,023
8,246	7,457	Economic and industrial services	7,541	7,695
1,510	1,512	Primary services	1,373	1,487
2,806	2,289	Heritage, culture and recreation	2,584	2,397
1,115	1,052	Housing and community development	1,087	1,075
562	92	Other	80	118
3,349	3,571	Finance costs	2,777	3,070
254	-	Forecast new operating spending	-	-
(300)	(455)	Top-down expense adjustment	-	-
85,673	**82,607**	**Total Crown expenses excluding losses**	**81,040**	**83,399**

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

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Core Crown expenses		
21,139	21,234	Social security and welfare	21,185	19,382
370	368	GSF pension expenses	328	655
13,397	13,137	Health	13,128	12,368
11,284	11,779	Education	11,724	11,455
3,620	3,793	Core government services	2,974	5,293
3,267	3,276	Law and order	3,191	3,089
1,810	1,832	Defence	1,814	1,757
2,253	2,453	Transport and communications	2,345	2,663
2,673	2,959	Economic and industrial services	2,839	2,960
611	522	Primary services	507	534
1,507	1,076	Heritage, culture and recreation	1,281	1,002
365	344	Housing and community development	306	297
562	109	Other	80	118
2,470	2,364	Finance costs	2,311	2,429
254	-	Forecast new operating spending	-	-
(300)	(455)	Top-down expense adjustment	-	-
65,282	**64,791**	**Total core Crown expenses excluding losses**	**64,013**	**64,002**

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

Statement of Cash Flows

for the year ended 30 June 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Note	Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Cash Flows From Operations			
		Cash was provided from			
50,268	50,267	Taxation receipts	2	50,104	51,119
4,290	4,282	Other sovereign receipts	2	4,268	3,716
16,472	14,497	Sales of goods and services		14,411	16,592
2,697	3,220	Interest and dividend receipts		2,378	2,792
2,734	2,973	Other operating receipts		2,974	2,204
76,461	**75,239**	**Total cash provided from operations**		**74,135**	**76,423**
		Cash was disbursed to			
21,159	21,450	Transfer payments and subsidies		21,335	19,673
54,128	51,586	Personnel and operating payments		50,767	50,391
3,042	2,966	Interest payments		2,420	2,880
254	-	Forecast new operating spending		-	-
(300)	(455)	Top-down expense adjustment		-	-
78,283	**75,547**	**Total cash disbursed to operations**		**74,522**	**72,944**
(1,822)	**(308)**	**Net cash flows from operations**		**(387)**	**3,479**
		Cash Flows From Investing Activities			
		Cash was provided from			
300	379	Sale of physical assets		437	765
27,093	42,647	Sale of shares and other securities		42,248	38,602
18	-	Sale of intangible assets		-	-
2,919	3,714	Repayment of advances		3,521	3,709
4	24	Sale of investments in associates		70	2
30,334	**46,764**	**Total cash provided from investing activities**		**46,276**	**43,078**
		Cash was disbursed to			
7,979	6,989	Purchase of physical assets		6,302	6,202
23,206	44,364	Purchase of shares and other securities		40,156	40,250
368	368	Purchase of intangible assets		377	433
3,570	4,074	Issue of advances		3,831	4,838
-	-	Acquisition of Toll (NZ) Limited		-	690
50	33	Acquisition of investments in associates		268	401
72	-	Capital contingency provision		-	-
(100)	(125)	Top-down capital adjustment		-	-
35,145	**55,703**	**Total cash disbursed to investing activities**		**50,934**	**52,814**
(4,811)	**(8,939)**	**Net cash flows from investing activities**		**(4,658)**	**(9,736)**
(6,633)	**(9,247)**	**Net cash flows from operating and investing activities**		**(5,045)**	**(6,257)**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
(6,633)	**(9,247)**	**Net cash flows from operating and investing activities**	**(5,045)**	**(6,257)**
		Cash Flows From Financing Activities		
		Cash was provided from		
181	34	Issue of circulating currency	15	475
8,991	13,459	Issue of Government stock and treasury bills[1]	13,866	6,109
169	1,898	Issue of foreign currency borrowings	3,414	2,448
6,650	4,334	Issue of other New Zealand dollar borrowings	5,091	10,772
15,991	**19,725**	**Total cash provided from financing activities**	**22,386**	**19,804**
		Cash was disbursed to		
5,121	5,697	Repayment of Government stock and treasury bills[1]	6,709	3,765
3,877	2,652	Repayment of foreign currency borrowings	118	4,284
682	2,131	Repayment of other New Zealand dollar borrowings	8,842	3,003
-	-	Dividends paid to minority interests	13	17
9,680	**10,480**	**Total cash disbursed to financing activities**	**15,682**	**11,069**
6,311	**9,245**	**Net cash flows from financing activities**	**6,704**	**8,735**
(322)	**(2)**	**Net movement in cash**	**1,659**	**2,478**
5,353	6,268	**Opening cash balance**	6,268	3,804
11	(123)	Foreign-exchange gains/(losses) on opening cash	(153)	(14)
5,042	**6,143**	**Closing cash balance**	**7,774**	**6,268**

1 Net issues of Government stock and treasury bills is after elimination of holdings by entities such as NZS Fund, ACC and EQC. Further information on the proceeds and repayments of Government stock ("domestic bonds") is available on page 167.

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

Statement of Cash Flows (continued)

for the year ended 30 June 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance		
(1,822)	**(308)**	**Net Cash Flows from Operations**	**(387)**	**3,479**
		Items included in the operating balance but not in net cash flows from operations		
		Gains/(losses)		
1,416	3,916	Net gains/(losses) on financial instruments	2,522	(2,634)
204	(205)	Net gains/(losses) on non-financial instruments	(960)	(4,165)
1,620	**3,711**	**Total gains/(losses)**	**1,562**	**(6,799)**
		Other Non-cash Items in Operating Balance		
(4,126)	(4,144)	Depreciation and amortisation	(4,229)	(4,305)
(578)	(867)	Write-down on initial recognition of financial assets	(855)	(630)
3	(1)	Impairment of financial assets (excl receivables)	33	(851)
274	243	Decrease/(increase) in defined benefit retirement plan liabilities	284	(41)
(1,209)	(957)	Decrease/(increase) in insurance liabilities	(974)	(1,592)
390	37	Other	244	187
(5,246)	**(5,689)**	**Total other non-cash items in operating balance**	**(5,497)**	**(7,232)**
		Movements in Working Capital		
305	(805)	Increase/(decrease) in receivables	(338)	461
155	(530)	Increase/(decrease) in accrued interest	(420)	16
67	95	Increase/(decrease) in inventories	78	118
8	(49)	Increase/(decrease) in prepayments	18	31
5	95	Decrease/(increase) in deferred revenue	(202)	(134)
(821)	301	Decrease/(increase) in payables	677	(445)
(281)	**(893)**	**Total movements in working capital**	**(187)**	**47**
(5,729)	**(3,179)**	**Operating balance**	**(4,509)**	**(10,505)**

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

Statement of Changes in Net Worth

for the year ended 30 June 2010

Forecast Total Net Worth Original Budget $m	Forecast Total Net Worth Estimated Actuals $m		Note	Actual Taxpayer funds $m	Actual Reserves $m	Actual Minority interest $m	Actual Total net worth $m
105,514	105,514	**Net worth at 30 June 2008**		46,700	58,432	382	105,514
(9,303)	(10,480)	Operating balance		(10,505)	-	25	(10,480)
(707)	4,235	Net revaluations		-	4,235	-	4,235
5	322	Transfers to/(from) reserves		189	133	-	322
(1)	(1)	(Gains)/losses transferred to the statement of financial performance		-	(1)	-	(1)
190	(104)	Other movements		(2)	(113)	11	(104)
(9,816)	**(6,028)**	**Total comprehensive income**		**(10,318)**	**4,254**	**36**	**(6,028)**
-	29	Transactions with minority interest in Air New Zealand		-	-	29	29
95,698	**99,515**	**Net worth at 30 June 2009**		**36,382**	**62,686**	**447**	**99,515**
(5,729)	(3,179)	Operating Balance		(4,509)	-	(17)	(4,526)
(1)	323	Net revaluations		-	196	-	196
(18)	(205)	Transfers to/(from) reserves		(785)	689	-	(96)
-	-	(Gains)/losses transferred to the statement of financial performance		-	(60)	-	(60)
(1)	25	Other movements		(1)	(12)	(17)	(30)
(5,749)	**(3,036)**	**Total comprehensive income**		**(5,295)**	**813**	**(34)**	**(4,516)**
-	-	Transactions with minority interest in Air New Zealand		-	-	(11)	(11)
89,949	**96,479**	**Net worth at 30 June 2010**	28	**31,087**	**63,499**	**402**	**94,988**

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

Statement of Financial Position

as at 30 June 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Note	Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Assets			
5,042	6,143	Cash and cash equivalents		7,774	6,268
14,093	13,813	Receivables	14	13,884	14,619
49,683	45,465	Marketable securities, deposits and derivatives in gain	15	43,687	45,708
11,867	15,675	Share investments	16	12,179	11,160
17,268	17,967	Advances	17	18,447	15,604
1,165	1,177	Inventory	18	1,160	1,082
1,836	1,518	Other assets	19	1,661	1,630
110,251	113,634	Property, plant & equipment	20	113,330	110,135
9,197	8,925	Equity accounted investments	21	9,049	8,777
2,133	2,320	Intangible assets and goodwill	22	2,184	2,168
72	-	Forecast for new capital spending		-	-
(375)	(125)	Top-down capital adjustment		-	-
222,232	**226,512**	**Total assets**		**223,355**	**217,151**
		Liabilities			
4,220	4,147	Issued currency		4,020	4,005
10,296	8,950	Payables	23	9,931	9,139
1,213	1,331	Deferred revenue		1,628	1,426
76,423	73,643	Borrowings	24	69,733	61,953
25,345	27,305	Insurance liabilities	25	27,131	26,567
10,307	9,158	Retirement plan liabilities	26	9,940	8,993
4,479	5,499	Provisions	27	5,984	5,553
132,283	**130,033**	**Total liabilities**		**128,367**	**117,636**
89,949	**96,479**	**Total assets less total liabilities**		**94,988**	**99,515**
		Net Worth			
31,803	34,027	Taxpayer funds		31,087	36,382
57,723	62,110	Property, plant and equipment revaluation reserve		63,593	62,612
41	(105)	Other reserves		(94)	74
89,567	**96,032**	**Total net worth attributable to the Crown**		**94,586**	**99,068**
382	447	Net worth attributable to minority interest in Air New Zealand		402	447
89,949	**96,479**	**Total net worth**	28	**94,988**	**99,515**

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

Statement of Segments

Current Year Actual vs Estimated Actuals

	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2010 $m	Estimated Actuals 2010 $m	Actual 2010 $m	Estimated Actuals 2010 $m	Actual 2010 $m	Estimated Actuals 2010 $m	Actual 2010 $m	Estimated Actuals 2010 $m	Actual 2010 $m	Estimated Actuals 2010 $m
Revenue										
Taxation revenue	50,744	50,652	-	-	-	-	(397)	(418)	50,347	50,234
Other sovereign revenue	1,015	1,024	4,840	4,798	-	-	(1,173)	(1,159)	4,682	4,663
Revenue from core Crown funding	-	-	23,084	23,201	-	-	(23,084)	(23,201)	-	-
Sales of goods and services	1,387	1,417	1,642	1,872	11,979	11,900	(677)	(854)	14,331	14,335
Interest revenue and dividends	2,135	2,225	1,146	1,012	626	1,465	(1,592)	(1,408)	2,315	3,294
Other revenue	935	1,088	1,934	1,654	974	993	(793)	(581)	3,050	3,154
Total Revenue (excluding gains)	**56,216**	**56,406**	**32,646**	**32,537**	**13,579**	**14,358**	**(27,716)**	**(27,621)**	**74,725**	**75,680**
Expenses										
Transfer payments and subsidies	21,484	21,670	-	-	-	-	(271)	(270)	21,213	21,400
Personnel expenses	5,991	5,953	10,043	10,316	2,455	2,449	(12)	(8)	18,477	18,710
Other operating expenses	34,227	35,259	21,379	20,707	9,512	9,433	(26,545)	(26,018)	38,573	39,381
Interest expenses	2,311	2,364	245	163	845	1,588	(624)	(544)	2,777	3,571
Forecast new operating spending and top down adjustment	-	(455)	-	-	-	-	-	-	-	(455)
Total Expenses (excluding losses)	**64,013**	**64,791**	**31,667**	**31,186**	**12,812**	**13,470**	**(27,452)**	**(26,840)**	**81,040**	**82,607**
Operating Balance before gains/(losses)	**(7,797)**	**(8,385)**	**979**	**1,351**	**767**	**888**	**(264)**	**(781)**	**(6,315)**	**(6,927)**
Gains/(losses)	797	2,475	1,394	1,422	(132)	71	(253)	(220)	1,806	3,748
Operating Balance	**(7,000)**	**(5,910)**	**2,373**	**2,773**	**635**	**959**	**(517)**	**(1,001)**	**(4,509)**	**(3,179)**
Assets										
Financial assets	65,981	68,018	28,136	27,784	16,065	16,861	(14,211)	(13,600)	95,971	99,063
Property, plant and equipment	29,986	31,206	48,109	48,085	35,235	34,343	-	-	113,330	113,634
Investments in associates, CEs and SOEs	28,663	28,534	7,760	7,521	223	289	(27,597)	(27,419)	9,049	8,925
Other assets	2,585	2,622	743	743	1,716	1,678	(39)	(28)	5,005	5,015
Forecast adjustments	-	(125)	-	-	-	-	-	-	-	(125)
Total Assets	**127,215**	**130,255**	**84,748**	**84,133**	**53,239**	**53,171**	**(41,847)**	**(41,047)**	**223,355**	**226,512**
Liabilities										
Borrowings	57,583	59,933	4,835	4,923	19,747	20,527	(12,432)	(11,740)	69,733	73,643
Other liabilities	24,963	23,049	33,421	32,710	6,612	6,175	(6,362)	(5,544)	58,634	56,390
Total Liabilities	**82,546**	**82,982**	**38,256**	**37,633**	**26,359**	**26,702**	**(18,794)**	**(17,284)**	**128,367**	**130,033**
Net Worth	**44,669**	**47,273**	**46,492**	**46,500**	**26,880**	**26,469**	**(23,053)**	**(23,763)**	**94,988**	**96,479**
Cost of Acquisition of Physical Assets	**1,667**	1,955	**2,433**	2,543	**2,202**	2,491	-	-	**6,302**	6,989

Statement of Segments (continued)

	Current Year Actual vs Prior Year Actual									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2010 $m	Actual 2009 $m	Actual 2010 $m	Actual 2009 $m	Actual 2010 $m	Actual 2009 $m	Actual 2010 $m	Actual 2009 $m	Actual 2010 $m	Actual 2009 $m
Revenue										
Taxation revenue	50,744	54,681	-	-	-	-	(397)	(536)	50,347	54,145
Other sovereign revenue	1,015	808	4,840	4,417	-	-	(1,173)	(1,107)	4,682	4,118
Revenue from core Crown funding	-	-	23,084	21,847	-	-	(23,084)	(21,847)	-	-
Sales of goods and services	1,387	1,237	1,642	2,268	11,979	12,592	(677)	(741)	14,331	15,356
Interest revenue and dividends	2,135	1,872	1,146	1,248	626	771	(1,592)	(894)	2,315	2,997
Other revenue	935	884	1,934	1,549	974	1,117	(793)	(660)	3,050	2,890
Total Revenue (excluding gains)	**56,216**	**59,482**	**32,646**	**31,329**	**13,579**	**14,480**	**(27,716)**	**(25,785)**	**74,725**	**79,506**
Expenses										
Transfer payments and subsidies	21,484	20,244	-	-	-	-	(271)	(282)	21,213	19,962
Personnel expenses	5,991	6,037	10,043	9,592	2,455	2,447	(12)	(12)	18,477	18,064
Other operating expenses	34,227	35,292	21,379	21,184	9,512	10,201	(26,545)	(24,374)	38,573	42,303
Interest expenses	2,311	2,429	245	185	845	970	(624)	(514)	2,777	3,070
Total Expenses (excluding losses)	**64,013**	**64,002**	**31,667**	**30,961**	**12,812**	**13,618**	**(27,452)**	**(25,182)**	**81,040**	**83,399**
Operating Balance before gains/(losses)	**(7,797)**	**(4,520)**	**979**	**368**	**767**	**862**	**(264)**	**(603)**	**(6,315)**	**(3,893)**
Gains/(losses)	797	(1,342)	1,394	(5,095)	(132)	49	(253)	(224)	1,806	(6,612)
Operating Balance	**(7,000)**	**(5,862)**	**2,373**	**(4,727)**	**635**	**911**	**(517)**	**(827)**	**(4,509)**	**(10,505)**
Assets										
Financial assets	65,981	65,613	28,136	25,323	16,065	14,702	(14,211)	(12,279)	95,971	93,359
Property, plant and equipment	29,986	30,487	48,109	46,553	35,235	33,095	-	-	113,330	110,135
Investments in associates, CEs and SOEs	28,663	27,536	7,760	7,468	223	257	(27,597)	(26,484)	9,049	8,777
Other assets	2,585	2,565	743	731	1,716	1,607	(39)	(23)	5,005	4,880
Total Assets	**127,215**	**126,201**	**84,748**	**80,075**	**53,239**	**49,661**	**(41,847)**	**(38,786)**	**223,355**	**217,151**
Liabilities										
Borrowings	57,583	49,889	4,835	4,939	19,747	16,963	(12,432)	(9,838)	69,733	61,953
Other liabilities	24,963	23,242	33,421	32,358	6,612	6,239	(6,362)	(6,156)	58,634	55,683
Total Liabilities	**82,546**	**73,131**	**38,256**	**37,297**	**26,359**	**23,202**	**(18,794)**	**(15,994)**	**128,367**	**117,636**
Net Worth	**44,669**	**53,070**	**46,492**	**42,778**	**26,880**	**26,459**	**(23,053)**	**(22,792)**	**94,988**	**99,515**
Cost of Acquisition of Physical Assets	**1,667**	1,524	**2,433**	2,347	**2,202**	2,331	-	-	**6,302**	6,202

Notes to the Financial Statements

Note 1: Summary of Accounting Policies

Statement of Compliance

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

These financial statements were authorised for issue by the Minister of Finance on 30 September 2010.

Reporting Entity

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

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

The description "Consolidated financial statements for the Government Reporting entity" and the description "financial statements of the Government" have the same meaning and can be used interchangeably.

Basis of Preparation

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

The financial statements are prepared on an accrual basis.

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

Judgements and Estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. For example, the risk free rate is derived from government bond rates for the periods covered by these bonds, and is extrapolated to converge towards the long-term average of 6% beyond that time. 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 below and in the following notes.

Early Adoption of Standards and Interpretations

The Government has elected to early-adopt all NZ IFRSs and Interpretations that had been approved by the New Zealand Accounting Standards Review Board as at 30 June 2010 but that are not yet effective, with the exception of *NZ IFRS 9: Financial Instruments*. This new standard (which is incomplete as at 30 June 2010) was approved by the Accounting Standards Review Board in November 2009. The standard addresses the issues of classification and measurement of financial assets and becomes effective for annual reporting periods commencing on or after 1 January 2013.

The standards and interpretations that have been early-adopted by the Government predominantly relate to the presentation of financial information and do not have a material impact on these financial statements.

Significant Accounting Policies

Reporting and Forecast Period

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

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

Basis of Combination

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

Core Crown entities

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

Other entities

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

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

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

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

- jointly controlled operations: The Government reporting entity recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the jointly controlled operations' income
- jointly controlled assets: The Government reporting entity recognises its share of the jointly controlled assets, its share of any liabilities and expenses incurred jointly, any other liabilities and expenses it has incurred in respect of the jointly controlled asset, and income from the sale or use of its share of the output of the jointly controlled asset, and

- jointly controlled entities: Jointly controlled entities are equity accounted, whereby the Government reporting entity initially recognises its share of interest in these entities' net assets at cost and subsequently adjusts the cost for changes in net assets. The Government reporting entity's share of the jointly controlled entities' surpluses and deficits are recognised in the statement of financial performance.

Income

Taxation revenue levied through the Crown's sovereign power

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

Where possible, taxation revenue is recognised at the time the debt to the Crown arises.

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

Revenue earned through operations

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

Interest income

Interest income is accrued using the effective interest rate method.

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

Dividend income

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

Rental income

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

Donated or subsidised assets

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

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements

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

Grants and subsidies

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

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Foreign Currency

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

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

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

Sovereign Receivables and Taxes Repayable

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

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

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

Financial Instruments

Financial assets

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

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

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

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

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

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

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

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

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

Financial liabilities

Major financial liability type	**Designation**
Accounts payable	All designated at amortised cost
Government 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 as fair value through profit and loss
Issued currency	Not designated: Recognised at face value

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

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

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

Derivatives

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

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

Hedging

Individual entities consolidated within the Government reporting entity apply hedge accounting after considering the costs and benefits of 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.

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

(a) Cash flow hedge

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

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

(b) Fair value hedge

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

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

Inventories

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

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

The cost of harvested agricultural produce is measured at fair value less estimated costs to sell at the point of harvest.

Property, Plant and Equipment (PPE)

Items of property, plant and equipment 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 property, plant and equipment. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, and as income in the statement of financial performance.

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

Subsequent to initial recognition, classes of property, plant and equipment are accounted for as set out below.

Class of PPE	Accounting policy
Land and buildings	Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where available. 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.
Specialist military equipment	Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the bases of these valuations are confirmed as appropriate by an independent valuer.
State highways	State highways are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the state highways is valued using an opportunity cost based on adjacent use, as an approximation to fair value.
Rail network	The rail network is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the rail network is valued using an opportunity cost based on adjacent use, as an approximation to fair value.
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.

Class of PPE	Accounting policy
Electricity distribution network	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation assets	Electricity generation assets are recorded at fair value less depreciation and impairment losses 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. Such physical assets are recorded at fair value less subsequent impairment losses 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 when they do not generate cash flows and where no market exists to provide a valuation.
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.

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

Items of property 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 property is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of property by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of property 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 property, plant and equipment are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the statement of financial performance for the asset class, the gain is credited to the statement of financial performance. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. To the extent that there is a balance in the asset revaluation reserve for the asset class any loss is debited to the reserve. Otherwise, losses are reported in the statement of financial performance.

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

Generally, Government borrowings are not directly attributable to individual assets. Therefore, any borrowing costs incurred during the period required to complete and prepare assets for their intended use are expensed rather than capitalised.

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

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

Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

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

Specified heritage and cultural assets are generally not depreciated.

Equity Accounted Investments

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

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

Biological Assets

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

Intangible Assets

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

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Research is "original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding". Expenditure incurred on the research phase of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

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

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

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

Intangible assets with finite lives are reviewed 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 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 these liabilities, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

Other employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The 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 ACC claims liabilities is revalued annually based on the latest actuarial information. Movements of the liability are reflected in the statement of financial performance. Financial assets backing the liability are designated at fair value through profit and loss.

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.

Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

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

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

Commitments are classified as:

- capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date
- non-cancellable operating leases with a lease term of more than one year, and
- other non-cancellable commitments (these may include consulting contracts, cleaning contracts and ship charters).

Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of 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 Original Budget were forecasts published in the *2009 Budget Economic and Fiscal Update* while Estimated Actuals were forecasts published in the *2010 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment Analysis

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

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

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

Related Parties

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

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

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

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

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

Note 2: Tax and Levies Collected through the Crown's Sovereign Power (Accrual)

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Direct Income Tax Revenue (accrual)		
		Individuals		
21,699	21,884	Source deductions	21,774	22,587
4,387	4,261	Other persons	3,987	4,408
(1,651)	(1,979)	Refunds	(1,831)	(1,636)
487	459	Fringe benefit tax	461	500
24,922	**24,625**	**Total individuals**	**24,391**	**25,859**
		Corporate Tax		
7,077	6,334	Gross companies tax	6,698	8,245
(345)	(399)	Refunds	(379)	(430)
1,107	1,009	Non-resident withholding tax	884	1,451
13	(1)	Foreign-source dividend withholding payments	(3)	10
7,852	**6,943**	**Total corporate tax**	**7,200**	**9,276**
		Other Direct Income Tax		
2,049	1,812	Resident withholding tax on interest income	1,804	2,571
211	142	Resident withholding tax on dividend income	130	65
2	2	Estate and gift duties	2	1
2,262	**1,956**	**Total other direct income tax**	**1,936**	**2,637**
35,036	**33,524**	**Total direct income tax**	**33,527**	**37,772**
		Indirect Income Tax Revenue (accrual)		
		Goods and Services Tax		
21,121	19,131	Gross goods and services tax	19,797	20,551
(9,960)	(7,425)	Refunds	(7,880)	(9,000)
11,161	**11,706**	**Total goods and services tax**	**11,917**	**11,551**
		Other Indirect Taxation		
885	894	Road user charges	910	868
802	849	Petroleum fuels excise - domestic production	805	781
657	636	Alcohol excise - domestic production	600	616
172	188	Tobacco excise - domestic production	217	172
535	564	Petroleum fuels excise - imports[1]	622	514
209	234	Alcohol excise - imports[1]	225	213
840	916	Tobacco excise - imports[1]	851	891
234	219	Other customs duty	175	262
224	229	Gaming duties	219	215
167	170	Motor vehicle fees	171	171
92	68	Approved issuer levy and cheque duty	69	80
38	37	Energy resources levies	39	39
4,855	**5,004**	**Total other indirect taxation**	**4,903**	**4,822**
16,016	**16,710**	**Total indirect taxation**	**16,820**	**16,373**
51,052	**50,234**	**Total taxation revenue**	**50,347**	**54,145**
		Other Sovereign Revenue (accrual)		
3,226	3,201	ACC levies	3,261	2,880
307	304	Fire service levies	301	299
88	88	EQC levies	86	86
362	557	Child support	572	375
296	266	Court fines	238	263
581	247	Other miscellaneous items	224	215
4,860	**4,663**	**Total other sovereign revenue**	**4,682**	**4,118**
55,912	**54,897**	**Total sovereign revenue**	**55,029**	**58,263**

1. Customs excise-equivalent duty.

Note 2: Tax and Levies Collected through the Crown's Sovereign Power (Cash)

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Direct Income Tax Receipts (cash)		
		Individuals		
21,630	21,832	Source deductions	21,744	22,567
4,983	4,745	Other persons	4,630	4,988
(2,393)	(2,739)	Refunds	(2,793)	(2,488)
487	476	Fringe benefit tax	469	506
24,707	**24,314**	**Total individuals**	**24,050**	**25,573**
		Corporate Tax		
7,801	8,488	Gross companies tax	8,650	7,742
(1,379)	(1,716)	Refunds	(1,644)	(2,013)
1,106	892	Non-resident withholding tax	889	1,437
13	8	Foreign-source dividend withholding payments	6	(2)
7,541	**7,672**	**Total corporate tax**	**7,901**	**7,164**
		Other Direct Income Tax		
2,051	1,778	Resident withholding tax on interest income	1,833	2,593
210	126	Resident withholding tax on dividend income	114	97
2	2	Estate and gift duties	2	2
2,263	**1,906**	**Total direct other income tax**	**1,949**	**2,692**
34,511	**33,892**	**Total direct income tax**	**33,900**	**35,429**
		Indirect Tax Receipts (cash)		
		Goods and Services Tax		
20,252	18,785	Gross goods and services tax	18,797	19,715
(9,360)	(7,425)	Refunds	(7,456)	(8,894)
10,892	**11,360**	**Total goods and services tax**	**11,341**	**10,821**
		Other Indirect Taxation		
885	894	Road user charges	908	864
802	849	Petroleum fuels excise - domestic production	805	786
657	636	Alcohol excise - domestic production	622	587
172	188	Tobacco excise - domestic production	214	170
1,818	1,933	Customs duty	1,805	1,957
224	227	Gaming duties	218	227
167	170	Motor vehicle fees	195	165
102	75	Approved issuer levy and cheque duty	59	77
38	43	Energy resources levies	37	36
4,865	**5,015**	**Total other indirect taxation**	**4,863**	**4,869**
15,757	**16,375**	**Total indirect taxation**	**16,204**	**15,690**
50,268	**50,267**	**Total tax receipts collected**	**50,104**	**51,119**
		Other Sovereign Receipts (cash)		
3,170	3,274	ACC levies	3,291	2,792
308	304	Fire service levies	301	300
88	88	EQC levies	86	87
198	197	Child support	190	177
287	172	Court fines	184	173
239	247	Other miscellaneous items	216	187
4,290	**4,282**	**Total other sovereign receipts**	**4,268**	**3,716**
54,558	**54,549**	**Total sovereign receipts**	**54,372**	**54,835**

Note 3: Sales of Goods and Services

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
8,441	7,179	Sales of goods	7,222	7,955
-	173	Deposit guarantee schemes - guarantee fees	163	74
7,608	6,983	Rendering of services	6,946	7,327
16,049	**14,335**	**Total sales of goods and services**	**14,331**	**15,356**
		By source		
1,357	1,417	Core Crown	1,387	1,237
13,858	14,086	Crown entities	14,107	13,901
13,795	11,900	State-owned enterprises	11,979	12,592
(12,961)	(13,068)	Inter-segment eliminations	(13,142)	(12,374)
16,049	**14,335**	**Total sales of goods and services**	**14,331**	**15,356**

Note 4: Interest Revenue and Dividends

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
516	473	Student loans (interest unwind)	463	465
313	238	Other financial assets classified as amortised cost or available for sale	645	629
7	3	Financial assets classified as held for trading	3	6
1,929	2,162	Financial assets classified as fair value through profit and loss	815	1,478
2,765	**2,876**	**Total interest revenue**	**1,926**	**2,578**
394	418	Dividends	389	419
3,159	**3,294**	**Total interest revenue and dividends**	**2,315**	**2,997**
		By source		
2,076	2,225	Core Crown	2,135	1,872
832	1,012	Crown entities	1,146	1,248
927	1,465	State-owned enterprises	626	771
(676)	(1,408)	Inter-segment eliminations	(1,592)	(894)
3,159	**3,294**	**Total interest revenue and dividends**	**2,315**	**2,997**
		Included in total interest revenue above is interest on impaired financial assets of:		
		Impaired student loans	463	465
		Impaired other financial assets classified as amortised cost or available for sale	4	10
		Total interest revenue on impaired financial assets	**467**	**475**

Note 5: Other Revenue

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
222	534	Sale of royalties	353	547
1,030	1,033	Rental income	1,042	1,030
1,562	1,587	Other revenue	1,655	1,313
2,814	**3,154**	**Total other revenue**	**3,050**	**2,890**

Note 6: Transfer Payments and Subsidies

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Social Assistance Grants		
8,246	8,287	New Zealand superannuation	8,290	7,744
2,158	2,200	Family tax credit	2,168	2,062
1,647	1,694	Domestic purposes benefit	1,693	1,530
1,297	1,302	Invalids benefit	1,303	1,260
1,166	1,158	Accommodation supplement	1,154	989
1,078	939	Unemployment benefit	930	586
692	714	Sickness benefit	710	613
578	604	In-work tax credit	595	584
462	589	Student allowances	570	444
543	529	Income related rents	522	512
417	412	Disability allowances	411	390
1,511	1,443	Other social assistance benefits	1,408	1,509
19,795	**19,871**	**Total social assistance grants**	**19,754**	**18,223**
		Subsidies		
919	1,045	KiwiSaver subsidies	1,024	1,281
		Other transfer payments		
461	484	Official development assistance	435	458
21,175	**21,400**	**Total transfer payments and subsidies**	**21,213**	**19,962**

Note 7: Personnel Expenses

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
16,918	17,403	Salaries and wages	17,282	16,311
426	391	Costs incurred on GSF and other defined benefit plans	341	667
368	392	Costs incurred on SSRSS and other defined contribution plans	380	351
612	524	Other personnel expenses	474	735
18,324	**18,710**	**Total personnel expenses**	**18,477**	**18,064**
		By source		
5,924	5,953	Core Crown	5,991	6,037
9,902	10,316	Crown entities	10,043	9,592
2,501	2,449	State-owned enterprises	2,455	2,447
(3)	(8)	Inter-segment eliminations	(12)	(12)
18,324	**18,710**	**Total personnel expenses**	**18,477**	**18,064**
		Key management personnel compensation		
		Salaries and other short-term employee benefits	8	8
		Post-employment benefits	-	-
		Other long-term benefits	-	-
		Termination benefits	-	-
			8	**8**

Key management personnel are the 28 Ministers of the Crown who are members of the Executive Council.

Note 8: Depreciation and Amortisation

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Depreciation expense		
1,087	1,082	Buildings	1,073	1,074
96	100	Electricity distribution network	140	119
392	383	Electricity generation assets	356	294
161	192	Aircraft (excluding military)	173	227
356	379	State highways	403	377
189	186	Rail network	208	160
273	267	Specialist military equipment	286	250
27	23	Specified cultural and heritage assets	17	19
967	956	Other plant and equipment	926	920
3,548	**3,568**	**Total depreciation expense**	**3,582**	**3,440**
578	576	Amortisation and impairment of non-financial assets	647	865
4,126	**4,144**	**Total depreciation and amortisation**	**4,229**	**4,305**

Note 9: Other Operating Expenses

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
-	6	Retail deposit guarantee scheme - expenses accrued for entities in default (refer note 30)	43	35
-	59	Retail deposit guarantee scheme - provision for future retail deposit scheme payments (refer note 30)	(68)	816
4,096	3,859	Donations and ex-gratia payments	3,486	3,477
5	5	Fees paid to audit firms (refer below)	4	4
-	-	Inventory expenses	526	486
1,252	1,594	Impairment of financial assets	1,278	2,778
248	264	Impairment of inventory	11	12
434	428	Lottery prize payments	436	504
1,166	1,086	Rental and leasing costs	1,121	1,175
578	867	Write-down on initial recognition of financial assets	855	630
27,076	23,934	Other operating expenses	23,646	24,199
34,855	**32,102**	**Total other operating expenses**	**31,338**	**34,116**
		By source		
34,093	33,839	Core Crown	32,822	33,647
15,705	16,108	Crown entities	16,854	15,859
10,241	8,173	State-owned enterprises	8,206	8,914
(25,184)	(26,018)	Inter-segment eliminations	(26,544)	(24,304)
34,855	**32,102**	**Total operating expenses**	**31,338**	**34,116**

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. Items disclosed separately are those required by financial reporting standards.

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

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Audit and related expenses		
Auditor-General fees for the audit of financial statements[1]	34	34
Auditor-General fees for assurance and related services	1	1
Fees for other services	-	-
	35	35
Inter-segment eliminations	(35)	(35)
	-	-
Fees for other work [2]		
Fees for assurance and related services	2	2
Fees for tax services	1	1
Fees for other services	1	1
Fees paid to audit firms	**4**	**4**

1. The audit of financial statements are those of the Government reporting entity and its sub-entities. Audit fees are eliminated because the Office of the Auditor-General is consolidated into these financial statements.
2. External auditing firms carry out other work for entities that they audit on behalf of the Auditor-General.

Note 10: Interest Expenses

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
1,140	1,734	Financial liabilities classified as amortised cost	2,221	1,516
1	-	Financial liabilities classified as held for trading	-	1
2,092	1,760	Financial liabilities classified as fair value through profit and loss	503	1,465
116	77	Interest unwind on provisions	53	88
3,349	**3,571**	**Total interest expenses**	**2,777**	**3,070**
		By source		
2,470	2,364	Core Crown	2,311	2,429
140	163	Crown entities	245	185
1,198	1,588	State-owned enterprises	845	970
(459)	(544)	Inter-segment eliminations	(624)	(514)
3,349	**3,571**	**Total interest expenses**	**2,777**	**3,070**

Note 11: Insurance Expenses

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By entity		
3,834	3,058	Accident Compensation Corporation (ACC)	2,922	3,762
39	59	Earthquake Commission	64	88
17	18	Other	20	32
3,890	**3,135**	**Total insurance expenses**	**3,006**	**3,882**

Claims expense is the sum of claims incurred and claims management expenses relating to claims incurred plus the movement in the outstanding claims liability.

Total claims and other expenses are those related to claims that have occurred prior to reporting date. Within these expenses are expenses relating to actuarial gains/(losses) and operating costs (eg, costs for processing claims and injury prevention promotion) that due to their nature are reported elsewhere in the statement of financial performance (eg, under gains/losses or personnel expenses).

Insurance expenses represents underwriting expenses less those expenses reported elsewhere (ie, insurance expenses largely comprise direct settlement of claims and expected movements in the outstanding liability and unexpired risk liability).

Note 11: Insurance Expenses (continued)

Analysis of ACC insurance expense	Actual 30 June 2010 $m	30 June 2009 $m
By type		
ACC claims expense	3,275	8,606
Movement in ACC unexpired risk liability	(459)	(19)
Other underwriting expenses	81	93
Total ACC claims and other expenses	**2,897**	**8,680**
less actuarial gain/(loss)	410	(4,491)
less operating costs relating to claims	(385)	(427)
Total ACC insurance expenses (excluding losses and operations)	**2,922**	**3,762**

Given the uncertainty over insurance claims, it is likely that the final cost will be different from the original liability established. Claims development 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 2010 $m	30 June 2009 $m
Net ACC Underwriting Result		
Premium revenue	3,261	2,880
Recoveries revenue (including reinsurance recovery)	-	-
ACC underwriting revenue	**3,261**	**2,880**
Less claims and other expenses	(2,897)	(8,680)
Net ACC underwriting surplus/(deficit)	**364**	**(5,800)**

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

Underwriting revenue is reported separately in the financial statements under other sovereign revenue.

	Actual 30 June 2010 $m	30 June 2009 $m
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	3,291	2,792
Cash payments	(3,558)	(3,403)
Net ACC operating cash flows	**(267)**	**(611)**

Note 11: Insurance Expenses (continued)

Historical Analysis

	Actual			
	30 June 2010 $m	30 June 2009 $m	30 June 2008 $m	30 June 2007 $m
ACC Claims Development				
Current year net ACC claims incurred				
Gross claims incurred and related expenses – undiscounted	7,422	7,511	5,804	4,433
Reinsurance and other recoveries – undiscounted	-	-	-	-
Net claims incurred – undiscounted	7,422	7,511	5,804	4,433
Discount and discount movement				
– gross claims incurred	(4,286)	(3,996)	(2,923)	(2,126)
– reinsurance and other recoveries	-	-	-	-
Net discount movement	(4,286)	(3,996)	(2,923)	(2,126)
Total current year net claims incurred	**3,136**	**3,515**	**2,881**	**2,307**
Previous years' net ACC claims incurred				
Gross claims incurred and related expenses – undiscounted	1,188	14,698	6,763	7,423
Reinsurance and other recoveries – undiscounted	-	-	-	-
Net claims incurred – undiscounted	1,188	14,698	6,763	7,423
Discount and discount movement				
– gross claims incurred	(1,049)	(9,607)	(4,522)	(6,221)
– reinsurance and other recoveries	-	-	-	-
Net discount movement	(1,049)	(9,607)	(4,522)	(6,221)
Total previous years' net claims incurred	**139**	**5,091**	**2,241**	**1,202**
ACC claims expense	**3,275**	**8,606**	**5,122**	**3,509**

More detail on insurance liabilities is provided in note 25.

Note 12: Gains and Losses on Financial Instruments

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
-	(81)	Foreign exchange gains on financial assets measured at amortised cost	-	23
-	(192)	Foreign exchange losses on financial assets measured at amortised cost	(339)	(226)
-	(1)	Change in fair value of financial assets classified as held for trading	(8)	(4)
7	(19)	Gain/(loss) on disposal of financial assets measured at amortised cost	(17)	(7)
1,042	1,552	Change in fair value of financial assets classified as fair value through profit and loss	457	1,276
1,049	**1,259**	**Net gains/(losses) on financial assets**	**93**	**1,062**
251	-	Foreign exchange gain on financial liabilities measured at amortised cost	154	383
(2)	67	Foreign exchange loss on financial liabilities measured at amortised cost	(7)	(34)
-	-	Change in fair value of financial liabilities classified as held for trading	3	(1)
(2)	-	Gain/(loss) on disposal of financial liabilities measured at amortised cost	5	(2)
86	59	Change in fair value of financial liabilities classified as fair value through profit and loss	(37)	(324)
333	**126**	**Net gains/(losses) on financial liabilities**	**118**	**22**
34	2,531	Net gain/(loss) on derivatives	2,311	(3,718)
1,416	**3,916**	**Net gains/(losses) on financial instruments**	**2,522**	**(2,634)**
		By source		
1,256	3,048	Core Crown	2,094	(1,616)
117	1,173	Crown entities	787	(669)
140	(88)	State-owned enterprises	(105)	(138)
(97)	(217)	Inter-segment eliminations	(254)	(211)
1,416	**3,916**	**Net gains/(losses) on financial instruments**	**2,522**	**(2,634)**

Note 13: Gains and Losses on Non-Financial Instruments

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
-	(15)	Foreign exchange gains/(losses)	(40)	13
(12)	(408)	Actuarial gains/(losses) on GSF liability	(1,231)	(695)
-	219	Actuarial gains/(losses) on ACC outstanding claims	410	(4,491)
-	(19)	Other gains/(losses) on non-financial liabilities	(80)	811
(13)	(130)	Gains/(losses) on disposal or revaluation of property, plant and equipment	(170)	42
230	152	Gains/(losses) on agricultural assets	183	164
-	-	Gains/(losses) on intangible assets	(18)	(1)
(1)	(4)	Other gains/(losses) on non-financial assets	(14)	(8)
204	**(205)**	**Net gains/(losses) on non-financial instruments**	**(960)**	**(4,165)**
		By source		
38	(547)	Core Crown	(1,351)	123
(12)	198	Crown entities	398	(4,475)
178	144	State-owned enterprises	(7)	205
-	-	Inter-segment eliminations	-	(18)
204	**(205)**	**Net gains/(losses) on non-financial instruments**	**(960)**	**(4,165)**

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

Note 14: Receivables

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
7,378	6,690	Tax receivables	6,864	7,649
3,483	3,545	Levies, fines and penalty receivables	3,560	3,334
509	509	Social benefit receivables	461	485
11,370	10,744	**Sovereign receivables**	10,885	11,468
2,723	3,069	Trade and other receivables	2,999	3,151
14,093	**13,813**	**Total receivables**	**13,884**	**14,619**
		By maturity		
13,452	12,797	Expected to be realised within one year	12,912	13,793
641	1,016	Expected to be outstanding for more than one year	972	826
14,093	**13,813**	**Total receivables**	**13,884**	**14,619**
		By source		
8,877	8,437	Core Crown	8,776	10,243
4,661	4,905	Crown entities	4,713	4,725
2,067	2,075	State-owned enterprises	1,740	1,846
(1,512)	(1,604)	Inter-segment eliminations	(1,345)	(2,195)
14,093	**13,813**	**Total receivables**	**13,884**	**14,619**

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

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

All sovereign receivables are denominated in New Zealand dollars.

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Tax Receivables		
Gross tax receivable	10,784	11,645
Impairment of tax receivables	(3,920)	(3,996)
Total tax receivables	**6,864**	**7,649**
Gross Tax Receivable		
Current	5,958	6,891
Past due	4,826	4,754
Total gross tax receivable	**10,784**	**11,645**
% past due	45%	41%
Impairment of Tax Receivables		
Opening balance	3,996	3,025
Impairment losses recognised during the year	591	1,693
Amounts written off as uncollectible	(667)	(722)
Closing balance	**3,920**	**3,996**

Note 14: Receivables (continued)

The Inland Revenue Department (IRD) administers the majority of the tax receivable portfolio. The recoverable amount of the portfolio is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current market rate. An additional 5% was added to the discount rate in 2009 to allow for the impact of the recession. This additional allowance has not been considered necessary for balances as at 30 June 2010. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount.

	Actual	
	30 June 2010 $m	30 June 2009 $m
The estimated recoverable amount of this portfolio and key assumptions underpinning the valuation are:		
Recoverable amount of tax receivables (current)	5,907	6,812
Recoverable amount of tax receivables (past due)	957	837
Discount rate	8.50%	13.91%
Impact on recoverable amount of a 2% increase in discount rate	(15)	(16)
Impact on recoverable amount of a 2% decrease in discount rate	16	17

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.

	Actual	
	30 June 2010 $m	30 June 2009 $m
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	948	1,542
Between six months and one year	601	519
Between one year and two years	1,097	954
Greater than two years	2,180	1,739
Tax receivables past due	**4,826**	**4,754**

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

Note 14: Receivables (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Levies, Fines and Penalty Receivables		
Gross ACC levy receivables	3,355	3,151
Gross other levies, fines and penalty receivables	2,014	1,683
Total gross levies, fines and penalty receivables	**5,369**	**4,834**
Impairment of ACC levy receivables	(80)	(72)
Impairment of other levies, fines and penalty receivables	(1,729)	(1,428)
Total impairment of receivables	**(1,809)**	**(1,500)**
Total levies, fines and penalty receivables	**3,560**	**3,334**
Impairment of ACC Levy Receivables		
Opening balance	72	73
Impairment losses recognised during the year	8	-
Impairment losses reversed	-	(1)
Closing balance	**80**	**72**
Collective impairment allowance	80	72
Individual impairment allowance	-	-
Impairment of ACC Levy Receivables	**80**	**72**
Impairment of other Levies, Fines and Penalty Receivables		
Opening balance	1,428	1,245
Impairment losses recognised during the year	497	193
Amounts written off as uncollectible	-	(10)
Impairment losses reversed	(196)	-
Closing balance	**1,729**	**1,428**
Collective impairment allowance	1,729	1,428
Individual impairment allowance	-	-
Impairment of other Levies, Fines and Penalty Receivables	**1,729**	**1,428**
Ageing of Levies, Fines and Penalty Receivables Past Due But Not Impaired		
Less than six months	34	36
Between six months and one year	-	-
Greater than one year	-	-
Total levies, fines and penalty receivables past due but not impaired	**34**	**36**

The ACC levy receivables are short term, so their carrying amount provides a reasonable approximation of their fair value. Of the other levy, fines and penalties receivables, the majority is in the debtor portfolio administered by the Ministry of Justice (i.e. court fines, associated court fees and enforcement fees) with a carrying value of $230 million (2009: $223 million). Their carrying amount provides a reasonable approximation of their fair value. The recoverable amount of these Justice receivables is calculated using discounted cash flows (net of estimated service costs).

Note 14: Receivables (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Social Benefit Receivables		
Gross social benefit receivables	982	1,013
Impairment of social benefit receivables	(521)	(528)
Total social benefit receivables	**461**	**485**
Impairment of Social Benefit Receivables		
Opening balance	528	502
Impairment losses recognised during the year	45	26
Amounts written off as uncollectible	(52)	-
Closing balance	**521**	**528**
Collective impairment allowance	521	528
Individual impairment allowance	-	-
Impairment of Social Benefit Receivables	**521**	**528**
Ageing of Social Benefit Receivables Past Due But Not Impaired		
Less than six months	-	-
Between six months and one year	-	-
Greater than one year	100	84
Total social benefit receivables past due but not impaired	**100**	**84**

Social benefit receivables comprise benefit overpayments, advances on benefits and recoverable special needs grants primarily administered by the Ministry of Social Development with a carrying value of $450 million (2009: $413 million). The recoverable amount of social benefit receivables is determined by discounting the expected future cash flows (net of estimated service costs).

Their carrying amount provides a reasonable approximation of their fair value.

Note 14: Receivables (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Trade and Other Receivables		
Gross trade and other receivables	3,064	3,194
Impairment of trade and other receivables	(65)	(43)
Total trade and other receivables	**2,999**	**3,151**
Impairment of Trade and Other Receivables		
Opening balance	43	44
Impairment losses recognised during the year	26	18
Amounts written off as uncollectible	(3)	(16)
Impairment losses reversed	(1)	(3)
Closing balance	**65**	**43**
Collective impairment allowance	54	39
Individual impairment allowance	11	4
Impairment of Trade and Other Receivables	**65**	**43**
Ageing of Trade and Other Receivables Past Due But Not Impaired		
Less than six months	136	113
Between six months and one year	14	4
Greater than one year	3	4
Total trade and other receivables past due but not impaired	**153**	**121**

Most trade and other receivables are short term, with $2,776 million (2009: $3,013 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

Note 15: Marketable securities, deposits and derivatives in gain

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
44,971	38,399	Marketable securities	35,732	38,373
2,635	2,158	Long term deposits	2,784	3,136
1,176	2,362	Derivatives in gain	2,972	3,745
901	2,546	IMF financial assets	2,199	454
49,683	**45,465**	**Total marketable securities, deposits and derivatives in gain**	**43,687**	**45,708**
		By maturity		
45,988	36,405	Expected to be realised within one year	32,446	38,916
3,695	9,060	Expected to be held for more than one year	11,241	6,792
49,683	**45,465**	**Total marketable securities, deposits and derivatives in gain**	**43,687**	**45,708**
		By source		
41,202	36,704	Core Crown	35,376	36,089
11,906	13,272	Crown entities	14,091	12,042
2,975	3,105	State-owned enterprises	2,566	3,444
(6,400)	(7,616)	Inter-segment eliminations	(8,346)	(5,867)
49,683	**45,465**	**Total marketable securities, deposits and derivatives in gain**	**43,687**	**45,708**

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 where there is no active market. The valuation models used generally calculate the expected cash flows under the terms of each specific contract and then discounts 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.

Note 16: Share Investments

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By maturity		
7,824	10,899	Expected to be realised within one year	7,451	7,087
4,043	4,776	Expected to be held for more than one year	4,728	4,073
11,867	**15,675**	**Total share investments**	**12,179**	**11,160**
		By source		
6,044	9,098	Core Crown	5,768	5,477
5,780	6,539	Crown entities	6,392	5,651
66	66	State-owned enterprises	60	61
(23)	(28)	Inter-segment eliminations	(41)	(29)
11,867	**15,675**	**Total share investments**	**12,179**	**11,160**

Share investments are reported at fair value. The fair value of listed share investments are 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 inception date.

Note 17: Advances

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
7,658	6,874	Student loans	6,790	6,553
8,843	10,411	Kiwibank mortgages	10,419	8,492
767	682	Other advances	1,238	559
17,268	**17,967**	**Total advances**	**18,447**	**15,604**
		By source		
11,972	10,970	Core Crown	11,088	10,429
452	379	Crown entities	416	379
9,041	10,758	State-owned enterprises	11,114	8,768
(4,197)	(4,140)	Inter-segment eliminations	(4,171)	(3,972)
17,268	**17,967**	**Total advances**	**18,447**	**15,604**
		Student Loans		
11,110	11,152	Nominal value	11,145	10,259
(3,452)	(4,278)	Write-down on initial recognition and impairment	(4,355)	(3,706)
7,658	**6,874**	**Total student loans**	**6,790**	**6,553**
		Gross carrying value	8,152	7,635
		Impairment of student loans	(1,362)	(1,082)
		Total student loans	**6,790**	**6,553**
		By maturity		
		Expected to be repaid within one year	759	761
		Expected to be outstanding for more than one year	6,031	5,792
		Total student loans	**6,790**	**6,553**
		Movement During the Year		
7,131	6,553	Opening balance	6,553	6,741
1,478	1,543	Amount lent in the current year	1,525	1,350
(573)	(754)	Less initial write-down to fair value	(728)	(532)
(794)	(751)	Repayments made during the year	(754)	(710)
516	473	Interest unwind	463	465
(110)	(201)	(Impairment)/reversal of impairment	(280)	(779)
10	11	Other movements	11	18
7,658	**6,874**	**Closing balance student loans**	**6,790**	**6,553**
		Impairment of Student Loans		
		Opening balance	1,082	303
		Impairment losses recognised during the year	280	779
		Closing balance	**1,362**	**1,082**

Note 17: Advances (continued)

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

	Actual	
	30 June 2010 $m	30 June 2009 $m
Significant assumptions behind the carrying value are:		
Effective interest rate - current year	9.5%	9.4%
Effective interest rate - weighted average	7.0%	6.7%
Interest rate applied to loans for overseas borrowers	6.6%-6.8%	6.7%-6.8%
CPI	2.4%-3.0%	1.5%-2.5%
Future salary inflation	3.0%-3.5%	1.5%-3.5%

In contrast with the amortised cost approach described above, fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2010. It is determined by discounting the cash flows at an appropriate discount rate.

	Actual	
	30 June 2010 $m	30 June 2009 $m
Fair value of the student loan portfolio	6,366	5,464
Impact on fair value of a 1% increase in discount rate	(361)	(276)
Impact on fair value of a 1% decrease in discount rate	412	308

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 2010. At that date the fair value was calculated on a discount rate of 7.7% (2009: 9.2%) whereas a weighted average effective interest rate of 7.0% was used for the carrying value. Therefore, the lower fair value does not represent an impairment of the asset.

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

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

Note 17: Advances (continued)

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Kiwibank Mortgages		
		By maturity		
391	833	Expected to be repaid within one year	908	763
8,452	9,578	Expected to be outstanding for more than one year	9,511	7,729
8,843	**10,411**	**Total Kiwibank mortgages**	**10,419**	**8,492**
		Impairment of Kiwibank Mortgages		
		Opening balance	12	3
		Impairment losses recognised on mortgages	8	9
		Closing balance	**20**	**12**
		Collective impairment allowance	10	7
		Individual impairment allowance	10	5
		Impairment of Kiwibank Mortgages	**20**	**12**
		Ageing of Kiwibank Mortgages Past Due But Not Impaired		
		Less than six months	218	315
		Between six months and one year	-	-
		Greater than one year	-	-
		Total Kiwibank mortgages past due but not impaired	**218**	**315**
		Fair value of collateral held	207	320
		Measurement Basis for Kiwibank Mortgages		
		Kiwibank mortgages measured at amortised cost	9,183	6,370
		Kiwibank mortgages measured at fair value	1,236	2,122
		Total Kiwibank mortgages	**10,419**	**8,492**

Kiwibank mortgages originating since 1 January 2008 are measured at amortised cost as these mortgages are generally managed on a held-to-maturity basis. Retail fixed rate lending issued prior to 1 January 2008 has been designated at fair value through the profit and loss, as this significantly reduces an accounting mismatch, which would arise if such loans were carried at amortised cost, and the derivatives, which have been entered into to offset the interest rate risk on the retail fixed loans are held for trading. Movements in fair value are reported in the statement of financial performance.

The fair value of Kiwibank mortgages measured at amortised cost is $9,218 million (2009: $6,429 million). This valuation is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses.

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.

Note 17: Advances (continued)

The carrying value of Kiwibank mortgages measured at fair value will be affected by changes in interest rates. Such changes may be specific to these assets (ie, changes to credit risk on these assets) and broader market sentiment changes. The following table identifies changes in fair value attributable to credit risk alone for the current period and cumulatively for the life of the assets. It also identifies the extent that credit derivatives are used to manage credit exposure:

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Credit Risk Exposure for Kiwibank Mortgages		
Fair value impact for the year from changes in credit risk	1	(2)
Cumulative fair value impact from changes in credit risk	2	1

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Other Advances		
		By maturity		
102	94	Expected to be repaid within one year	269	51
665	588	Expected to be outstanding for more than one year	969	508
767	**682**	**Total other advances**	**1,238**	**559**
		Impairment of Other Advances		
		Opening balance	102	247
		Impairment losses recognised during the year	67	58
		Amounts written off as uncollectible	(78)	(203)
		Impairment losses reversed	(7)	-
		Closing balance	**84**	**102**
		Collective impairment allowance	73	46
		Individual impairment allowance	11	56
		Impairment of Other Advances	**84**	**102**
		Ageing of Other Advances Past Due But Not Impaired		
		Less than six months	14	24
		Between six months and one year	-	-
		Greater than one year	-	-
		Total other advances past due but not impaired	**14**	**24**
		Measurement Basis for Other Advances		
737	652	Other advances measured at amortised cost	1,011	519
30	30	Other advances measured at fair value	227	40
767	**682**	**Total other advances**	**1,238**	**559**

The NZS Fund, the Public Trust and a number of SOE's manage the majority of these advances.

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

Their carrying amount provides a reasonable approximation of their fair value.

Note 18: Inventory

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
		Inventories held for sale	93	104
		Military inventories	287	276
		Other consumables	780	702
1,165	**1,177**	**Total inventory**	**1,160**	**1,082**
		By maturity		
938	987	Expected to be sold or consumed within one year	959	893
227	190	Expected to be sold or consumed after one year	201	189
1,165	**1,177**	**Total inventory**	**1,160**	**1,082**
		By source		
429	460	Core Crown	422	431
176	176	Crown entities	177	157
560	541	State-owned enterprises	561	494
-	-	Inter-segment eliminations	-	-
1,165	**1,177**	**Total inventory**	**1,160**	**1,082**

Note 19: Other Assets

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
379	361	Prepayments	428	410
111	74	Investment property	71	86
708	661	Agricultural assets	664	640
317	315	Investment in supranational organisations	302	313
321	107	Other	196	181
1,836	**1,518**	**Total other assets**	**1,661**	**1,630**
		By maturity		
749	502	Expected to be realised within one year	642	617
1,087	1,016	Expected to be held for more than one year	1,019	1,013
1,836	**1,518**	**Total other assets**	**1,661**	**1,630**
		By source		
1,212	964	Core Crown	1,041	998
184	135	Crown entities	149	149
469	449	State-owned enterprises	509	506
(29)	(30)	Inter-segment eliminations	(38)	(23)
1,836	**1,518**	**Total other assets**	**1,661**	**1,630**

Note 20: Property, Plant and Equipment

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Net Carrying Value		
		By class of asset		
17,348	16,434	Land (valuation)	16,688	16,289
23,179	24,832	Buildings (valuation)	24,019	23,719
2,572	2,288	Electricity distribution network (cost)	2,251	2,046
12,221	11,953	Electricity generation assets (valuation)	13,642	11,664
2,344	2,173	Aircraft (excluding military) (valuation)	1,731	1,952
22,628	24,925	State highways (valuation)	24,838	24,067
12,720	12,776	Rail network (valuation)	12,437	12,506
3,464	3,841	Specialist military equipment (valuation)	3,413	3,927
7,990	8,624	Specified cultural and heritage assets (valuation)	8,505	8,582
5,785	5,788	Other plant and equipment (cost)	5,806	5,383
110,251	**113,634**	**Total property, plant and equipment**	**113,330**	**110,135**
		By source		
29,740	31,206	Core Crown	29,986	30,487
45,757	48,085	Crown entities	48,109	46,553
34,754	34,343	State-owned enterprises	35,235	33,095
-	-	Inter-segment eliminations	-	-
110,251	**113,634**	**Total property, plant and equipment**	**113,330**	**110,135**
		By holding		
1,000	1,382	Leasehold	1,166	1,304
109,251	112,252	Freehold	112,164	108,831
110,251	**113,634**	**Total property, plant and equipment**	**113,330**	**110,135**
		Property, plant and equipment pledged to secure borrowing	**1,156**	1,564

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

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

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Total Property, Plant and Equipment		
Cost or Valuation		
Opening balance	119,547	112,428
Additions	6,274	6,504
Acquisitions through business combinations	281	754
Disposals	(977)	(1,468)
Net revaluations	(1,143)	1,704
Net foreign currency exchange differences	(19)	7
Other	(22)	(382)
Total cost or valuation	**123,941**	**119,547**
Accumulated Depreciation and Impairment		
Opening balance	9,412	9,099
Eliminated on disposal	(587)	(676)
Eliminated on revaluation	(1,349)	(2,333)
Impairment losses charged to operating balance	4	93
Reversals of impairment losses charged to operating balance	(465)	(51)
Depreciation expense	3,582	3,440
Net foreign currency exchange differences	(12)	(39)
Other	26	(121)
Total accumulated depreciation and impairment	**10,611**	**9,412**
Total property, plant and equipment	**113,330**	**110,135**

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Land (valuation)		
Opening balance	16,289	17,609
Additions	224	188
Acquisitions through business combinations	4	1
Disposals	(135)	(424)
Net revaluations	302	(972)
Net foreign currency exchange differences	-	11
Other	4	(124)
Carrying value of land	**16,688**	**16,289**
By holding		
Leasehold	-	-
Freehold	16,688	16,289
Carrying value of land	**16,688**	**16,289**

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 as a component of the value of those separate classes of assets.

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Buildings (valuation)		
Opening balance	25,184	23,530
Additions	1,819	1,726
Acquisitions through business combinations	19	40
Disposals	(306)	(85)
Net revaluations	(564)	171
Net foreign currency exchange differences	(13)	(2)
Other	(88)	(196)
Total buildings (valuation)	**26,051**	**25,184**
Accumulated Depreciation and Impairment on Buildings		
Opening balance	1,465	1,402
Eliminated on disposal	(22)	(47)
Eliminated on revaluation	36	(909)
Impairment losses charged to operating balance	1	-
Reversals of impairment losses charged to operating balance	(462)	(15)
Depreciation expense	1,073	1,074
Net foreign currency exchange differences	(12)	-
Other	(47)	(40)
Accumulated depreciation and impairment on buildings	**2,032**	**1,465**
Carrying value of buildings	**24,019**	**23,719**
By holding		
Leasehold	253	257
Freehold	23,766	23,462
Carrying value of buildings	**24,019**	**23,719**

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

Note 20: Property, Plant and Equipment (continued)

Valuation details for land and buildings with a carrying value over $500 million are as follows:

Category	Valuer/Reviewer	Approach	Timing	Carrying value ($m)
Housing stock	Quotable Value Limited	Valuations based on market evidence or adjusted current rating valuations.	Annual valuation cycle. Latest valuation completed as at 30 June 2010.	15,165 (2009: 14,609)
School property	Darroch Limited or experienced Ministry staff (reviewed by Darroch)	Valuations based on market evidence where possible, or depreciated replacement cost.	Annual valuation cycle. Latest valuation completed as at 30 June 2010.	10,048 (2009: 10,881)
Department of Corrections Land and Buildings	Darroch Limited	The latest full valuation was based on market evidence, except for prison buildings, which were valued at optimised depreciated replacement cost.	Two-year valuation cycle. Latest full valuation completed as at 30 June 2009.	1,978 (2009: 1,835)
NZ Defence Force Land and Buildings	Darroch Limited	Valuations were based on market evidence or rating valuations.	Five-year valuation cycle. Latest full valuation completed as at 30 June 2010.	1,819 (2009: 1,531)
Landcorp Land and Buildings (excluding protected land)	Darroch Limited	Valuations based on market evidence where possible. Protected land is not revalued.	Annual valuation cycle. Latest valuation completed as at 30 June 2010.	997 (2009: 1,114)
Auckland District Health Board Land and Buildings	TelferYoung Limited	The latest full valuation for land was based on market evidence, while buildings were valued at optimised depreciated replacement cost.	Annual valuation cycle. Latest full valuation completed as at 30 June 2010.	790 (2009: 806)
New Zealand Police Land and Buildings	Experienced staff undertake the property valuation in-house, using Beca Valuations Limited as an expert adviser.	Valuations based on market evidence where possible, or depreciated replacement cost.	Three-year valuation cycle. Latest full valuation performed as at 30 June 2009.	746 (2009: 759)
Ministry of Justice Land and Buildings	Beca Valuations Limited	Valuations based on market evidence where possible.	Annual valuation cycles with physical inspections every three years. The latest full physical inspection was as at 30 June 2010.	583 (2009: 544)

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Electricity Distribution Network (cost)		
Opening balance	2,677	2,415
Additions	320	278
Disposals	(3)	(16)
Other	(1)	-
Total electricity distribution network (cost)	**2,993**	**2,677**
Accumulated Depreciation and Impairment on Electricity Distribution Network		
Opening balance	631	528
Eliminated on disposal	(30)	(16)
Depreciation expense	140	119
Other	1	-
Accumulated depreciation and impairment on electricity distribution network	**742**	**631**
Carrying value of electricity distribution network	**2,251**	**2,046**
By holding		
Leasehold	-	-
Freehold	2,251	2,046
Carrying value of electricity distribution network	**2,251**	**2,046**

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Electricity Generation Assets (valuation)		
Opening balance	12,079	11,531
Additions	406	918
Acquisitions through business combinations	236	-
Disposals	(9)	(2)
Net revaluations	993	3
Other	111	(371)
Total electricity generation assets	**13,816**	**12,079**
Accumulated Depreciation and Impairment on Electricity Generation Assets		
Opening balance	415	329
Eliminated on disposal	(8)	(2)
Eliminated on revaluation	(589)	(212)
Depreciation expense	356	294
Net foreign currency exchange differences	-	5
Other	-	1
Accumulated depreciation and impairment on electricity generation assets	**174**	**415**
Carrying value of electricity generation assets	**13,642**	**11,664**
By holding		
Leasehold	2	2
Freehold	13,640	11,662
Carrying value of electricity generation assets	**13,642**	**11,664**

Note 20: Property, Plant and Equipment (continued)

Independent valuations of the Government's electricity generation assets have been performed as detailed below:

Entity	Valuer/Reviewer	Approach	Timing	Carrying value ($m)
Meridian Energy Limited	Pricewaterhouse Coopers	Valuations are based on both the capitalisation of earnings methodology, applied to Meridian as a whole, and the discounted cash flow methodology.	Regular revaluations not to exceed five years. Latest valuation completed as at 30 June 2010.	8,031 (2009: 6,582)
Mighty River Power Limited	Pricewaterhouse Coopers	Valuations based on net present value of future earnings of the assets on an existing use basis, excluding disposal and restoration costs.	Five-year valuation cycle. Hydro and co-generation assets were last valued as at 30 June 2010. Geothermal and landfill assets were last valued as at 30 June 2009.	4,061 (2009: 3,476)
Genesis Power Limited	Directors' valuation based on an independent review of cash flows by First NZ Capital.	Valuations based on fair value, determined using net present value of future earnings of the assets on an existing use basis.	Regular revaluations not to exceed five years. Latest valuation completed as at 30 June 2009.	1,479 (2009: 1,527)

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	30 June 2009 $m
Aircraft (excluding military) (valuation)		
Opening balance	1,957	2,073
Additions	126	168
Acquisitions through business combinations	-	3
Disposals	(11)	(134)
Net revaluations	(312)	(120)
Other	(17)	(33)
Total aircraft (excluding military)	**1,743**	**1,957**
Accumulated Depreciation and Impairment on Aircraft		
Opening balance	5	2
Eliminated on disposal	(5)	(6)
Eliminated on revaluation	(147)	(145)
Impairment losses charged to operating balance	1	72
Reversals of impairment losses charged to operating balance	(1)	(20)
Depreciation expense	173	227
Other	(14)	(125)
Accumulated depreciation and impairment on aircraft	**12**	**5**
Carrying value of aircraft (excluding military)	**1,731**	**1,952**
By holding		
Leasehold	812	941
Freehold	919	1,011
Carrying value of aircraft (excluding military)	**1,731**	**1,952**

Aircraft and related assets are valued annually. Independent valuations as at 30 June 2010 have been obtained from The Aircraft Value Analysis Company and Ascend Worldwide Limited to ascertain indicative market values of each aircraft on a stand-alone basis. The carrying value of the aircraft is recorded at an average of the valuations provided by the two valuers.

Related assets include spare engines and flight simulators.

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	30 June 2009 $m
State Highways (valuation)		
Opening balance	24,067	20,947
Additions	1,289	1,207
Disposals	(43)	-
Net revaluations	(470)	1,913
Net foreign currency exchange differences	-	-
Other	(5)	-
Total state highways	**24,838**	**24,067**
Accumulated Depreciation and Impairment on State Highways		
Opening balance	-	-
Eliminated on revaluation	(403)	(377)
Depreciation expense	403	377
Accumulated depreciation and impairment on state highways	**-**	**-**
Carrying value of state highways	**24,838**	**24,067**
By holding		
Leasehold	-	-
Freehold	24,838	24,067
Carrying value of state highways	**24,838**	**24,067**

State highways comprise the land, formation works, road structure, drainage works and traffic facilities of the roads, bridges, culverts, tunnels, stock and pedestrian underpasses, protection works and retaining structures. The state highways valuation is performed by an independent valuer, Opus International Consultants Limited with property valuations supplied by DTZ New Zealand Limited. State highways are subject to a full revaluation each year as at 30 June (excluding land which is done on a cyclical basis once every 3 - 5 years).

State highways are valued at depreciated replacement cost based on the estimated present cost of constructing the existing assets by the most appropriate method of construction, reduced by factors for the age and condition of the asset. State highway corridor land, is included as part of the state highway, and is valued using an opportunity cost based on adjacent use, as an approximation to fair value. Borrowing costs have not been capitalised.

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Rail Network (valuation)		
Opening balance	12,520	12,063
Additions	462	451
Acquisitions through business combinations	-	165
Disposals	-	(4)
Net revaluations	(347)	(157)
Other	-	2
Total rail network	**12,635**	**12,520**
Accumulated Depreciation and Impairment on Rail Network		
Opening balance	14	313
Eliminated on disposal	-	(4)
Eliminated on revaluation	(24)	(465)
Depreciation expense	208	160
Other	-	10
Accumulated depreciation and impairment on rail network	**198**	**14**
Carrying value of rail network	**12,437**	**12,506**
By holding		
Leasehold	-	-
Freehold	12,437	12,506
Carrying value of rail network	**12,437**	**12,506**

The rail network assets comprise land, buildings, and rail infrastructure assets (bridges, tunnels, tracks, level crossings, signals and electrification). The assets are recorded at their fair value at the date of the last revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute. Land and buildings were valued at 30 June 2010 by Darroch Limited. The last valuation of rail infrastructure assets was as at 30 June 2009 and was conducted by DTZ New Zealand Limited.

Railway infrastructure assets and specialised land and buildings are valued using optimised depreciated replacement cost. Non-specialised land and buildings which could be sold with relative ease are valued at market value. Land associated with the rail corridor is valued using an opportunity cost based on adjacent use, as an approximation to fair value. Borrowing costs have not been capitalised.

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Specialist Military Equipment (valuation)		
Opening balance	4,394	3,808
Additions	176	261
Disposals	(23)	(16)
Net revaluations	(658)	334
Other	-	7
Total specialist military equipment	**3,889**	**4,394**
Accumulated Depreciation and Impairment on Specialist Military Equipment		
Opening balance	467	463
Eliminated on disposal	(31)	(12)
Eliminated on revaluation	(245)	(225)
Depreciation expense	286	250
Net foreign currency exchange differences	-	(9)
Other	(1)	-
Accumulated depreciation and impairment on specialist military equipment	**476**	**467**
Carrying value of specialist military equipment	**3,413**	**3,927**
By holding		
Leasehold	-	-
Freehold	3,413	3,927
Carrying value of specialist military equipment	**3,413**	**3,927**

Specialist military equipment assets are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least once every five years. Valuations use a market based approach, except where reliable market evidence is unavailable and then optimised depreciated replacement cost is used to calculate fair value. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Specialist military equipment with a net carrying value of $2 million or more, or groups of like assets with a total carrying value of $4 million or more, are revalued annually using an internally assessed valuation. All other specialised military equipment is stated at depreciated replacement cost based on a historic internal valuation or depreciated historical cost.

The internally assessed valuation for specialist military equipment was performed at 30 June 2010 and was reviewed by an independent registered valuer (Beca Valuations Limited).

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Specified Cultural and Heritage Assets (valuation)		
Opening balance	8,957	8,297
Additions	75	134
Disposals	(12)	(6)
Net revaluations	(87)	532
Other	(61)	-
Total specified cultural and heritage assets	**8,872**	**8,957**
Accumulated Depreciation and Impairment on Specified Cultural and Heritage Assets		
Opening balance	375	319
Eliminated on disposal	(48)	(4)
Eliminated on revaluation	23	-
Depreciation expense	17	19
Other	-	41
Accumulated depreciation and impairment on specified cultural and heritage assets	**367**	**375**
Carrying value of specified cultural and heritage assets	**8,505**	**8,582**
By holding		
Leasehold	-	-
Freehold	8,505	8,582
Carrying value of specified cultural and heritage assets	**8,505**	**8,582**
By group		
National Archives	522	513
National Library	984	982
Conservation property	6,240	6,412
Parliamentary Library	29	30
Te Papa	725	639
Other	5	6
Carrying value of specified cultural and heritage assets	**8,505**	**8,582**

Note 20: Property, Plant and Equipment (continued)

There are difficulties associated with obtaining an objective valuation for the specified cultural and heritage assets of the Government. These are discussed below:

National Archives Holdings

Archives in the possession of Archives New Zealand have been valued and recorded at a best estimate of fair value as at 30 June 2010. Non exceptional items are revalued every three years and were last revalued in June 2008 using a methodology that divided the collection into categories by format and age, to associate records that could be said to have a broad commonality of value. Benchmark valuations were obtained from an independent valuer, Dunbar Sloane, through market assessments and from other collections of a similar nature to Government archives. Accessions since the date of valuation are valued on the basis of these benchmarks.

The value of the Treaty of Waitangi was based on a valuation as at 30 June 2008, supported by Sotheby's, an independent valuer. Other items of exceptional value were based on a valuation from Dunbar Sloane, also obtained in June 2008. These valuations were based on market assessments and comparisons with other items of a similar nature.

The Protected Objects Act 1975 requires protected records to be kept in safe custody in accordance with the directions of the Minister for Arts, Culture and Heritage. Also, the Public Records Act 2005 establishes a recordkeeping framework, focusing on supporting good recordkeeping in Government.

National Library collections

The Heritage Collections are valued at fair value with valuations performed every three years. The latest valuation was performed by National Library staff as at 30 June 2008, with the valuation methodology reviewed by an independent valuer (Rowan Gibbs of Smith's Bookshop Limited). The carrying value includes the value of purchases for the collections since the last revaluation and the value of material received through donation and legal deposit.

Section 11 of the National Library of New Zealand (Te Puna Mātauranga o Aotearoa) Act 2003 requires the Crown to own the collections of the Alexander Turnbull Library in perpetuity. The Heritage Collections are not depreciated.

Conservation Property

Conservation property includes the Conservation Estate land (national parks, forest parks, conservation areas) and recreational facilities. The Conservation Estate land is initially recognised at cost and is revalued based on rateable valuations supplied by Quotable Value Limited. Land not matched to a rateable valuation is assessed using an average per hectare rate. Land values were independently confirmed as appropriate by valuersnet.nz Limited.

The Department of Conservation recreational facilities were recorded at their fair value.

The use and disposal of all the Crown land managed by the Department of Conservation is determined by legislation, in particular the Reserves Act 1977, the National Parks Act 1980 and the Conservation Act 1987. The Crown land managed by the Department is not subject to mortgages or other charges. Specific areas may, however, be included in Treaty of Waitangi settlements if the Crown decides to offer those areas to claimants. Some areas may be subject to leases, licences or permits issued by the Department under concession provisions of the relevant legislation.

Note 20: Property, Plant and Equipment (continued)

Parliamentary Library

The Library Heritage collection is valued at current market value on an annual basis by Parliamentary Service's library staff in accordance with guidelines released by the New Zealand Library Association and the National Library of New Zealand.

Library Reference Collections are measured at historic cost.

Te Papa's collections

Te Papa's collections have been valued at cost or market value, with the exception of the Natural Environment collections, which are shown at replacement cost. Collections are valued annually, with each class of collection valued at least once every three years. Acquisitions to collections between revaluations are recorded at cost. As the collections tend to have an indefinite life and are generally not of a depreciable nature, depreciation is not applicable. The 2010 valuations were undertaken by independent valuers. The valuation of the Archaeological collection was undertaken by Dr B F Leach. The valuations of Māori and Pacific and International collections were undertaken by Peter Webb Galleries.

Crown Research Institutes "collection type" assets

The Crown, when establishing Crown research institutes in 1992, transferred various national databases and reference collections to individual institutes at nil value. No reliable valuation is able to be obtained for these assets, and so they remain at nil value. Many of the databases and collections were specifically identified by the Foundation for Research, Science and Technology as being of significant importance and as such have covenants attached to them restricting an institute's ability to deal with them.

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Other Plant and Equipment (cost)		
Opening balance	11,423	10,155
Additions	1,377	1,173
Acquisitions through business combinations	22	545
Disposals	(435)	(781)
Net foreign currency exchange differences	(6)	(2)
Other	35	333
Total other plant and equipment	**12,416**	**11,423**
Accumulated Depreciation and Impairment on Other Plant and Equipment		
Opening balance	6,040	5,743
Eliminated on disposal	(443)	(585)
Impairment losses charged to operating balance	2	21
Reversals of impairment losses charged to operating balance	(2)	(16)
Depreciation expense	926	920
Net foreign currency exchange differences	-	(35)
Other	87	(8)
Accumulated depreciation and impairment on other plant and equipment	**6,610**	**6,040**
Carrying value of other plant and equipment	**5,806**	**5,383**
By holding		
Leasehold	99	104
Freehold	5,707	5,279
Carrying value of other plant and equipment	**5,806**	**5,383**

Note 21: Equity Accounted Investments

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
7,712	7,505	Tertiary Education Institutions	7,740	7,417
1,485	1,420	Other	1,309	1,360
9,197	**8,925**	**Total equity accounted investments**	**9,049**	**8,777**

Tertiary Education Institutions (TEIs)

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

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

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

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

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Operating Results		
2,246	2,200	Revenue from Crown	2,232	2,068
2,018	1,977	Other revenue	1,968	1,913
(4,011)	(4,126)	Expenses	(3,992)	(3,932)
253	**51**	**Net surplus**	**208**	**49**
		Net worth		
		Assets		
766	1,127	Financial assets	707	1,127
7,603	7,377	Property, plant and equipment	7,638	7,290
692	477	Other assets	1,013	476
9,061	**8,981**	**Total assets**	**9,358**	**8,893**
		Liabilities		
176	174	Borrowings	189	174
1,173	1,302	Other liabilities	1,429	1,302
1,349	**1,476**	**Total liabilities**	**1,618**	**1,476**
7,712	**7,505**	**Net worth**	**7,740**	**7,417**

Note 22: Intangible Assets and Goodwill

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
		Computer software	1,260	1,177
		Net Kyoto position	212	207
		Goodwill	487	461
		Other intangible assets	225	323
2,133	**2,320**	**Total intangible assets and goodwill**	**2,184**	**2,168**
		By maturity		
		Expected to be sold or consumed within one year	363	318
		Expected to be sold or consumed after one year	1,821	1,850
		Total intangible assets and goodwill	**2,184**	**2,168**
		By source		
1,036	1,199	Core Crown	1,122	1,135
404	433	Crown entities	417	425
693	688	State-owned enterprises	645	607
-	-	Inter-segment eliminations	-	1
2,133	**2,320**	**Total intangible assets and goodwill**	**2,184**	**2,168**

Note 22: Intangible Assets and Goodwill (continued)

	Actual	
	30 June 2010 $m	30 June 2009 $m
Computer Software		
Internally-Generated Computer Software		
Cost		
Opening balance	1,934	1,839
Additions	202	287
Disposals	(29)	(95)
Other movements	41	(97)
Total cost	**2,148**	**1,934**
Accumulated Amortisation		
Opening balance	1,173	1,103
Eliminated on disposal	(19)	(89)
Impairment losses charged to operating balance	5	(3)
Reversals of impairment losses charged to operating balance	29	-
Amortisation	222	189
Other movements	(17)	(27)
Total accumulated amortisation	**1,393**	**1,173**
Carrying value of internally-generated computer software	**755**	**761**
Purchased Computer Software		
Cost		
Opening balance	1,315	1,067
Additions	271	216
Disposals	(32)	(25)
Other movements	(28)	57
Total cost	**1,526**	**1,315**
Accumulated Amortisation		
Opening balance	899	758
Eliminated on disposal	(23)	(14)
Impairment losses charged to operating balance	18	2
Reversals of impairment losses charged to operating balance	(29)	(1)
Amortisation	141	129
Other movements	15	25
Total accumulated amortisation	**1,021**	**899**
Carrying value of purchased computer software	**505**	**416**
Total computer software	**1,260**	**1,177**

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2010 $m	30 June 2009 $m
Net Kyoto Position		
Opening net asset/(provision)	207	(562)
Change in the price of carbon and foreign exchange rate	(30)	(41)
Change in net projected emission units	35	810
Closing net asset/(provision)	**212**	**207**

	30 June 2010 Emission Units million tonnes (Mt)	30 June 2009 Emission Units million tonnes (Mt)
Net Kyoto Position		
Kyoto target (assigned amount units)	309.6	309.6
Less AAUs allocated to emission reducing projects	5.0	6.8
Total commitment target	**304.6**	**302.8**
Projected emission units		
Agriculture	177.6	184.0
Energy (incl. transport) and industrial processes	184.9	185.6
Waste	8.2	8.3
Solvent and other product use	0.2	0.2
Total projected emission units	**370.9**	**378.1**
Removals via forest	89.1	92.3
Deforestation emissions	(9.2)	(7.4)
Less net removals via forests	79.9	84.9
Net projected emission units	**291.0**	**293.2**
Less net transfers of AAUs	2.4	-
Surplus units	**11.2**	**9.6**

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand’s average net emissions of greenhouse gases over 2008-2012 (the first commitment period of the Kyoto Protocol or CP1) is reduced to 1990 levels or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions against carbon removed by forests. New Zealand's Kyoto Protocol compliance over the first commitment period will not be finalised until 2015 when the annual submission covering the period 1990 to 2012 is submitted and internationally reviewed. These financial statements report on the New Zealand Government’s obligations for the first commitment period, but not for future commitment periods which are currently being negotiated.

New Zealand's net Kyoto position as at 30 June 2010 of $NZ212 million (2009: $NZ207 million) is based on the projected surplus of 11.2 million Kyoto Protocol emission units and a carbon price of €10.75 per unit. The carbon price in New Zealand dollars equates to $NZ18.94, using the 30 June 2010 exchange rate of €0.5677 = $NZ1 (30 June 2009: €0.46280 = $NZ1, and a carbon price of €10.00 per unit).

The carbon price has been determined by the Ministry for the Environment based on international market transactions that have occurred.

Note 22: Intangible Assets and Goodwill (continued)

Net Kyoto Position (continued)

The projected balance of Kyoto Protocol units (the net position) is compiled by the Ministry for the Environment using sectoral projection reports from across government. This includes reports on Agriculture emissions and net removals from eligible forests from the Ministry of Agriculture and Forestry; energy emissions (including transport) and industrial processes emissions from the Ministry of Economic Development, and emissions from the waste sector from the Ministry for the Environment. Details of the net position can be found on the Ministry for the Environment's website: www.mfe.govt.nz. The sectoral reports from other departments can also be found by following links on this website. The projections use the latest information from the national inventory of greenhouse gas emissions and removals submitted to the United Nations Framework Convention on Climate Change secretariat on 15 April 2010.

No liability for periods beyond 2012 has been recognised, as New Zealand currently has no specific obligations beyond the first commitment period. However, a view about the outcome of negotiations for future periods is intrinsic to the market price for carbon that has been used to measure the position.

Beyond 2012, the financial impact of New Zealand’s climate change response will depend on the global stabilisation goal, the global cap/emission reducing strategy, the rules regarding which activities can be used to achieve emission reductions and the target that New Zealand signs up to.

Within New Zealand, the Emissions Trading Scheme (ETS) will transfer a price of carbon through the economy. Determinations as to when sectors are covered under the ETS and how much free allocation is made to these sectors will therefore also impact the financial statements of government. Foresters opt-in to the ETS and are allocated units. Because units are allocated free-of-charge, the Crown incurs an expense. The outstanding balance of these units is reported as the provision for ETS credits in note 27 of these financial statements. When the forests are harvested, the foresters may use the units to meet their carbon obligations.

During the first commitment period, the Ministry of Agriculture and Forestry estimate that 89.1 million tonnes of credits will be generated by carbon removals via forests (2009: 92.3 million tonnes). Of this amount, 5.1 million tonnes has been allocated to foresters through the ETS as at 30 June 2010. To the extent that these forests are harvested (in subsequent commitment periods), there will be an associated liability generated that will need to be repaid. As the forestry credits have been incorporated when calculating the current position for the first commitment period, the associated obligation of the Crown in respect of future commitment periods has been reported as a separate contingent liability. Using the carbon price as at 30 June 2010, this contingent liability can be measured at $NZ1,590 million (i.e. 84.0 million x $NZ18.94) (2009: $1,995 million).

The measurement of the Kyoto position is, by its nature, more uncertain than a number of other items in the statement of financial position. Fluctuations in the value of the estimate may occur through changes in the assumptions underlying the quantum, movements in the price of carbon, the exchange rate with the European currency unit, and government policy changes.

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2010 $m	30 June 2009 $m
Goodwill		
Cost		
Opening balance	679	660
Additions	30	19
Disposals	(3)	-
Total cost	**706**	**679**
Accumulated Impairment		
Opening balance	218	216
Impairment losses charged to operating balance	2	-
Other movements	(1)	2
Total accumulated impairment	**219**	**218**
Carrying value of goodwill	**487**	**461**

Goodwill in relation to Air New Zealand of $258 million (2009: $258 million) is tested for impairment annually.

A valuation was performed in June 2009 based on a value in use discounted cash flow valuation and this valuation has been relied upon for the year ended 30 June 2010. Cash flow forecasts were prepared for five years using Air New Zealand board reviewed business plans. Key assumptions include exchange rates, jet fuel costs, passenger load factors and route yields. These assumptions have been based on historical data and current market information. The cash flow forecasts are particularly sensitive to fluctuations in fuel prices and exchange rates and are extrapolated using an average growth rate of approximately 2.0 %. The cash flow projections are discounted using post-tax discount rate scenarios of 8.8–9.6%. The 2009 valuation confirmed that there was no impairment to the goodwill asset required.

Note 23: Payables

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
5,845	5,191	Accounts payable	6,703	5,380
4,451	3,759	Taxes repayable	3,228	3,759
10,296	**8,950**	**Total payables**	**9,931**	**9,139**
		By maturity		
9,987	8,775	Expected to be settled within one year	9,734	8,981
309	175	Expected to be outstanding for more than one year	197	158
10,296	**8,950**	**Total payables**	**9,931**	**9,139**
		By source		
7,373	6,330	Core Crown	7,120	6,885
3,457	3,606	Crown entities	4,390	3,968
4,715	4,466	State-owned enterprises	4,652	4,324
(5,249)	(5,452)	Inter-segment eliminations	(6,231)	(6,038)
10,296	**8,950**	**Total payables**	**9,931**	**9,139**

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

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

Note 24: Borrowings

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
25,629	28,881	Government stock[1]	27,926	21,164
9,550	9,043	Treasury bills	7,625	7,432
581	337	Government retail stock	309	491
9,432	7,602	Settlement deposits with Reserve Bank	6,679	6,908
3,237	1,798	Derivatives in loss[2]	2,376	2,158
1,247	1,000	Finance lease liabilities	920	1,002
26,747	24,982	Other borrowings	23,898	22,798
76,423	**73,643**	**Total borrowings[3]**	**69,733**	**61,953**
		By source		
63,915	59,933	Core Crown	57,583	49,889
5,168	4,923	Crown entities	4,835	4,939
17,962	20,527	State-owned enterprises	19,747	16,963
(10,622)	(11,740)	Inter-segment eliminations	(12,432)	(9,838)
76,423	**73,643**	**Total borrowings**	**69,733**	**61,953**
		By maturity		
		Expected to be settled within one year	30,246	32,687
		Expected to be outstanding for more than one year	39,487	29,266
		Total borrowings	**69,733**	**61,953**
		By guarantee		
58,076	52,833	Sovereign-guaranteed debt[4]	50,017	44,448
18,347	20,810	Non-sovereign debt	19,716	17,505
76,423	**73,643**	**Total borrowings**	**69,733**	**61,953**

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.

1. Government stock includes $395 million of infrastructure bonds (2009: $395 million).

2. Derivatives are included in either borrowings or marketable securities depending on their gain or loss position at balance date. This treatment leads to fluctuations in individual items primarily due to exchange rate movements.

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

4. Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by State-owned enterprises and Crown entities are not explicitly guaranteed by the Crown. Sovereign-guaranteed debt excludes Kiwibank deposits guaranteed under the retail deposit guarantee scheme.

Note 24: Borrowings (continued)

Government Stock

	Actual	
	30 June 2010 $m	30 June 2009 $m
Government stock measured at amortised cost	26,814	17,710
Government stock measured at fair value	1,112	3,454
Total Government stock	**27,926**	**21,164**

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

The fair value of government stock measured at amortised cost is $27,836 million (2009: $18,093 million). This valuation is based on observable market prices.

The valuation of government stock reported at fair value is also based on observable market prices. There have been no changes in the Standard & Poor's or Moody's international credit ratings for New Zealand. Accordingly changes in fair value are due to factors other than Sovereign credit risk.

	Actual	
	30 June 2010 $m	30 June 2009 $m
Government stock measured at fair value		
Carrying value	1,112	3,454
Amount payable on maturity	904	3,296
Fair value impact from changes in credit risk for the year	-	-
Cumulative fair value impact from changes in credit risk	-	-

Treasury Bills

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

Note 24: Borrowings (continued)

Settlement Deposits with Reserve Bank

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

Settlement deposits with the Reserve Bank are technically a form of borrowing by the Reserve Bank, where the liability is matched by a corresponding financial asset (reported as an element of marketable securities and deposits – refer note 15). Settlement deposits are reported at fair value, which is equivalent to the amount payable to depositors given the short term (ie, overnight) nature of these liabilities. The value of these deposits is not affected by the Crown's credit rating.

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

Finance Lease Liabilities

Forecast			Actual	
Original Budget $m	Estimated Actuals $m		30 June 2010 $m	30 June 2009 $m
		By source		
6	8	Core Crown	12	13
46	42	Crown entities	46	40
1,196	950	State-owned enterprises	866	949
(1)	-	Inter-segment eliminations	(4)	-
1,247	**1,000**	**Total finance lease liabilities**	**920**	**1,002**
		Undiscounted Minimum Lease Payments		
		No later than one year	110	139
		Later than one year and not later than five years	459	462
		Later than five years	516	647
		Total undiscounted minimum lease payments	**1,085**	**1,248**
		Present Value of Minimum Lease Payments		
		No later than one year	90	115
		Later than one year and not later than five years	392	381
		Later than five years	445	544
		Total present value of minimum lease payments	**927**	**1,040**
		Future finance charges	**158**	**208**

Finance leases relate to aircraft, electricity generation and transmission equipment and office equipment. The Government entities entering into finance leases generally have options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Government's obligations under finance leases are secured by the lessors' title to the leased assets.

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

Note 24: Borrowings (continued)

Other Borrowings

	Actual	
	30 June 2010 $m	30 June 2009 $m
Other borrowings measured at amortised cost	18,587	14,602
Other borrowings measured at fair value	5,311	8,196
Total other borrowings	**23,898**	**22,798**

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

The fair value of other borrowings measured at amortised cost is $18,571 million (2009: $14,718 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets are determined by reference to quoted market prices. Where such prices are not available use is made of estimated discounted cash flows models with reference to market interest rates.

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

Of these borrowings, $6,414 million (2009: $7,261 million) is sovereign-issued debt administered by the Reserve Bank and NZDMO. As there have been no changes in the international credit rating for Sovereign debt there has been no value change attributable to credit risk for these borrowings.

The remaining borrowings of $17,484 million (2009: $15,537 million) comprise non-sovereign-issued debt of Crown entities and State-owned enterprises. The following table identifies the difference between the carrying amount and amount payable at maturity as well as the extent that fair value movements have resulted from changes in credit risk of the issuing entity. The carrying value can differ to the amount actually payable on maturity where the effect of discounting cash flows is material.

	Actual	
	30 June 2010 $m	30 June 2009 $m
Other borrowings measured at fair value		
Carrying value	5,311	8,196
Amount payable on maturity	5,011	7,800
Fair value impact from changes in credit risk for the year	(7)	(97)
Cumulative fair value impact from changes in credit risk	(191)	(183)

Note 25: Insurance Liabilities

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By entity		
25,171	27,169	ACC liability	26,997	26,446
91	86	EQC property damage claims	88	87
83	50	Other insurance liabilities	46	34
25,345	**27,305**	**Total insurance liabilities**	**27,131**	**26,567**
		By type		
		Outstanding claims liability	24,517	23,829
		Unearned premium liability	2,508	2,140
		Unearned premium liability deficiency	106	598
		Other	-	-
		Total insurance liabilities	**27,131**	**26,567**
		By maturity		
5,771	5,105	Expected to be settled within one year	4,919	5,152
19,574	22,200	Expected to be outstanding for more than one year	22,212	21,415
25,345	**27,305**	**Total insurance liabilities**	**27,131**	**26,567**
		Assets arising from insurance obligations are:		
		Receivables for premiums	**3,230**	3,099

Information on insurance expenses can be found in note 11. Discussion on the Canterbury earthquake is included in note 35.

Insurance obligations arise primarily from the accident compensation scheme provision of personal injury cover for all New Zealand citizens, residents and temporary visitors to New Zealand and the Earthquake Commission's provision of natural disaster insurance to residential property owners.

The objectives, policies and procedures for managing these risks are set out in the governing statutes and policy documents of the Accident Compensation Corporation (ACC) and the Earthquake Commission (EQC).

EQC recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required by financial reporting standards, a risk margin is applied to a central estimate to increase to 75% the likelihood that claims will be settled within this amount. No discount factor or inflation factor is applied to the EQC claims liability as claims are generally settled within one year.

All assets held by ACC and EQC are considered available to back present and future claims obligations. ACC and EQC have not deferred any acquisition costs in respect of insurance obligations at the reporting date.

Analysis of ACC insurance liability

The material insurance obligations of the Crown at balance date are managed by ACC. The accounting for these claims is made complex by the existence of a long "tail" to these claims. The rest of this note therefore focuses on these claims.

Future expenditure commitments exist in respect of claims made and accepted in the current and previous years (but which will not be fully met until future years), and claims incurred but not notified, or accepted by, ACC at balance date.

PricewaterhouseCoopers Actuarial Pty Limited have prepared the independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2010. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

Note 25: Insurance Liabilities (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
The ACC liability comprises:		
ACC outstanding claims liability	24,430	23,786
ACC unearned premium liability	2,462	2,095
ACC unearned premium liability deficiency	105	565
Total ACC liability	**26,997**	**26,446**

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

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

The unearned premium liability deficiency is the extent that the unearned premium liability is insufficient to cover expected future claims (ie, payments for future accidents within the period covered by the premiums received). Unearned premiums relating to residual claims are excluded from this calculation as they relate to accidents that occurred prior to 1999.

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	69,768	64,592
Discounted adjustment	(48,114)	(43,469)
Risk margin	2,776	2,663
Total outstanding ACC claims liability	**24,430**	**23,786**
Expected future claims payments - central estimate	20,342	19,862
Claims handling expenses	1,312	1,261
Outstanding claims liability before risk margin	21,654	21,123
Risk margin	2,776	2,663
Total outstanding ACC claims liability	**24,430**	**23,786**
Movement in Outstanding ACC Claims Liability		
Opening balance	23,786	18,006
Claims incurred for the year	3,913	3,515
Claims paid out in the year	(3,175)	(3,395)
Discount rate unwind	708	1,170
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	(1,661)	3,084
- change in discount rate	1,170	1,752
- change in inflation rate	49	(345)
- change in other economic assumptions	32	-
Other movements	(392)	(1)
Closing outstanding ACC claims liability	**24,430**	**23,786**
Movement in ACC Unearned Premium Liability		
Opening balance	2,095	1,783
Earning of premiums previously deferred	(2,095)	(1,783)
Deferral of premiums on current year	2,462	2,095
Other	-	-
Closing ACC unearned premium liability	**2,462**	**2,095**

Note 25: Insurance Liabilities (continued)

	Actual 30 June 2010 $m	30 June 2009 $m
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	2,462	2,095
Adjusted for unearned premium relating to residual claims and premium liabilities without deficiency	(2,327)	(527)
Adjusted ACC unearned premium liability	**135**	**1,568**
Central estimate of discounted cash flows for future claims	195	1,825
Central estimate of discounted future reinsurance recoveries	-	-
Risk margin	45	308
Present value of expected cash flows for future accident claims	**240**	**2,133**
Total ACC unearned premium liability deficiency	**105**	**565**

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 5.69% (2009: 5.86% up to 10 years) and a long term discount rate of 6.00% beyond 16 years (2009: 6.00% beyond 10 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) Case management and the 'tail' of claims

Assumptions for the incidence of settlements and claims closures are primarily based on investigations of previous experience and other factors including expectations of future events that are 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.

Summary of assumptions	Actual 30 June 2010	30 June 2009
Weighted average term to settle claims	13 years 10 months	12 years 11 months
Weighted average risk margin	12.8%	12.6%
Probability of adequacy of liability	75.0%	75.0%
Risk margin for liability adequacy test	18.0%	17.5%
Probability of adequacy of liability to cover unearned premiums	75.0%	75.0%

Note 25: Insurance Liabilities (continued)

Summary of assumptions (continued)	Actual 30 June 2010 Next Year	30 June 2010 Beyond Next Year	30 June 2009 Next Year	30 June 2009 Beyond Next Year
Risk-free discount rate[1]	3.5%	4.5% to 6.2%	2.9%	4.0% to 7.1%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	3.4%	3.4% to 3.5%	2.8%	2.8% to 3.6%
Impairment benefits	2.0%	2.4% to 5.9%	3.0%	1.8% to 2.6%
Social rehabilitation benefits (serious and non serious injury)	2.6%	2.6% to 2.7%	2.0%	2.0% to 2.8%
Hospital rehabilitation benefits	2.6%	2.6% to 2.7%	2.0%	2.0% to 2.8%
Medical costs	2.6%	2.6% to 2.7%	2.0%	2.0% to 2.8%
Superimposed inflation:				
Social rehabilitation benefits (serious injury)	2.3%	2.4% to 8.6%	7.5%	1.9% to 6.5%
Social rehabilitation benefits (non-serious injury)	4.5%	2.0% to 2.5%	2.5%	3.0% to 4.0%
Hospital rehabilitation benefits	5.0%	4.0% to 5.0%	5.0%	3.0% to 5.0%
Medical costs (GP's & physiotherapists)	1.0%	3.5% to 9.5%	2.0%	2.5% to 5.0%
Medical costs others (specialists)	2.0%	2.5% to 6.0%	2.0%	2.5% to 5.0%

1. The risk-free discount rate beyond 16 years is 6.0% (2009: the rate beyond 10 years was 6.0%).

Note 25: Insurance Liabilities (continued)

Sensitivity Analysis

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

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

	Change	Impact on liability Actual 30 June 2010 $m	Impact on liability Actual 30 June 2009 $m
Sensitivity of assumptions			
Weighted average term to settle claims	+1 year	(732)	(665)
	-1 year	754	685
Risk-free discount rate	+1%	(2,828)	(2,604)
	-1%	3,668	3,335
Inflation rates (including superimposed inflation)	+1%	3,850	3,515
	-1%	(2,986)	(2,777)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	737	643
	-1%	(528)	(492)
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims	+1%	1,606	1,316
	-1%	(1,217)	(1,015)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $21,654 million (2009: $21,123 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 2010. These estimated cash flows include the effects of assumed future inflation.

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
No later than 1 year	2,025	2,146
Later than 1 year and no later than 2 years	1,495	1,560
Later than 2 years and no later than 5 years	3,936	4,059
Later than 5 years and no later than 10 years	6,040	6,202
Later than 10 years and no later than 15 years	5,896	5,981
Later than 15 years and no later than 20 years	5,876	5,824
Later than 20 years and no later than 25 years	5,867	5,665
Later than 25 years and no later than 30 years	5,793	5,448
Later than 30 years and no later than 35 years	5,613	5,124
Later than 35 years and no later than 40 years	5,331	4,719
Later than 40 years and no later than 45 years	4,958	4,242
Later than 45 years and no later than 50 years	4,468	3,698
Later than 50 years	12,470	9,924
Undiscounted outstanding claims liability	**69,768**	**64,592**

Note 26: Retirement Plan Liabilities

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
10,307	9,154	Government Superannuation Fund (GSF)	9,936	8,988
-	4	Other funds	4	5
10,307	**9,158**	**Total retirement plan liabilities**	**9,940**	**8,993**
		By source		
10,307	9,156	Core Crown	9,938	8,991
1	1	Crown entities	1	1
(1)	1	State-owned enterprises	1	1
-	-	Inter-segment eliminations	-	-
10,307	**9,158**	**Total retirement plan liabilities**	**9,940**	**8,993**

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. 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 the Government Actuary as at 30 June 2010. 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 2010 $m	Actual 30 June 2009 $m
Net GSF Obligation		
Present value of defined benefit obligation	12,881	11,792
Fair value of plan assets	(2,945)	(2,804)
Present value of unfunded defined benefit obligation	**9,936**	**8,988**
Present value of defined benefit obligation		
Opening defined benefit obligation	11,792	11,831
Expected current service cost	122	133
Expected unwind of discount rate	447	821
Actuarial losses/(gains)	1,348	(111)
Benefits paid	(826)	(882)
Other	(2)	-
Closing defined benefit obligation	**12,881**	**11,792**
Fair value of plan assets		
Opening fair value of plan assets	2,804	3,574
Expected return on plan assets	168	223
Actuarial gains/(losses)	117	(806)
Funding of benefits paid by Government	611	618
Contributions from other entities	13	13
Contributions from members	60	64
Benefits paid	(826)	(882)
Other	(2)	-
Closing fair value of plan assets	**2,945**	**2,804**

Note 26: Retirement Plan Liabilities (continued)

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

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Personnel Expenses		
		Expected current service cost	122	133
		Expected unwind of discount rate on GSF obligation	447	822
		Expected return on plan assets	(168)	(223)
		Contribution from funding employers	(73)	(77)
		Past service cost	-	-
370	368	Total included in personnel expenses	328	655
		Net (Gains)/Losses on Non-Financial Instruments		
12	408	Actuarial losses recognised in the year	1,231	695
382	**776**	**Total GSF expense**	**1,559**	**1,350**

The Government expects to make a contribution of $649 million to GSF in the year ended 30 June 2011.

In addition to its obligations to past and present employees, because GSF is liable to 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 2010 %	Actual 30 June 2009 %
Summary of assumptions		
For following year		
Discount rate	3.5%	3.8%
Expected return on plan assets	6.0%	6.3%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation	5.9%	2.3%
Beyond next year		
Discount rate from 2 to 16 years	4.5% to 6.2%	3.8% to 7.7%
Discount rate from 17 years onwards	6.0%	6.0%
Expected return on plan assets	6.0%	6.3%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation from 2 to 15 years	2.4% to 2.5%	2.0% to 2.3%
Expected rate of inflation from 16 years onwards	2.5%	2.0%

Note 26: Retirement Plan Liabilities (continued)

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

	Actual	
	30 June 2010 $m	**30 June 2009 $m**
Equity instruments	1,551	1,208
Debt instruments	776	510
Property	168	161
Other	450	925
Fair value of plan assets	**2,945**	**2,804**

The expected rate of return on the plan assets of 6.00% (2009: 6.25%) has been calculated by taking the expected long term returns from each asset class, reduced by tax and investment expenses (using the current rates of tax and investment expenses).

The actual return on plan assets for the year ended 30 June 2010 was 10.42%, or $285 million (2009: -16.76% or -$583 million).

Sensitivity Analysis

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

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

	Change	**Impact on obligation** Actual	
		30 June 2010 $m	**30 June 2009 $m**
Sensitivity of assumptions			
Discount rate	+ 1%	(1,243)	(1,085)
	- 1%	1,492	1,299

Note 26: Retirement Plan Liabilities (continued)

Historical Analysis

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

			Actual	
	30 June 2010 $m	30 June 2009 $m	30 June 2008 $m	30 June 2007 $m
Present value of defined benefit obligation	12,881	11,792	11,831	11,167
Fair value of plan assets	(2,945)	(2,804)	(3,574)	(4,007)
Present value of unfunded defined benefit obligation	**9,936**	**8,988**	**8,257**	**7,160**
Experience adjustment - increase/(decrease) in plan liabilities	286	79	164	129
Experience adjustment - increase/(decrease) in plan assets	117	(806)	(479)	136
Total experience adjustments	(169)	(885)	(643)	7
Changes in actuarial assumptions	(1,062)	190	(455)	1,126
Actuarial (losses)/gains recognised in the year	**(1,231)**	**(695)**	**(1,098)**	**1,133**

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $12,881 million (2009: $11,792 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 2010. These estimated cash flows include the effects of assumed future inflation.

	30 June 2010 $m	30 June 2009 $m
No later than 1 year	841	844
Later than 1 year and no later than 2 years	878	855
Later than 2 years and no later than 5 years	2,646	2,622
Later than 5 years and no later than 10 years	4,464	4,352
Later than 10 years and no later than 15 years	4,392	4,253
Later than 15 years and no later than 20 years	4,066	3,908
Later than 20 years and no later than 25 years	3,510	3,366
Later than 25 years and no later than 30 years	2,742	2,644
Later than 30 years and no later than 35 years	1,935	1,880
Later than 35 years and no later than 40 years	1,230	1,210
Later than 40 years and no later than 45 years	699	697
Later than 45 years and no later than 50 years	349	353
Undiscounted defined benefit obligation	**27,752**	**26,984**

After 50 years there is expected to be a reducing level of cash for a further 20 years totalling approximately $211 million (2009: $243 million).

Note 27: Provisions

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		By type		
2,369	2,522	Provision for employee entitlements	2,836	2,580
173	93	Provision for ETS credits	74	17
-	875	Provision for future retail deposit guarantee scheme payments	748	831
919	922	Provision for National Provident Fund guarantee	1,007	954
1,018	1,087	Other provisions	1,319	1,171
4,479	**5,499**	**Total provisions**	**5,984**	**5,553**
		By source		
2,231	3,059	Core Crown	3,424	3,081
1,496	1,612	Crown entities	1,695	1,598
798	876	State-owned enterprises	925	919
(46)	(48)	Inter-segment eliminations	(60)	(45)
4,479	**5,499**	**Total provisions**	**5,984**	**5,553**
		By maturity		
1,989	2,200	Expected to be settled within one year	2,741	2,650
2,490	3,299	Expected to be outstanding for more than one year	3,243	2,903
4,479	**5,499**	**Total provisions**	**5,984**	**5,553**
		Provision for employee entitlements		
		Opening provision	2,580	2,220
		Additional provisions recognised	1,872	1,568
		Provision used during the period	(1,387)	(1,163)
		Reversal of previous provision	(228)	(74)
		Unwind of discount rate	(1)	29
		Closing provision	**2,836**	**2,580**

The provision for employee entitlements represents annual leave, accrued long service leave and retiring leave, and sick leave entitlements accrued by employees. Probability assumptions about continued future service affecting entitlements accrued as at reporting date have been made using previous employment data. For entitlements that vest over a period exceeding one year discount rates between 3% and 6% have been used.

Note 27: Provisions (continued)

	Actual	
	30 June 2010 $m	30 June 2009 $m
Provision for ETS credits		
Opening provision	17	-
New provision recognised during the period	80	17
Provision used during the period	(23)	-
Closing provision	**74**	**17**

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 or sell to entities. The allocation of NZ Units creates a provision (and an expense if allocated for free). An expense is recognised in relation to the allocation of free units on the receipt of a complete application that meets the established criteria. The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters. Emitters can also use international Kyoto units to settle their emission obligation.

The Government has adopted a phased approach for sectoral entry in the ETS. As at 30 June 2010 only the forestry sector had entered into the Scheme.

	Actual	
	30 June 2010 $m	30 June 2009 $m
Provision for future retail deposit guarantee scheme payments		
Opening provision	831	-
New provision recognised during the period	-	831
Provision used during the period	(47)	-
Reversal of previous provision	(36)	-
Closing provision	**748**	**831**

Refer to note 30 for discussion on the Deposit Guarantee schemes.

Note 27: Provisions (continued)

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Provision for National Provident Fund guarantee		
Opening provision	954	907
Additional provisions recognised	28	6
Provision used during the period	(77)	(9)
Reversal of previous provision	(6)	-
Unwind of discount rate and effect of changes in discount rate	108	50
Closing provision	**1,007**	**954**

The Government has guaranteed superannuation schemes managed by the National Provident Fund (NPF) (refer to note 32 for details of the guarantee). Included in the provision is the NPF's DBP Annuitants' Scheme deficit position of $1,003 million (2009: $947 million), represented by a gross estimated pension obligation of $1,053 million (2009: $994 million) with net investment assets valued at $50 million (2009: $47 million).

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Other provisions		
Opening provision	1,171	1,064
Additional provisions recognised	524	386
Provision used during the period	(385)	(273)
Reversal of previous provision	(14)	(13)
Unwind of discount rate and effect of changes in discount rate	23	7
Closing provision	**1,319**	**1,171**

Note 28: Net Worth

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
31,803	34,027	Taxpayer funds	31,087	36,382
57,723	62,110	Property, plant and equipment revaluation reserve	63,593	62,612
80	61	Investment revaluation reserve	59	56
(98)	(190)	Cash flow hedge reserve	(143)	18
59	24	Foreign currency translation reserve	(10)	-
382	447	Net worth attributable to minority interest in Air New Zealand	402	447
89,949	**96,479**	**Total net worth**	**94,988**	**99,515**
		Taxpayer Funds		
37,534	36,382	Opening taxpayers funds	36,382	46,700
(5,729)	(3,179)	Operating balance excluding minority interest	(4,509)	(10,505)
(1)	825	Transfers from/(to) property, plant and equipment revaluation reserve	(785)	189
(1)	(1)	Other movements	(1)	(2)
31,803	**34,027**	**Closing taxpayers funds**	**31,087**	**36,382**
		Property, Plant and Equipment Revaluation Reserve		
57,723	62,612	Opening revaluation reserve	62,612	58,566
(1)	323	Net Revaluations	196	4,235
1	(825)	Transfers from/(to) taxpayer funds	785	(189)
57,723	**62,110**	**Closing revaluation reserve**	**63,593**	**62,612**

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.

The transfers from/(to) taxpayer funds includes a reclassification of $1,108 million from taxpayer funds to the property, plant and equipment revaluation reserve for the correction of misclassifications in previous years.

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Investment Revaluation Reserve		
83	56	Opening investment revaluation reserve	56	34
(3)	5	Increase arising on revaluation of available-for-sale financial assets	1	23
-	-	Cumulative (gain)/loss transferred to the statement of financial performance on sale of available-for-sale financial assets	2	(1)
80	**61**	**Closing investment revaluation reserve**	**59**	**56**

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

Note 28: Net Worth (continued)

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Cash Flow Hedge Reserve		
(83)	18	Opening cash flow hedge reserve	18	(151)
(18)	(205)	Transfer into reserve	(96)	322
-	-	Transfer to the statement of financial performance	(62)	-
3	(3)	Transfer to initial carrying value of hedged item	(3)	(153)
(98)	**(190)**	**Closing cash flow hedge reserve**	**(143)**	**18**

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the statement of financial performance when the hedged transaction impacts the statement of financial performance, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Foreign currency translation reserve		
59	-	Opening foreign currency translation reserve	-	(17)
-	24	Arising from translation of foreign operations	(10)	17
59	**24**	**Closing foreign currency translation reserve**	**(10)**	**-**

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

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Net worth attributable to minority interest in Air New Zealand		
382	447	Opening minority interest	447	382
-	-	Operating balance attributable to minority interests	(17)	25
-	-	Transactions with minority interest	(11)	29
-	-	Other movements	(17)	11
382	**447**	**Closing minority interest**	**402**	**447**

Minority interests represent the interests of minority holders of Air New Zealand shares. Transactions with minority interest include dividend payments and dividend reinvestments.

Note 29: Capital Objectives and Fiscal Policy

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

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

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

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

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

Note 29: Capital Objectives and Fiscal Policy (continued)

<table>
<tr><th colspan="2">Long Term Fiscal Intentions</th></tr>
<tr><th>Fiscal Strategy Report 2009</th><th>Fiscal Strategy Report 2010</th></tr>
<tr><td>Debt

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

However, we need to ensure that this increase is eventually reversed and that we return to a level of debt that can act as a buffer against future shocks. We will do this by ensuring that net debt remains consistently below 40% of GDP, and is brought back to around 30% of GDP no later than the early 2020s.

Over the longer term, we consider that it is prudent to have net debt closer to 20% of GDP and we will work towards this as conditions permit.</td><td>Debt

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

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

We will do this by ensuring that net debt remains consistently below 40% of GDP, and is then brought back to a level no higher than 20% of GDP by the early 2020s. We will work towards achieving this earlier as conditions permit.</td></tr>
<tr><td>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.</td><td>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.</td></tr>
<tr><td>Operating expenses

Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective.</td><td>Operating expenses

Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective.</td></tr>
<tr><td>Operating revenues

Ensure sufficient operating revenue to meet the operating balance objective.</td><td>Operating revenues

Ensure sufficient operating revenue to meet the operating balance objective.</td></tr>
<tr><td>Net worth

Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Over the medium term, net worth will continue to fall as the impact of the global financial crisis unfolds. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the demographic change expected in the mid-2020s.</td><td>Net worth

Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Over the medium term, net worth will continue to fall as the impact of the global financial crisis unfolds. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the demographic change expected in the mid-2020s.</td></tr>
</table>

Note 29: Capital Objectives and Fiscal Policy (continued)

Short Term Fiscal Intentions		
Fiscal Strategy Report 2009	**Fiscal Strategy Report 2010**	**Fiscal Position 2010**[1]
Debt Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 45% of GDP in 2012/13. Core Crown net debt (excluding NZS Fund and advances) is forecast to be 30.9% in 2012/13.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 35.3% of GDP in 2013/14. Core Crown net debt (excluding NZS Fund and advances) is forecast to be 26.5% in 2013/14.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2010 was 31.1% of GDP (2009: 27.6%). Core Crown net debt (excluding NZS Fund and advances) at 30 June 2010 was 14.1% of GDP (2009: 9.3%).
Operating balance Based on the operating allowance for the 2009 Budget, the operating deficit is forecast to be 3.3% of GDP in 2009/10. The operating deficit is forecast to be 2.9% of GDP in 2012/13. This decrease is consistent with the long-term objective for the operating balance.	**Operating balance** Based on the operating allowance for the 2010 Budget, the operating deficit is forecast to be 3.5% of GDP in 2010/11. The operating deficit is forecast to be 0.3% of GDP in 2013/14. This decrease is consistent with the long-term objective for the operating balance.	**Operating balance** The operating deficit was 2.4% of GDP for the year ended 30 June 2010 (2009: 5.7%).
Expenses Total Crown expenses are forecast to be 48.2% of GDP in 2012/13. Core Crown expenses are forecast to be 36.3% of GDP in 2012/13. This assumes a new operating allowance of $1.45 billion per annum for the 2009 Budget and $1.1 billion per annum for Budgets thereafter, growing at 2% per annum (GST exclusive).	**Expenses** Total Crown expenses are forecast to be 42.4% of GDP in 2013/14. Core Crown expenses are forecast to be 32.4% of GDP in 2013/14. This assumes a new operating allowance of $1.1 billion per annum for the 2010 Budget growing at 2% for Budgets thereafter (GST exclusive).	**Expenses** Total Crown expenses were 42.8% of GDP for the year ended 30 June 2010 (2009: 45.2%). Core Crown expenses were 33.8% GDP for the year ended 30 June 2010 (2009: 34.7%).
Revenues Total Crown revenues are forecast to be 44% of GDP in 2012/13. Core Crown revenues are forecast to be 32.1% of GDP in 2012/13. Core Crown tax revenues are forecast to be 28.8% of GDP in 2012/13.	**Revenues** Total Crown revenues are forecast to be 41.1% of GDP in 2013/14. Core Crown revenues are forecast to be 30.7% of GDP in 2013/14. Core Crown tax revenues are forecast to be 27.5% of GDP in 2013/14.	**Revenues** Total Crown revenues were 39.5% of GDP for the year ended 30 June 2010 (2009: 43.1%). Core Crown revenues were 29.7% of GDP for the year ended 30 June 2010 (2009: 32.2%). Core Crown tax revenues were 26.8% of GDP for the year ended 30 June 2010 (2009: 29.6%).
Net worth Total Crown net worth is forecast to be 34.5% of GDP in 2012/13. Core Crown net worth is forecast to be 10% of GDP in 2012/13.	**Net worth** Total Crown net worth is forecast to be 34.8% of GDP in 2013/14. Core Crown net worth is forecast to be 10.7% of GDP in 2013/14.	**Net worth** Total Crown net worth was 50.2% of GDP as at 30 June 2010 (2009: 53.9%). Core Crown net worth was 23.6% of GDP as at 30 June 2010 (2009: 28.8%).

1. Comparative GDP percentages have been updated to reflect restated Statistics New Zealand nominal GDP.

Note 30: Deposit Guarantee Schemes

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

Retail Deposit Guarantee Scheme

Scheme description

On 12 October 2008 the Minister of Finance initiated an opt-in Retail Deposit Guarantee Scheme. The objective of this scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. Under the Retail Deposit Guarantee Scheme, fees are payable to the Government by participating institutions if they hold significant deposits (ie, greater than $5 billion) or if they experience significant growth in deposits (ie, greater than 10% per annum). Approved deposit takers to date are listed on the Treasury website.

On 25 August 2009 the Minister of Finance announced that it would extend the Crown Retail Deposit Guarantee Scheme from 13 October 2010 to 31 December 2011 with tightened eligibility criteria and additional limitations on coverage of the scheme. The changes to the scheme include restricting coverage to institutions with a credit rating of BB or higher, reducing the guaranteed amount of individual eligible deposits and changing the fee structure to include all deposits.

Scheme management

The Government is managing its exposure to this risk both through the prudential regulation processes for registered banks, and by requiring other deposit takers who sign the guarantee to agree to certain controls on their business including:

- some restrictions on distributions to shareholders
- some assurance that the business dealings of the deposit taker are on arm's-length terms
- the ability for the Crown to appoint an inspector
- the ability for the Crown to withdraw the guarantee if the business is being deliberately operated in a way to undermine the intention of the guarantee, and
- personal undertakings from directors to ensure the non-bank deposit takers comply with the guarantee.

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

Amounts guaranteed and provision for loss

As at 30 June 2010, 73 financial institutions (2009: 73) had joined the scheme and deposits totalling $133 billion (2009: $124.2 billion) had been guaranteed. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of the financial institution in the event the guarantee is called upon. The Crown assesses the potential loss to be associated with the entities that hold significant deposits (ie, greater than $5 billion) as being remote. It is recognising the revenue received from these institutions over the guarantee period and has made no provision for any loss associated with these entities.

Note 30: Deposit Guarantee Schemes (continued)

For other entities within the scheme (ie, entities that hold deposits less than $5 billion) a provision has been made to provide for losses that are considered more likely than not to occur. The Crown continually updates both the likelihood of further default actions triggering the guarantee and the expected loss given default. Based on these assessments, the Crown has provided for a net expected loss given default of $748 million as at 30 June 2010 (2009: $816 million), being the cost of future payments to investors after expected recoveries in entities operating under the guarantee scheme as at 30 June 2010. In addition, the Crown has included liabilities of $43 million (2009: $15 million) being the cost of payments to investors in entities guaranteed under the scheme which were in receivership as at 30 June 2010.

While the provision represents a best estimate of likely loss, a significant range of outcomes are possible under the scheme in terms of which entities may default and the eventual loss to the Crown following an event of default. This reflects the significant uncertainty as to the value that can be realised from an entity's assets following an event of default. Except as provided on the Treasury web site, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

Subsequent events

Subsequent to 30 June 2010 receivers have been appointed to three of the companies which had been included within the provision for net costs to the Crown: Mutual Finance Ltd on 14 July 2010, Allied Nationwide Finance on 20 August 2010 and South Canterbury Finance Ltd on 31 August 2010. Appointment of receivers to the companies triggered the Crown guarantee under the retail deposit scheme.

The net cost to the Crown of the defaults of these three companies is expected to be approximately $745 million including the costs of discounting cash flows to present values. The Crown recognised the inherent risk of these entities and provided $728 million for the net cost of their failure in the 2009 financial statements. The additional $17 million net cost to the Crown currently estimated had been fully provided for during the year, and is included within the total provision of $748 million. There is no material impact on the provision for the net costs to the Crown as a result of the receiverships.

Wholesale Funding Guarantee Facility

On 1 November 2008 the Minister of Finance initiated an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government receives a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued. Fees of $76 million were recognised during the 2010 year.

Note 30: Deposit Guarantee Schemes (continued)

Deposit-taking financial institutions utilising the wholesale funding guarantee facility have applied for a guarantee under the Crown retail deposit guarantee scheme. In addition to the risk management under the retail scheme, the Government further manages its risk exposure by:

- limiting the availability of the facility to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- limiting the amount of debt covered by the guarantee to debt up to 125% of the total stock of eligible types of debt in issue prior to the intensification of the crisis
- establishing additional capital buffers by requiring an additional two percent Tier 1 capital buffer above the four percent regulatory minimum, and
- requiring the debt issuer to hedge and manage any foreign exchange risk.

As at 30 June 2010, the value of wholesale securities guaranteed was $10.4 billion (2009: $5.7 billion). No provision is made in these financial statements for losses under this scheme as these are considered remote.

On 10 March 2010 the Minister of Finance announced the closure of the Wholesale funding guarantee facility effective from 31 May 2010. As at 30 June 2010, the Crown had issued 25 guarantee certificates; the benefit of those guarantees will remain in place for the underlying securities until the scheduled maturity of those securities. The terms of these securities range from 2 to 5 years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.

Impact on the Financial Statements

Amounts recognised in the financial statements in respect of the deposit guarantee schemes are:

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Statement of financial performance		
		Revenue		
-	173	Deposit guarantee schemes - guarantee fees	163	74
		Expenses		
-	6	Retail deposit guarantee scheme - expenses accrued for entities in default	43	35
-	59	Retail deposit guarantee scheme - provision for future retail deposit scheme payments	(68)	816
		Statement of financial position		
		Deferred Revenue		
-	232	Deposit guarantee schemes - guarantee fees	231	154
		Provisions		
-	875	Provision for future retail deposit guarantee scheme payments	748	816
-	-	Provision for retail deposit guarantee scheme payments	-	15
		Payables		
-	-	Payables for retail deposit guarantee scheme payments	43	-
		Receivables		
-	2	Retail deposit scheme - expected recoveries	13	34

Note 31: Commitments

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Capital Commitments		
Specialist military equipment	422	699
Land and buildings	849	699
Other property, plant and equipment	6,370	4,859
Other capital commitments	224	429
Tertiary Education Institutions	302	245
Total capital commitments	**8,167**	**6,931**
Operating Commitments		
Non-cancellable accommodation leases	2,862	2,366
Other non-cancellable leases	3,230	2,630
Non-cancellable contracts for the supply of goods and services	2,258	2,088
Other operating commitments	9,376	9,731
Tertiary Education Institutions	304	335
Total operating commitments	**18,030**	**17,150**
Total commitments	**26,197**	**24,081**
Total Commitments by Segment		
Core Crown	20,983	20,300
Crown entities	13,811	15,972
State-owned enterprises	7,242	5,706
Inter-segment eliminations	(15,839)	(17,897)
Total commitments	**26,197**	**24,081**
By Term		
Capital Commitments		
One year or less	4,238	3,058
From one year to two years	1,479	1,465
From two to five years	1,883	1,843
Over five years	567	565
Capital Commitments	**8,167**	**6,931**
Operating Commitments		
One year or less	6,305	6,495
From one year to two years	4,124	3,348
From two to five years	4,111	4,722
Over five years	3,490	2,585
Operating Commitments	**18,030**	**17,150**
Total Commitments	**26,197**	**24,081**

Note 32: Contingent Liabilities and Contingent Assets

	Actual 30 June 2010 $m	Actual 30 June 2009 $m
Quantifiable Contingent Liabilities		
Guarantees and indemnities		
Air New Zealand - letters of credit and performance bonds	49	37
Cook Islands - Asian Development Bank loans	14	16
Indemnification of receivers and managers - Terralink Limited	10	10
Ministry of Transport - funding guarantee	10	10
Other guarantees and indemnities	23	23
Total guarantees and indemnities	**106**	**96**
Uncalled capital		
International Bank for Reconstruction and Development	1,185	1,256
Asian Development Bank	1,079	1,198
Bank for International Settlements	26	29
European Bank for Reconstruction and Development	12	15
Other uncalled capital	8	8
Total uncalled capital	**2,310**	**2,506**
Legal proceedings and disputes		
Accident Compensation Corporation	45	-
Tax disputes	295	1,661
Kapiti West Link Road	14	25
Health - legal claims	25	15
Other legal proceedings and disputes	35	53
Total legal proceedings and disputes	**414**	**1,754**
Other contingent liabilities		
Kyoto Protocol Units	1,590	1,995
International finance organisations	1,529	1,762
New Zealand Export Credit Office	133	155
Air New Zealand partnership	70	68
Inland Revenue Department - unclaimed monies	50	46
Crown Health Financing Agency	26	28
Reserve Bank - demonetised currency	23	23
State highway extension	41	-
Other contingent liabilities	73	56
Total other contingent liabilities	**3,535**	**4,133**
Total quantifiable contingent liabilities	**6,365**	**8,489**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	6,050	8,287
Crown entities	171	90
State-owned Enterprises	144	112
Inter-segment eliminations	-	-
Total quantifiable contingent liabilities	**6,365**	**8,489**
Quantifiable Contingent Assets		
Suspensory loans to integrated schools	61	74
Legal proceedings and disputes	504	1,502
Other contingent assets	7	6
Total quantifiable contingent assets	**572**	**1,582**

Note 32: Contingent Liabilities and Contingent Assets (continued)

Contingent liabilities are costs that the Crown will have to face if a particular event occurs. 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 it would reduce the operating balance and net worth and increase gross sovereign-issued debt. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to gross sovereign-issued debt.

Where contingent liabilities have arisen as a consequence of legal action being taken 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 amount of any award against the Crown.

Guarantees and Indemnities

Guarantees and indemnities are disclosed in accordance with *NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. In addition, guarantees given under Section 65ZD of the *Public Finance Act 1989* are disclosed in accordance with Section 26Q(3)(b)(i)(B) of the same Act.

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. The performance bonds are primarily given in respect to Engineering contracts.

$49 million at 30 June 2010 (2009: $37 million)

Cook Islands – Asian Development Bank (ADB) loans

Before 1992, the New Zealand Government guaranteed the Cook Islands' borrowing from the ADB. These guarantees have first call on New Zealand's Official Development Assistance.

$14 million at 30 June 2010 (2009: $16 million)

Indemnification of receivers and managers – Terralink Limited

The Crown has issued a Deed of Receivership indemnity to the appointed receivers of Terralink Limited against claims arising from the conduct of the receivership.

$10 million at 30 June 2010 (2009: $10 million)

Ministry of Transport – funding guarantee

The Minister of Finance has issued a guarantee of $10 million to the Transport Accident Investigation Commission. The guarantee allows the Commission to assure payment to suppliers of specialist salvage equipment in the event of the Commission initiating an urgent investigation of any future significant transport accident.

$10 million at 30 June 2010 (2009: $10 million)

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.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Accident Compensation Corporation

A contingent liability exists resulting from two conflicting District Court decisions regarding entitlement to weekly compensation. In order to obtain certainty the Corporation has been granted leave to appeal the most recent decision to the High Court.

$45 million at 30 June 2010 (2009: nil)

Tax in dispute

Tax in dispute represents the outstanding debt of those tax assessments raised, against which an objection has been lodged and legal action is proceeding. 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.

The 2009 contingent liability included disputes with a number of financial institutions regarding the tax treatment of certain structured finance transactions. These disputes have now been resolved.

$295 million at 30 June 2010 (2009: $1,661 million)

Kapiti West Link Road

A recent High Court decision in favour of the New Zealand Transport Agency is being appealed. The appeal relates to having the land held for the Kapiti West Link Road released for sale.

$14 million at 30 June 2010 (2009: $25 million)

Health – legal claims

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

$25 million at 30 June 2010 (2009: $15 million)

Other Quantifiable Contingent Liabilities

Kyoto protocol

The Government has a contingent liability relating to 84.0 million forestry credits. During the first commitment period, the Ministry of Agriculture and Forestry estimate that 89.1 million tonnes of credits will be generated by carbon removals via forests (2009: 92.3 million tonnes). Of this amount, 5.1 million tonnes has been allocated to foresters through the ETS as at 30 June 2010. To the extent that these forests are harvested (in subsequent commitment periods) and a future international agreement is negotiated, there will be an associated liability generated that will need to be repaid. As the forestry credits have been incorporated when calculating the current position for the first commitment period, the associated obligation of the Crown in respect of future commitment periods has been reported as a separate contingent liability.

$1,590 million at 30 June 2010 (2009: $1,995 million)

International finance organisations

The Crown has lodged promissory notes with the International Monetary Fund. Payment of the notes depends upon the operation of the rules of the organisation.

$1,529 million at 30 June 2010 (2009: $1,762 million)

New Zealand Export Credit Office – export guarantees

The New Zealand Export Credit Office (NZECO) provides a range of guarantee products to assist New Zealand exporters. These NZECO guarantees are recorded by the Crown as contingent liabilities.

$133 million at 30 June 2010 (2009: $155 million)

Note 32: Contingent Liabilities and Contingent Assets (continued)

Air New Zealand Partnership

The Air New Zealand Group has a partnership agreement with Christchurch Engineering Centre in which it holds 49 per cent interest. By the nature of the agreement joint and several liability exists between the two parties.

$70 million at 30 June 2010 (2009: $68 million)

Inland Revenue – Unclaimed monies

Under the Unclaimed Monies Act 1971, companies (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.

$50 million at 30 June 2010 (2009: $46 million)

Crown Health Financing Agency

The agency is subject to potential legal claims plus associated legal fees in respect of the actions of the former Area Health Boards. The agency is defending those claims that have resulted in litigation and will defend any of the others that result in litigation. The agency does not accept liability for the claims.

$26 million at 30 June 2010 (2009: $28 million)

Reserve Bank – demonetised currency

The Crown has a contingent liability for the face value of the demonetised currency issued which have yet to be repatriated.

$23 million at 30 June 2010 (2009: $23 million)

State highway extension

The SH20 – 1 Manukau Extension Contractor has presented a claim to the New Zealand Transport Agency for time delays and disruption. Discussions are on-going to achieve a mutually agreeable outcome between parties.

$41 million at 30 June 2010 (2009: nil)

Unquantifiable Contingent Liabilities

Accounting standard *NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets* requires that contingent liabilities be disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Disclosure of remote contingent liabilities is only required if knowledge of the transaction or event is necessary to achieve the objectives of general purpose financial reporting. This part of the Statement provides details of those contingent liabilities of the Crown which cannot be quantified (remote contingent liabilities are excluded).

Guarantees and Indemnities

Airways Corporation of New Zealand

The Crown has indemnified Airways Corporation of New Zealand Limited as contained in Airways' contract with New Zealand Defence Force for the provision of air traffic control services. The indemnity relates to any claim brought against Airways by third parties arising from military flight operations undertaken by the Royal New Zealand Air Force.

AsureQuality Limited

The Crown has indemnified the directors of AsureQuality Limited in the event that they incur any personal liability for redundancies arising from any agreement by international trading partners that allows post-mortem meat inspection by parties other than the Ministry of Agriculture and Forestry, or its sub-contractor.

Note 32: Contingent Liabilities and Contingent Assets (continued)

At Work Insurance Limited

The Crown has indemnified the liquidators of At Work Insurance Limited (Deloitte Touche Tohmatsu) against various employment-related claims.

Bona Vacantia property

P&O NZ Ltd sought a declaratory judgement that property disclaimed by a liquidator is bona vacantia. A settlement has been reached, which includes a Crown indemnity in favour of New Zealand Aluminium Smelters and Comalco in relation to aluminium dross disposed of in their landfill, for costs that may be incurred in removing the dross and disposing of it at another site if they are required to do so by an appropriate authority. The Minister of Finance signed the indemnity on 24 November 2003. In February 2004, a similar indemnity was signed in respect of aluminium dross currently stored at another site in Invercargill.

Building Industry Authority

The Building Industry Authority (BIA) is a joint defendant in a number of claims before the courts and the Weathertight Homes Resolution Service relating to the BIA's previous role as regulator of the building industry. The BIA has been disestablished and absorbed into the Department of Building and Housing. To prevent conflicts of interest, the Treasury was given responsibility for managing weathertight claims against the BIA on behalf of the Crown from 1 July 2005. In May 2010, the Crown announced its intention to assist homeowners in getting their leaky homes repaired by contributing 25% of agreed repair costs (with affected local authorities also contributing the same amount). The Crown has also proposed that it would provide assistance to homeowners to access bank finance for the remaining agreed repair costs by way of loan guarantees to banks. Details about how these proposals could work and obtaining agreement between the Crown, local authorities and banks are being progressed by the Department of Building and Housing.

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. Those 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.

Deposit Guarantee Schemes

The Crown's exposure with respect to the Retail Deposit Guarantee Scheme and the Wholesale Funding Guarantee Facility is described in note 30.

Earthquake Commission (EQC)

The Crown is liable to meet any deficiency in the EQC's assets in meeting the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993). In the event of a major natural disaster the Crown may be called upon to meet any financial shortfall incurred by the Commission.

On the 4th of September 2010 the Canterbury region suffered a serious earthquake – refer to note 35 on page 153 for further discussion.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy, or royalty imposed on ECNZ for the use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The Agreement also provides for compensation for any net costs to ECNZ arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to it from ECNZ. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited.

Under the Transpower New Zealand Limited (Transpower) Sale and Purchase and Debt Assumption Agreements, the Crown has indemnified ECNZ for any losses resulting from changes in tax rules applicable to transactions listed in the Agreements. Additionally, the Crown has indemnified the directors and officers of ECNZ for any liability they may incur in their personal capacities as a result of the Transpower separation process.

Following the split of ECNZ in 1999 into three new companies, the Crown has indemnified ECNZ in relation to all ECNZ's pre-split liabilities, including:

- existing debt and swap obligations
- hedge contracts and obligations
- any liabilities that arise out of the split itself.

Genesis Energy – financial guarantees

Genesis has issued financial guarantees to the alliance contractor and other agents of the Kupe joint venture for the full and faithful performance of its subsidiaries in their capacities as joint venture partners, to the extent of their several liabilities under the development agreement.

Genesis issued a financial guarantee to Energy Clearing House Limited for the full and faithful performance of its subsidiary Energy Online Limited, to the extent of its liabilities for its retail electricity purchases.

These guarantees may give rise to liabilities in the company if the subsidiaries do not meet their obligations under the terms of the respective arrangements.

Genesis Energy – letters of credit and performance bonds

Genesis, as a participant in the electricity market, issued letters of credit to the Energy Clearing House Limited under the markets' security requirements. These letters of credit are issued as part of normal trading conditions and are to ensure there is no significant credit risk exposure to any one market participant.

Genesis has also issued letters of credit and performance bonds to certain suppliers and services providers under normal trading conditions. The liabilities covered by these arrangements are already provided for in the statement of financial position, and therefore not expected to create any adverse effects on the financial results presented. These are not material to the financial statements.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Housing New Zealand Corporation (HNZC)

HNZC is liable to the owners (ANZ National Bank Limited, Ichthus Limited and Westpac Banking Corporation) of mortgages sold by HNZC during 1992 to 1999 for credit losses they may incur from specified limited aspects of their ownership of those mortgages with the Crown standing behind this obligation.

The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL) (HNZL was incorporated into the HNZC group as a subsidiary in 2001 as part of a legislated consolidation of government housing functions) and has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against any third-party claims that are a result of acts or omissions prior to 1 November 1992. It has 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.

Indemnities against acts of war and terrorism

The Crown has indemnified Air New Zealand against 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.

Justices of the Peace, Community Magistrates and Disputes Tribunal Referees

Section 197 of the Summary Proceedings Act 1957, requires the Crown to indemnify Justices of the Peace and Community Magistrates against 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.

Section 58 of the Disputes Tribunal Act 1988 confers a similar indemnity on Disputes Tribunal Referees.

Landcorp Farming Limited

The Protected Land Agreement provides that the Crown will pay Landcorp any accumulated capital costs and accumulated losses or Landcorp will pay the Crown any accumulated profit, attributed to a Protected Land property that is required to be transferred to the Crown or that the Crown releases for sale. The Crown will also be liable to pay Landcorp, at the time of sale or transfer of any property deemed to be Protected Land, the amount of any outstanding equity payments on the initial value of the property.

Maui Partners

The Crown has entered into confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information. The deed contains an indemnity against any losses arising from a breach of the deed.

Meridian Energy – letters of credit and performance bonds

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements which provide credit support of $68.9 million to support the collateral requirements of Meridian's trading business. Of the $68.9 million, $2.4 million expires in the 2011 financial year and $41.9 million expires in the 2012 financial year with the balance having no expiry date. Meridian indemnifies the obligations of the bank in respect of the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

Note 32: Contingent Liabilities and Contingent Assets (continued)

National Provident Fund

The National Provident Fund (NPF) has been indemnified for certain potential tax liabilities. Under the NPF Restructuring Act 1990, the Crown guarantees:

- the benefits payable by all NPF schemes (section 60)
- investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (section 61)
- payment to certain NPF defined contribution schemes where application of the 4% minimum earnings rate causes any deficiency or increased deficiencies in reserves to arise (section 72).

A provision has been made in these financial statements in respect of the actuarially assessed deficit in the DBP Annuitants' Scheme (refer to note 27).

New Zealand Railways Corporation

The Crown has indemnified the directors of NZ Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor.

The Crown has further indemnified 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 on 1 September 2004.

Section 10 of the Finance Act 1990 guarantees all loan and swap obligations of the New Zealand Railways Corporation.

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the 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.

Public Trust

Section 52 of the Public Trust Act 2001 provides for the Crown to meet any deficiency in the Public Trust's Common Fund in meeting lawful claims on the Fund. This is a permanent (legislated) liability. On 7 November 2008 the Minister of Finance guaranteed interest payable on estates whose money constitutes the Common Fund.

Reserve Bank of New Zealand

Section 21(2) of the Reserve Bank of NZ Act 1989 requires the Crown to pay the Reserve Bank the amount of any exchange losses incurred by the Bank as a result of dealing in foreign exchange under Sections 17 and 18 of the Act. This is a permanent (legislated) liability.

Synfuels-Waitara Outfall Indemnity

As part of the 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.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Tainui Corporation

Several leases of Tainui land at Huntly and Meremere have been transferred from ECNZ to Genesis Power. The Crown has provided guarantees to Tainui Corporation relating to Genesis Power's obligations under the lease agreements.

Other Unquantifiable Contingent Liabilities

Abuse Claims

There is ongoing legal action against the Crown in relation to historical abuse claims. At this stage the number of claimants and outcome of these cases are uncertain.

Accident Compensation Corporation (ACC) litigations

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. ACC will be vigorously defending these claims.

Air New Zealand litigation

Air New Zealand has been named in five class actions. One, in Australia, claims travel agents commission on fuel surcharges and two (one in Australia and the other in the United States) make allegations against more than 30 airlines, of anti competitive conduct in relation to pricing in the air cargo business. The other two class actions (in the United States and in Canada) allege that Air New Zealand together with many other airlines conspired in respect of fares and surcharges on trans-Pacific routes. All class actions are being defended.

The allegations made in relation to the air cargo business are also the subject of investigations or proceedings by regulators in New Zealand, Australia, the United States and the European Union. A formal Statement of Objections was issued by the European Commission in 2007 to 25 airlines including Air New Zealand. Air New Zealand has responded to this Statement of Objections. On 15 December 2008 the New Zealand Commerce Commission filed proceedings against 13 airlines including Air New Zealand alleging breaches of the Commerce Act 1986. On 17 May 2010 the Australian Competition and Consumer Commission filed proceedings alleging breaches of the (Australian) Trade Practices Act 1974.

Air New Zealand is defending these proceedings. In the event that a court determined, or it was agreed with a regulator, that Air New Zealand had breached relevant laws, Air New Zealand would have potential liability for pecuniary penalties and to third party damages under the laws of the relevant jurisdictions.

Caregiver employment conditions

The Employment Court has made a judgement in favour of two third-party employed caregivers regarding their sleepover employment conditions. Although the third-party employer is appealing the decision, an unsuccessful result would require consideration of the repercussions on the Crown.

Environmental liabilities

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities.

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

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

Kordia Limited

As part of its contractual obligations with clients, Kordia Limited has an undertaking to provide services at a certain level and should this not be achieved, Kordia Limited may be liable for contract penalties. It is not possible to quantify what these may be until an event has occurred. The Company does not expect any liabilities to occur as a result of these contractual obligations.

The Company makes advances to its subsidiary companies. The Company's loan facility comprises a syndicated revolving cash advance facility between three banks, committed to a maximum amount of $120 million (2009: $136 million). The facility is supported by a negative pledge by the Company and its guaranteeing subsidiaries over their assets and undertakings. Under the negative pledge, each guaranteeing subsidiary may be liable for indebtedness incurred by the Company and other guaranteeing subsidiaries. The Company considers the negative pledge to be an insurance contract. Such contracts and cross guarantees are treated as a contingent liability and only recognised as a liability if a payment is probable.

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 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.

Rugby World Cup 2011

The Crown has agreed in joint venture arrangements with the New Zealand Rugby Union to an uncapped underwrite of the costs of hosting the 2011 Rugby World Cup, on a loss sharing basis (Crown 67%, NZRU 33%). A provision for the forecast losses has been made in the Government's financial statements.

The Crown has agreed to reimburse New Zealand income tax that might be incurred by the joint venture entity (Rugby New Zealand 2011 Limited) or the NZRU in relation to the joint venture entity, and has also agreed to reimburse the NZRU for New Zealand withholding tax that might be incurred on certain payments made in relation to the tournament.

Television New Zealand

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

Treaty of Waitangi claims

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

On occasion Māori claimants pursue the resolution of particular claims against the Crown through higher courts. There are currently two such actions against the Crown – one awaiting a decision on an application at the Supreme Court and one to be heard at the High Court. Failure to successfully defend such actions may result in liability for historical Treaty grievances in excess of that currently anticipated.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Treaty of Waitangi claims – settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngai 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 Ngai Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngai Tahu.

The mechanism is expected to be triggered within the next two years, depending on the progress of settlements. However, there is a high degree of uncertainty about the triggering of the obligation under the relativity mechanism and the costs that would be incurred.

Westpac New Zealand Limited

Under 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.

Under the 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).

Contingent Assets

Ministry of Education – suspensory loans

Suspensory loans issued by the Ministry of Education to integrated schools.

$61 million at 30 June 2010 (2009: $74 million)

Legal proceedings and tax disputes

Legal proceedings and tax disputes are contingent assets in relation to Inland Revenue pending assessments. Contingent assets arise where Inland Revenue has advised a taxpayer of a proposed adjustment to their tax assessment. There has been no amended assessment issued at this point or revenue recognised so these are recorded in the note 32 as legal proceedings and disputes – non-assessed. The taxpayer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue quantifies a contingent asset based on the likely outcome of the disputes process based on experience and similar prior cases.

The 2009 contingent asset included disputes with a number of financial institutions regarding the tax treatment of certain structured finance transactions. These disputes have now been resolved.

$504 million at 30 June 2010 (2009: $1,502 million)

Note 32: Contingent Liabilities and Contingent Assets (continued)

Meridian Energy – RTA Power (NZ) Limited

On 9th November 2008 a major customer of Meridian Energy, RTA Power (NZ) Limited, as purchaser of energy used at the NZAS smelter, reduced its power consumption to below its contracted take or pay volume requirements. RTA Power (NZ) Limited is claiming force majeure relief from its contractual obligations. Meridian and RTA Power (NZ) Limited are proceeding with arbitration as the contractual dispute resolution process to determine the claim of force majeure.

Foreshore and seabed

The Foreshore and Seabed Act 2004 (FSA):

- vests the full legal and beneficial ownership of the public foreshore and seabed in the Crown
- provides for the recognition and protection of ongoing customary rights with respect to the public foreshore and seabed
- enables applications to the High Court to investigate if previously held common law rights have been adversely impacted, and if so, providing for those affected either to participate in the administration of a foreshore and seabed reserve or else enter into formal discussions on redress, and
- provides for general rights of public access and recreation in, on, over, and across the public foreshore and seabed and general rights of navigation within the foreshore and seabed.

The public foreshore and seabed means the marine area that is bounded on the landward side by the line of mean high water spring; and on the seaward side by the outer limits of the territorial sea, but does not include land subject to a specified freehold interest (refer section 5 of the FSA).

The FSA codifies the nature of the Crown's ownership interest in the public foreshore and seabed on behalf of the public of New Zealand. Although full legal and beneficial ownership of the public foreshore and seabed has been vested in the Crown, there are significant limitations to the Crown's rights under the FSA. As well as recognising and protecting customary rights, the FSA significantly restricts the Crown's ability to alienate or dispose of any part of the public foreshore and seabed and significantly restricts the Crown's ability to exclude others from entering or engaging in recreational activities or navigating in, on or within the public foreshore and seabed. Because of the complex nature of the Crown's ownership interest in the public foreshore and seabed and because it is not possible to obtain a reliable valuation of the Crown's interest, the public foreshore and seabed has not been recognised as an asset in these financial statements. The Government intends to repeal the FSA by the end of 2010.

Note 33: Financial Instruments

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

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

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

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

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

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments

Financial instruments are measured at either fair value or amortised cost. Changes in the value of an instrument may be reported in the operating balance or directly in net worth depending on its designation. The following table details the value of financial assets and financial liabilities by class of instrument and by designation category, as defined in the accounting policies in Note 1.

Financial Assets

Financial assets as at 30 June 2010	Note	Designation Amortised cost $m	Available for sale $m	Held for trading $m	Fair value through P&L $m	Total $m
Cash and cash equivalents		7,774	-	-	-	**7,774**
Trade and other receivables	14	2,999	-	-	-	**2,999**
Long-term deposits	15	2,290	-	-	494	**2,784**
Derivatives in gain	15	-	-	2,972	-	**2,972**
Marketable securities	15	-	331	490	34,911	**35,732**
IMF financial assets	15	2,199	-	-	-	**2,199**
Share investments	16	25	73	-	12,081	**12,179**
Student loans	17	6,790	-	-	-	**6,790**
Kiwibank mortgages	17	9,183	-	-	1,236	**10,419**
Other advances	17	1,011	42	-	185	**1,238**
Total financial assets by designation		**32,271**	**446**	**3,462**	**48,907**	**85,086**

Financial assets as at 30 June 2009	Note	Designation Amortised cost $m	Available for sale $m	Held for trading $m	Fair value through P&L $m	Total $m
Cash and cash equivalents		6,268	-	-	-	6,268
Trade and other receivables	14	3,151	-	-	-	3,151
Long-term deposits	15	2,695	-	-	441	3,136
Derivatives in gain	15	-	-	3,745	-	3,745
Marketable securities	15	-	646	773	36,954	38,373
IMF financial assets	15	454	-	-	-	454
Share investments	16	-	74	-	11,086	11,160
Student loans	17	6,553	-	-	-	6,553
Kiwibank mortgages	17	6,370	-	-	2,122	8,492
Other advances	17	519	-	-	40	559
Total financial assets by designation		26,010	720	4,518	50,643	81,891

As at 30 June 2010, the carrying value of financial assets that had been pledged as collateral was $1,073 million (2009: $930 million). These transactions are conducted under terms that are usual and customary to standard securities borrowing.

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Financial Liabilities

Financial liabilities as at 30 June 2010

	Note	Designation Amortised cost $m	 Held for trading $m	 Fair value through P&L $m	 Total $m
Issued currency		4,020	-	-	**4,020**
Accounts payable	23	6,703	-	-	**6,703**
Borrowings:	24				
Government stock		26,814	-	1,112	**27,926**
Treasury bills		6,821	-	804	**7,625**
Government retail stock		309	-	-	**309**
Settlement deposits with Reserve Bank		-	-	6,679	**6,679**
Derivatives in loss		-	2,376	-	**2,376**
Finance lease liabilities		920	-	-	**920**
Other borrowings		18,587	208	5,103	**23,898**
Total borrowings		**53,451**	**2,584**	**13,698**	**69,733**
Total financial liabilities by designation		**64,174**	**2,584**	**13,698**	**80,456**

Financial liabilities as at 30 June 2009

	Note	Designation Amortised cost $m	 Held for trading $m	 Fair value through P&L $m	 Total $m
Issued currency		4,005	-	-	4,005
Accounts payable	23	5,380	-	-	5,380
Borrowings:	24				
Government stock		17,710	-	3,454	21,164
Treasury bills		7,294	-	138	7,432
Government retail stock		491	-	-	491
Settlement deposits with Reserve Bank		-	-	6,908	6,908
Derivatives in loss		-	2,158	-	2,158
Finance lease liabilities		1,002	-	-	1,002
Other borrowings		14,602	8	8,188	22,798
Total borrowings		41,099	2,166	18,688	61,953
Total financial liabilities by designation		50,484	2,166	18,688	71,338

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Hierarchy

The following table analyses the basis for the valuation of financial assets and financial liabilities measured at fair value:

	Quoted market price $m	Observable markets $m	Significant non-observable inputs $m	Total $m
Financial assets as at 30 June 2010				
Long-term deposits	-	494	-	**494**
Derivatives in gain	-	2,765	207	**2,972**
Marketable securities	13,144	21,434	1,154	**35,732**
Share investments	12,010	32	112	**12,154**
Kiwibank mortgages	-	-	1,236	**1,236**
Other advances	-	187	40	**227**
Total financial assets	**25,154**	**24,912**	**2,749**	**52,815**
Financial liabilities as at 30 June 2010				
Government stock	1,112	-	-	**1,112**
Treasury bills	-	804	-	**804**
Government retail stock	-	-	-	**-**
Settlement deposits with Reserve Bank	6,679	-	-	**6,679**
Derivatives in loss	1	2,137	238	**2,376**
Other borrowings	740	4,571	-	**5,311**
Total financial liabilities	**8,532**	**7,512**	**238**	**16,282**

Fair Value Movements

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

Significant non-observable inputs as at 30 June 2010	Marketable securities $m	Share investments $m	Kiwibank mortgages $m	Other advances $m	Derivatives in gain/ (loss) $m	Total $m
Opening balance	1,257	119	2,122	-	(65)	**3,433**
Total gains/(losses) recognised in the statement of financial performance	(13)	(11)	-	-	91	**67**
Total gains/(losses) recognised in the statement of comprehensive incom	4	-	(42)	(2)	(78)	**(118)**
Purchases	1,183	30	-	-	8	**1,221**
Sales	(273)	(22)	-	-	(2)	**(297)**
Issues	-	-	-	2	-	**2**
Settlements	(959)	(1)	(844)	-	15	**(1,789)**
Transfers	(45)	(3)	-	40	-	**(8)**
Closing balance	**1,154**	**112**	**1,236**	**40**	**(31)**	**2,511**

Total gains/(losses) included in the statement of financial performance in relation to assets held at 30 June 2010:

	Marketable securities $m	Share investments $m	Kiwibank mortgages $m	Other advances $m	Derivatives in gain/ (loss) $m	Total $m
Gains/(losses)	(38)	(14)	-	-	24	**(28)**

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Derivatives

Derivatives as at 30 June 2010	**Carrying value in gain $m**	**Notional value in gain $m**	**Carrying value in loss $m**	**Notional value in loss $m**	**Net carrying value $m**
Foreign exchange contracts	573	12,981	536	13,900	**37**
Foreign exchange options	11	265	-	10	**11**
Cross currency swaps	1,217	10,766	619	8,404	**598**
Interest rate swaps	903	10,923	705	16,826	**198**
Interest rate options	1	145	11	267	**(10)**
Futures	-	986	6	1,406	**(6)**
Other derivatives	267	3,689	499	10,306	**(232)**
Total derivatives	**2,972**	**39,755**	**2,376**	**51,119**	**596**

Derivatives as at 30 June 2009	**Carrying value in gain $m**	**Notional value in gain $m**	**Carrying value in loss $m**	**Notional value in loss $m**	**Net carrying value $m**
Foreign exchange contracts	1,506	15,055	500	8,309	1,006
Foreign exchange options	10	192	-	-	10
Cross currency swaps	1,043	8,132	821	8,432	222
Interest rate swaps	919	12,646	605	15,450	314
Interest rate options	-	-	8	500	(8)
Futures	1	998	1	636	-
Other derivatives	266	2,698	223	10,123	43
Total derivatives	3,745	39,721	2,158	43,450	1,587

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Hedge Derivatives

Some derivatives are reported using the hedge accounting approaches available under financial reporting standards. These approaches permit the effective portion of a cash flow hedging instrument to be initially reported in equity and subsequently transferred to the statement of financial performance or value of the hedged asset. A fair value hedge enables the hedged item to be adjusted by the effective portion of the fair value hedge and for this adjustment to be reported in the statement of financial performance. The carrying values of hedge accounted derivatives are:

	Carrying value in gain $m	Carrying value in loss $m	Net carrying value $m
Hedge accounted derivatives as at 30 June 2010			
Derivatives hedging fair value	81	43	38
Derivatives hedging cash flows	182	259	(77)
Hedge accounted derivatives as at 30 June 2009			
Derivatives hedging fair value	95	13	82
Derivatives hedging cash flows	188	272	(84)

As a result of fair value hedge accounting, the hedged items were adjusted by a loss of $35 million (2009: $78 million), which is included in the statement of financial performance along with the change in fair value of the hedging derivative.

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

	<1 year $m	1-2 years $m	2-5 years $m	>5 years $m	Total $m
As at 30 June 2010					
Timing of cash flows	(18)	10	11	1	4
Effect on operating balance	19	15	15	(122)	(73)
As at 30 June 2009					
Timing of cash flows	(73)	(33)	9	1	(96)
Effect on operating balance	(60)	(34)	21	(56)	(129)

Note 33: Financial Instruments (continued)

(b) Risk management policies

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

	30 June 2010		30 June 2009	
	Unconsolidated financial assets	Unconsolidated financial liabilities	Unconsolidated financial assets	Unconsolidated financial liabilities
	$m	$m	$m	$m
New Zealand Debt Management Office (NZDMO)	19,634	52,292	19,222	43,357
Reserve Bank	19,265	16,482	22,509	18,997
Inland Revenue	7,086	213	6,905	304
NZ Superannuation Fund	15,552	1,022	12,877	561
ACC	13,676	376	11,178	764
NZ Post (including Kiwibank)	12,451	12,283	10,630	10,508
Air New Zealand	1,613	1,533	2,194	1,998
EQC	5,985	4	5,622	5
Transpower	395	1,891	292	1,411
Ministry of Social Development	860	403	975	369
Mighty River Power	467	1,392	406	968
Meridian Energy	445	2,028	371	1,546
Genesis Energy	270	804	334	928
Public Trust	910	895	1,083	1,104

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

Manager	Financial Instrument Portfolio	Risk Management
NZDMO	Financial assets and liabilities held to: • finance the Government's gross borrowing requirements • provide funds to Government entities, and • provide capital market services and derivative transactions to Government entities.	NZDMO operates within a risk management framework that is approved by the Minister of Finance. The framework specifies NZDMO's policies for managing market risk, credit risk, liquidity risk, funding risk and operational risk. The risk management framework is subject to continuous improvement.
The Reserve Bank of New Zealand	Financial assets and liabilities held for the purpose of effective foreign exchange intervention capability, wholesale banking liquidity and circulating currency.	The overall risk management framework is designed to strongly encourage the sound and prudent management of the bank's risk in a way that is consistent with financial market best practice.

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
Inland Revenue Department	Student Loans	Risk is minimised by the collection of compulsory repayments through the tax system. In addition, advances are widely dispersed, reducing the concentration of credit risk.
The New Zealand Superannuation Fund (NZS Fund)	Investment Fund assets	The Guardians manage the NZS Fund's risks by adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the Fund. The objective is to: • avoid concentration of risk by ensuring there is adequate diversification between and within asset classes and geographically • careful selection and monitoring of managers to ensure the Guardians have sufficient conviction that each manager will maximise the probability that return expectations will be met • ensure that there are no unintended biases away from the intended investment strategy, and • perform rigorous measurement and management of market and manager risk.
Accident Compensation Corporation	ACC Reserves	The investment committee sets investment guidelines by requiring investment portfolio managers to manage their portfolios within defined market exposure limits. These limits include limits on percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment companies not represented in the benchmark; limits on the maximum investment in any individual company; duration limits relative to the duration of the benchmark; and maximum credit exposure to single entities. Compliance with the investment guidelines is reviewed by the internal auditors on a half-yearly basis.
New Zealand Post (including Kiwibank)	Financial instruments from its debt portfolio and investment activity. This includes activities as a financial intermediary and financial market participant (Kiwibank).	The Board is responsible for risk management policies and procedures. This includes appointing a finance risk committee to monitor risk management.
Air New Zealand	Financial instruments arising from its business activity.	The Board of directors approve risk management policies. Compliance with these policies is reviewed and reported monthly to the Board and is included as part of the internal audit programme. Group policy is not to enter, issue, or hold financial instruments for speculative purposes.

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
Earthquake Commission	Assets in National Disaster Fund	The Commission applies best-practice portfolio management that maximises return without undue risk to the Fund as a whole while avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
Transpower	Financial instruments arising from its business activity	The Board has approved policy and guidelines and authorised the use of various financial instruments. The policy adopted by the Board prohibits the use of financial instruments for speculative purposes. All derivatives must be directly related to underlying physical debt or firm capital commitments on Board approved projects.
Ministry of Social Development	Student loans	The Ministry has a series of policies to manage the risks associated with financial instruments. These policies do not allow any transactions that are speculative in nature.
Mighty River Power	Financial instruments arising from its business activity	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to proactively manage these risks with the aim of protecting shareholder wealth. The Group uses financial instruments to hedge these risk exposures.
Meridian Energy	Financial instruments arising from its business activity	Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the Group. The Group uses financial instruments to hedge these risk exposures.
Genesis Energy	Financial instruments arising from its business activity	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses financial instruments to hedge these risk exposures.
Public Trust	Financial assets and liabilities	A Risk Assurance and Audit Committee is responsible to ensure that adequate internal and risk management controls are in place. In addition an Investment Committee reviews the investment policies, procedures, practices and investment performance.

Note 33: Financial Instruments (continued)

(c) Market risk

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

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

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

A variety of derivative financial instruments are used across the portfolios to manage exposure to interest rate, foreign currency and electricity sector risk including:

- foreign exchange contracts and options to hedge exchange rate risk arising from foreign investments and liabilities as well as budgeted overseas purchases. Under foreign exchange contracts the Government agrees to exchange one currency for another at a future date using an exchange rate determined when the contract is entered into

- interest rate swaps and options to manage interest rate risk. Under interest rate swap contracts, the Government agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Government to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt

- cross currency swaps combine an interest rate swap and a currency swap whereby the interest rate in one currency is fixed, and the interest rate in the other is floating. In doing so, they manage both interest rate and currency risk, and

- electricity derivatives are typically "contracts for differences" entered into by the electricity generation State-owned enterprises to hedge against volatility in electricity prices.

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Interest rate risk management

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

Interest rate sensitivity analysis

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

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

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

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

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

Change in New Zealand Interest Rates	Impact on operating balance		Impact on net worth	
	2010 $m	2009 $m	2010 $m	2009 $m
Increase 1% (100 basis points)	(471)	(407)	(453)	(368)
Decrease 1% (100 basis points)	515	392	487	351

The Government's sensitivity to interest rates has increased primarily as result of an increase in net debt during the year.

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Foreign currency risk management

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

As at 30 June 2010	Note	NZD NZ$m	USD NZ$m	Yen NZ$m	Euro NZ$m	Other NZ$m	Total NZ$m
Cash and cash equivalents		4,193	2,942	151	171	317	**7,774**
Trade and other receivables	14	2,195	223	51	305	225	**2,999**
Long-term deposits	15	2,345	116	38	53	232	**2,784**
Derivatives in gain	15	18,004	(9,307)	360	(4,064)	(2,021)	**2,972**
Marketable securities	15	6,679	22,289	1,339	3,868	1,557	**35,732**
IMF financial assets	15	-	-	-	-	2,199	**2,199**
Share investments	16	2,744	2,883	585	791	5,176	**12,179**
Student loans	17	6,790	-	-	-	-	**6,790**
Kiwibank mortgages	17	10,419	-	-	-	-	**10,419**
Other advances	17	1,077	12	-	-	149	**1,238**
Total financial assets		**54,446**	**19,158**	**2,524**	**1,124**	**7,834**	**85,086**
Issued currency		4,020	-	-	-	-	**4,020**
Accounts payable	23	4,805	1,198	57	374	269	**6,703**
Borrowings:	24						
Government stock		27,926	-	-	-	-	**27,926**
Treasury bills		7,625	-	-	-	-	**7,625**
Government retail stock		309	-	-	-	-	**309**
Settlement deposits with Reserve Bank		6,679	-	-	-	-	**6,679**
Derivatives in loss		(13,649)	12,490	2,106	(30)	1,459	**2,376**
Finance lease liabilities		562	358	-	-	-	**920**
Other borrowings		16,533	3,743	437	10	3,175	**23,898**
Total financial liabilities		**54,810**	**17,789**	**2,600**	**354**	**4,903**	**80,456**
Net financial currency holdings		**(364)**	**1,369**	**(76)**	**770**	**2,931**	**4,630**

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Foreign currency risk management (continued)

As at 30 June 2009	Note	NZD NZ$m	USD NZ$m	Yen NZ$m	Euro NZ$m	Other NZ$m	Total NZ$m
Cash and cash equivalents		3,293	2,114	76	319	466	6,268
Trade and other receivables	14	2,275	646	47	35	148	3,151
Long-term deposits	15	2,802	62	20	35	217	3,136
Derivatives in gain	15	23,900	(13,860)	(1,600)	(2,964)	(1,731)	3,745
Marketable securities	15	14,329	15,733	1,578	5,848	885	38,373
IMF financial assets	15	-	-	-	-	454	454
Share investments	16	2,250	3,466	760	1,080	3,604	11,160
Student loans	17	6,553	-	-	-	-	6,553
Kiwibank mortgages	17	8,492	-	-	-	-	8,492
Other advances	17	539	12	-	-	8	559
Total financial assets		64,433	8,173	881	4,353	4,051	81,891
Issued currency		4,005	-	-	-	-	4,005
Accounts payable	23	4,371	432	14	535	28	5,380
Borrowings:	24						
Government stock		21,164	-	-	-	-	21,164
Treasury bills		7,432	-	-	-	-	7,432
Government retail stock		491	-	-	-	-	491
Settlement deposits with Reserve Bank		6,908	-	-	-	-	6,908
Derivatives in loss		(2,158)	1,270	425	2,114	507	2,158
Finance lease liabilities		607	395	-	-	-	1,002
Other borrowings		17,090	4,138	435	-	1,135	22,798
Total financial liabilities		59,910	6,235	874	2,649	1,670	71,338
Net financial currency holdings		4,523	1,938	7	1,704	2,381	10,553

Foreign currency sensitivity analysis

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

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

Change in New Zealand exchange rate	Impact on operating balance		Impact on net worth	
	2010 $m	2009 $m	2010 $m	2009 $m
Strengthen by 10%	35	(319)	183	(297)
Weaken by 10%	(57)	371	(263)	352

The Government's sensitivity to foreign currency has decreased during the current period mainly in relation to financial instrument portfolios held by the NZS Fund.

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Equity market risk management

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

Equity market sensitivity analysis

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

The sensitivity analyses below have been determined based on the NZS Fund's, ACC's and EQC's exposure to share price risks at the reporting date. These three portfolios combined make up 98% of the Government's total share investments (2009: 98%).

Change in share prices	**Impact on operating balance**		**Impact on net worth**	
	2010 $m	**2009 $m**	**2010 $m**	**2009 $m**
Strengthen/weaken by 10%	1,198	1,097	1,198	1,097

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

Note 33: Financial Instruments (continued)

(d) Credit risk management

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

Of the financial assets held by the government at 30 June 2010 the fair value of collateral held that can be sold or repurchased was $3,281 million (2009: $4,041 million).

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

Concentration of credit exposure by credit rating (using the lower rating of Standard & Poor's or Moody's)

As at 30 June 2010	Note	AAA $m	AA $m	A $m	Other $m	Non-rated $m	Total $m
Cash and cash equivalents		3,127	4,432	191	4	20	**7,774**
Trade and other receivables	14	-	-	-	-	2,999	**2,999**
Long-term deposits	15	26	2,569	177	-	12	**2,784**
Derivatives in gain	15	4	1,998	843	2	125	**2,972**
Marketable securities	15	23,553	6,140	1,515	1,363	3,161	**35,732**
IMF financial assets	15	-	-	-	2,199	-	**2,199**
Share investments	16	57	300	1,081	5,275	5,466	**12,179**
Student loans	17	-	-	-	-	6,790	**6,790**
Kiwibank mortgages[1]	17	-	-	-	-	10,419	**10,419**
Other advances	17	-	174	107	-	957	**1,238**
Total credit exposure by credit rating		**26,767**	**15,613**	**3,914**	**8,843**	**29,949**	**85,086**

As at 30 June 2009	Note	AAA $m	AA $m	A $m	Other $m	Non-rated $m	Total $m
Cash and cash equivalents		2,485	3,559	214	3	7	6,268
Trade and other receivables	14	-	-	-	-	3,151	3,151
Long-term deposits	15	38	2,665	408	-	25	3,136
Derivatives in gain	15	92	2,605	988	13	47	3,745
Marketable securities	15	20,908	12,366	1,315	462	3,322	38,373
IMF financial assets	15	-	-	-	454	-	454
Share investments	16	78	299	801	4,707	5,275	11,160
Student loans	17	-	-	-	-	6,553	6,553
Kiwibank mortgages[1]	17	-	-	-	-	8,492	8,492
Other advances	17	24	7	-	-	528	559
Total credit exposure by credit rating		23,625	21,501	3,726	5,639	27,400	81,891

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

Note 33: Financial Instruments (continued)

(d) Credit risk management (continued)

Concentration of credit exposure by geographical area:

As at 30 June 2010	Note	USA $m	Europe $m	Japan $m	Australia $m	New Zealand $m	Other $m	Total $m
Cash and cash equivalents		2,883	290	151	109	4,239	102	**7,774**
Trade and other receivables	14	-	-	-	-	2,999	-	**2,999**
Long-term deposits	15	89	7	1	116	2,565	6	**2,784**
Derivatives in gain	15	526	595	-	242	1,597	12	**2,972**
Marketable securities	15	8,520	13,577	1,367	2,195	6,221	3,852	**35,732**
IMF financial assets	15	-	-	-	-	-	2,199	**2,199**
Share investments	16	3,411	2,287	737	1,782	2,667	1,295	**12,179**
Student loans[1]	17	-	-	-	-	6,790	-	**6,790**
Kiwibank mortgages	17	-	-	-	-	10,419	-	**10,419**
Other advances	17	12	107	-	41	1,077	1	**1,238**
Total credit exposure by geography		**15,441**	**16,863**	**2,256**	**4,485**	**38,574**	**7,467**	**85,086**

As at 30 June 2009	Note	USA $m	Europe $m	Japan $m	Australia $m	New Zealand $m	Other $m	Total $m
Cash and cash equivalents		2,078	406	73	129	3,452	130	6,268
Trade and other receivables	14	-	-	-	-	3,150	1	3,151
Long-term deposits	15	49	10	-	59	3,018	-	3,136
Derivatives in gain	15	675	683	2	175	2,130	80	3,745
Marketable securities	15	8,063	11,508	1,570	1,239	13,317	2,676	38,373
IMF financial assets	15	-	-	-	-	-	454	454
Share investments	16	3,257	2,297	760	1,578	2,170	1,098	11,160
Student loans[1]	17	-	-	-	-	6,553	-	6,553
Kiwibank mortgages	17	-	-	-	-	8,492	-	8,492
Other advances	17	25	-	-	2	531	1	559
Total credit exposure by geography		14,147	14,904	2,405	3,182	42,813	4,440	81,891

1. At 30 June 2010, 14% (2009: 15%) of student loan borrowers were overseas. The majority of these individuals are overseas for a short time and therefore the credit risk is not significantly impacted by their current location.

Note 33: Financial Instruments (continued)

(d) Credit risk management (continued)

Concentration of credit exposure by industry:

As at 30 June 2010	Note	**Sovereign issuers $m**	**Supra-national $m**	**NZ banking sector $m**	**Foreign banking sector $m**	**Individuals $m**	**Other $m**	**Total $m**
Cash and cash equivalents		3,074	4	4,187	343	4	162	**7,774**
Trade and other receivables	14	-	-	-	-	-	2,999	**2,999**
Long-term deposits	15	-	-	2,560	219	-	5	**2,784**
Derivatives in gain	15	-	-	1,089	1,285	-	598	**2,972**
Marketable securities	15	11,713	2,142	2,152	10,608	-	9,117	**35,732**
IMF financial assets	15	-	2,199	-	-	-	-	**2,199**
Share investments	16	-	6	26	603	95	11,449	**12,179**
Student loans	17	-	-	-	-	6,790	-	**6,790**
Kiwibank mortgages[1]	17	-	-	-	-	10,419	-	**10,419**
Other advances	17	-	-	16	264	347	611	**1,238**
Total credit exposure by industry		**14,787**	**4,351**	**10,030**	**13,322**	**17,655**	**24,941**	**85,086**

As at 30 June 2009	Note	**Sovereign issuers $m**	**Supra-national $m**	**NZ banking sector $m**	**Foreign banking sector $m**	**Individuals $m**	**Other $m**	**Total $m**
Cash and cash equivalents		2,322	8	3,195	448	-	295	6,268
Trade and other receivables	14	-	-	-	-	1	3,150	3,151
Long-term deposits	15	-	-	3,018	118	-	-	3,136
Derivatives in gain	15	-	-	1,654	1,604	1	486	3,745
Marketable securities	15	14,269	732	7,877	5,315	-	10,180	38,373
IMF financial assets	15	-	454	-	-	-	-	454
Share investments	16	-	6	2	511	63	10,578	11,160
Student loans	17	-	-	-	-	6,553	-	6,553
Kiwibank mortgages[1]	17	-	-	-	-	8,492	-	8,492
Other advances	17	15	-	11	12	370	151	559
Total credit exposure by industry		16,606	1,200	15,757	8,008	15,480	24,840	81,891

1. Kiwibank mortgages consist mainly of residential lending. Therefore these financial assets have been classified as individuals for the purposes of credit risk.

Note 33: Financial Instruments (continued)

(e) Liquidity risk management

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

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

The following table details the Government's remaining contractual maturity for its financial liabilities. The table has been drawn up based on:

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

As at 30 June 2010	Note	Carrying value $m	Contractual cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Issued currency		4,020	4,020	4,020	-	-	-	-
Accounts payable	23	6,703	6,709	6,644	63	2	-	-
Borrowings:	24							
Government stock		27,926	36,654	1,828	8,367	12,913	8,332	5,214
Treasury bills		7,625	7,692	7,692	-	-	-	-
Government retail stock		309	314	251	63	-	-	-
Settlement deposits with Reserve Bank		6,679	6,679	6,679	-	-	-	-
Finance lease liabilities		920	1,085	110	114	345	516	-
Other borrowings		23,898	25,503	16,126	2,381	2,478	4,358	160
Total non-derivative liabilities		**78,080**	**88,656**	**43,350**	**10,988**	**15,738**	**13,206**	**5,374**
Derivatives in loss settled net			1,866	559	216	447	287	357
Derivatives in loss settled gross								
- inflow			48,537	27,516	5,078	9,564	5,563	816
- outflow			45,900	26,871	4,609	8,548	5,220	652

Note 33: Financial Instruments (continued)

(e) Liquidity risk management (continued)

As at 30 June 2009	Note	Carrying value $m	Contractual cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Issued currency		4,005	4,005	4,005	-	-	-	-
Accounts payable	23	5,380	5,424	5,304	104	9	5	2
Borrowings:	24							
Government stock		21,164	27,048	5,432	1,089	9,388	10,131	1,008
Treasury bills		7,432	7,490	7,490	-	-	-	-
Government retail stock		491	500	413	87	-	-	-
Settlement deposits with Reserve Bank		6,908	6,908	6,908	-	-	-	-
Finance lease liabilities		1,002	1,188	112	108	318	649	1
Other borrowings		22,798	23,492	15,535	800	3,210	3,635	312
Total non-derivative liabilities		69,180	76,055	45,199	2,188	12,925	14,420	1,323
Derivatives in loss settled net			811	455	44	55	207	50
Derivatives in loss settled gross								
- inflow			41,068	24,871	1,394	8,075	5,840	888
- outflow			38,714	23,460	1,201	7,607	5,733	713

The Government has access to financing facilities, of which the total unused amount at 30 June 2010 was $1,420 million (2009: $1,220 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

Note 34: Related Parties

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

Related parties of the Government include:

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

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

Other transactions with these related parties can include the employment of Ministers' spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and State-owned enterprises, receipt of grants by these family members from a Government entity, or the purchase or sale of goods and services between Ministers, their spouses, children and dependants, or private-sector entities they own or jointly control, and a Government entity. 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, no related party transactions took place during the year within a Minister's portfolio.

Note 35: Subsequent Events

Deposit Guarantee Scheme

Since 30 June 2010 three financial institutions have gone into receivership. The largest of these was South Canterbury Finance. Details of these receiverships are included in note 30 of these financial statements.

Canterbury Earthquake

On the 4th of September 2010 the Canterbury region experienced a serious earthquake. The Crown is likely to incur significant direct costs as a result. These costs will include:

- Claims settled by the Earthquake Commission. The cost to the Commission is expected to be between $1 and $2 billion,
- Repairs to government owned assets,
- The provision of social assistance, either through new or existing programmes, and
- Contributions towards the replacement of local government infrastructure assets.

In addition to these direct costs, there is expected to be both negative and positive impacts to the economy (and consequently tax revenue).

The financial effect to the Crown of this event cannot be reliably measured at this stage. Some costs will be covered by existing insurance arrangements. While the effect cannot be measured it is expected to increase the operating deficit and net debt in future years.

Statement of Unappropriated Expenditure

for the year ended 30 June 2010

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

Section 26B of the Public Finance Act 1989 authorises the Minister of Finance to approve limited amounts of expenses or capital expenditure in excess of, but within the scope, of an existing appropriation. Unappropriated amounts incurred in terms of such an approval are shown separately in this statement.

Expenses or capital expenditure incurred without or outside the scope of appropriation or any other authority is unlawful unless validated by Parliament. Unappropriated expenses or capital expenditure in excess of the limits which the Minister of Finance can approve under section 26B of the Public Finance Act 1989 require validating legislation. Such validating legislation will be accompanied by a report to the House of Representatives that sets out the unappropriated items together with an explanation of the Minister responsible for the expenses or capital expenditure.

Amounts in this statement are expressed in thousands of dollars, reflecting the level at which appropriations are made.

Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2010

Expenses and capital expenditure incurred in excess of existing appropriations and approved by Minister of Finance under Section 26B of the Public Finance Act 1989

Department Vote	*Appropriation*	**Supplementary Estimates of Appropriations 2009/10 $000**	**Amount in Excess of Appropriation $000**
Ministry of Education			
Education	*Non-Departmental Other Expenses*		
	Early Childhood Education	1,156,621	9,491
Ministry of Foreign Affairs and Trade			
Foreign Affairs and Trade	*Non-Departmental Other Expenses*		
	Subscriptions to International Organisations	51,288	653
Ministry of Social Development			
Social Development			
	Benefits and Other Unrequited Expenses		
	Redundancy Assistance	3,637	38
Ministry of Transport			
Transport	*Non-Departmental Other Expenses*		
	Enhanced public transport concessions for SuperGold cardholders	19,300	327

Expenses and capital expenditure incurred in excess of appropriation but with authority of an Imprest Supply Act

Department Vote	*Appropriation*	**Supplementary Estimates of Appropriations 2009/10 $000**	**Amount without Appropriation $000**
Ministry of Justice			
Treaty Negotiations	*Non-Departmental Capital Expenditure*		
	Land, Stock, Plant Purchases	77,406	9,942
Ministry of Research, Science and Technology			
Research, Science and Technology	*Non-Departmental Output Expenses*		
	Māori Knowledge and Development Research	3,867	999

Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2010

Expenses and capital expenditure incurred in excess of appropriation and without authority of an Imprest Supply Act

Department Vote	*Appropriation*	**Supplementary Estimates of Appropriations 2009/10 $000**	**Amount in Excess of Appropriation $000**
Crown Law Office			
Attorney-General	*Departmental Output Expenses*		
	Supervision and Conduct of Crown Prosections[1]	39,542	1,691
	The Exercise of Principal Law Officer Functions	3,412	442
Inland Revenue Department			
Revenue	*Non-Departmental Other Expenses*		
	Impairment of Debt Relating to Child Support	345,000	26,424
Ministry for the Environment			
Climate Change	*Non-Departmental Other Expenses*		
	Allocation of New Zealand Units	139,648	18,341
Environment	*Non-Departmental Other Expenses*		
	Waikato River Clean-up Fund	14,000	97,596
	Waikato River Co-Management	35,500	42,925
Ministry of Education			
Education	*Benefits and Other Unrequited Expenses*		
	Home Schooling Allowances	5,537	135
	International Student Scholarship Scheme	3,050	27
	Non-Departmental Output Expenses		
	School Transport	157,754	1,009
New Zealand Police			
Police	*Departmental Output Expenses*		
	Investigations	388,093	2,810
	Police Primary Response Management	423,801	962
Serious Fraud Office			
Serious Fraud	*Departmental Output Expenses*		
	Investigation and Prosecution of Complex or Serious Fraud	6,682	622
The Treasury			
Finance	*Non-Departmental Capital Expenditure*		
	Landcorp Protected Land Agreement	10,000	6,056

[1] The Supplementary Estimates of Appropriations of $39,542,000 has been increased by $1,145,000 transferred into this Output Class by the Public Finance (Transfers Between Outputs) Order 2010 (SR 2010/169).

Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2010

Expenses and capital expenditure incurred without appropriation or outside scope of an appropriation and without authority of an Imprest Supply Act

Department Vote	*Appropriation*	Supplementary Estimates of Appropriations 2009/10 $000	Amount without Appropriation $000
Ministry of Economic Development			
Energy	*Non-Departmental Capital Expenditure*		
	Development of reserve electricity generation capacity	30	30
Ministry of Justice			
Justice	*Non-Departmental Other Expenses*		
	Contribution to foreshore and seabed negotiation costs[1]		
	1 July 2008 - 30 June 2009	717	250
Ministry of Māori Development			
Maori Affairs	*Non-Departmental Other Expenses*		
	Wharewaka - Wellington waterfront development	7,000	7,000
New Zealand Defence Force			
Defence Force	*Departmental Other Expenses*		
	Asset Write-Offs[2]		
	1 July 2002 - 30 June 2003	-	7,292
	1 July 2003 - 30 June 2004	-	6,182
	1 July 2004 - 30 June 2005	25,000	6,674
	1 July 2005 - 30 June 2006	-	1,733
	1 July 2006 - 30 June 2007	2,700	912
	1 July 2007 - 30 June 2008	2,700	1,492
	1 July 2008 - 30 June 2009	3,000	2,264
	1 July 2009 - 30 June 2010	3,000	1,948
Parliamentary Service			
Parliamentary Service	*Non-Departmental Other Expenses*		
	Travel of members and others[3]		
	1 July 2007 - 30 June 2008	11	9
	1 July 2008 - 30 June 2009	11	11
	1 July 2009 - 30 June 2010	11	7

[1] This expenditure outside of scope was noted subsequent to the 30 June 2009 financial year, and has been validated in the Appropriation (2008/09 Financial Review) Bill.

[2] A review of the accounting treatment for this appropriation in the current year has resulted in unappropriated expenditure being recorded in a number of years. Authority for this expenditure was approved through the relevant years' Supplementary Estimates of Appropriations.

[3] A review of the scope of this appropriation in the current year has resulted in expenditure outside of scope being recorded in the current and two previous years.

Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2010

Net Assets

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

Excess departmental net asset holding, without authority of an Imprest Supply Act

Department	Net Assets Authority at Time of Breach $000	Amount in Excess of Net Asset balance Limit $000
Ministry of Agriculture and Forestry	29,192	2,259
New Zealand Food Safety	3,141	26

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2010

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, no such emergency expenses or capital expenditure were incurred.

Statement of Trust Money

for the year ended 30 June 2010

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 2010

Department Trust Account	As at 30 June 2009 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2010 $000
Agriculture and Forestry						
Meat Board Levies Trust	-	57,346	(57,349)	3	-	-
Seized Timber Trust	1	-	-	-	-	1
Audit						
South Pacific Association of Supreme Audit Institutions Trust	22	-	-	176	(188)	10
Building and Housing						
Certifiers Bond Trust	192	-	(5)	5	-	192
Licensed Building Practitioners Trust [2]	-	-	-	-	-	-
Residential Tenancies Bond Trust	291,835	160,042	(137,402)	18,283	(18,283)	314,475
Residential Tenancies Bond Trust No.2 Account [2]	-	-	-	-	-	-
Conservation						
Bonds/Deposits Trust	6,690	4,421	(4,239)	101	-	6,973
Conservation Project Trust	785	691	(591)	16	-	901
National Parks Trust	45	61	(57)	1	-	50
Walkways Trust	15	10	(14)	-	(1)	10
Wildlife and Reserves Trusts [2]	-	-	-	-	-	-
Corrections						
Prisons Trust	1,433	15,481	(15,639)	-	-	1,275
Crown Law Office						
Legal Claims Trust	499	989	(1,424)	3	-	67
Culture and Heritage						
Australian Trust for Oral History Archives Trust	1,471	-	(88)	121	(1)	1,503
Dictionary of New Zealand Biography Trust	203	-	-	18	(78)	143
New Zealand Encyclopaedia Trust [3]	-	-	-	-	-	-
New Zealand Historical Atlas Trust	113	-	-	9	-	122
New Zealand History Research Trust	1,727	-	(70)	32	-	1,689
War History Trust	880	109	-	43	(7)	1,025
Customs						
Alcohol Liquor Advisory Council Trust	878	14,695	(14,306)	-	-	1,267
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	3,692	5,215	(5,072)	-	-	3,835
Heavy Engineering Research Association Trust	22	572	(539)	-	-	55
Maritime Safety Authority Trust [2]	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	134	4,897	(4,956)	-	-	75
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	37	5,472	(5,433)	-	-	76
Balance carried forward	310,674	270,001	(247,184)	18,811	(18,558)	333,744

Statement of Trust Money (continued)

for the year ended 30 June 2010

Department Trust Account	As at 30 June 2009 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2010 $000
Balance brought forward	310,674	270,001	(247,184)	18,811	(18,558)	333,744
Economic Development						
Coal and Minerals Deposits Trust	160	8	(20)	17	-	165
Criminal Assets Management and Enforcement Regulators Association Trust [1]	-	7	-	-	-	7
Official Assignee's Office Trust	15,915	20,432	(12,360)	392	(10,020)	14,359
Patent Co-operation Treaty Fees Trust	266	1,309	(1,366)	5	-	214
Petroleum Deposits Trust	85	3	-	-	-	88
Proceeds of Crime Trust	10,297	7,521	(1,296)	328	(1,029)	15,821
Radio Frequencies Tender Trust	226	28	(28)	-	-	226
Education						
Code of Practice for Providers who Enrol International Students Trust	2,648	-	-	6,168	(6,332)	2,484
Conferences Trust	2	-	-	-	-	2
Fisheries						
MAF Overfishing Account Trust	1,108	4,893	(4,818)	30	-	1,213
MAF Fish Forfeit Property Trust	3,036	426	(2,336)	66	(80)	1,112
Foreign Affairs and Trade						
Cook Island Trust	8	2,153	(2,153)	2	-	10
Fred Hollows Foundation New Zealand - Pacific Regional Blindness Prevention Programme Trust	1,118	3,068	(4,090)	36	-	132
Government Administration Building, Niue Trust	268	-	-	4	-	272
Judicial Development Trust	942	-	(29)	16	-	929
Kiribati Sustainable Towns Programme Trust [1]	-	279	-	-	-	279
New Zealand/France Friendship Trust	31	198	(205)	1	-	25
Pacific Gender and Aid Effectiveness Trust [3]	-	-	-	-	-	-
Pacific Islands Chief of Police Women's Advisory Network Trust	89	-	(48)	1	-	42
Health						
Health Benefits Offices Trust	1,089	5,215,563	(5,215,481)	204	-	1,375
Medicines Review Objectors Deposit Trust [2]	-	-	-	-	-	-
Balance carried forward	347,962	5,525,889	(5,491,414)	26,081	(36,019)	372,499

Statement of Trust Money (continued)

for the year ended 30 June 2010

Department Trust Account	As at 30 June 2009 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2010 $000
Balance brought forward	347,962	5,525,889	(5,491,414)	26,081	(36,019)	372,499
Inland Revenue						
Child Support Agency Trust	15,354	206,446	(206,274)	-	-	15,526
KiwiSaver Employer Trust [2]	-	-	-	-	-	-
KiwiSaver Returned Transactions Trust	20,457	7,505	-	-	-	27,962
Reciprocal Child Support Agreement Trust	273	11,131	(11,137)	-	-	267
Internal Affairs						
New Zealand 1990 Scholarship Trust	670	-	-	17	-	687
Vogel House Trust	1	1	(2)	-	-	-
Justice						
Courts Law Trust	9,291	16,506	(17,045)	-	-	8,752
Election Candidates Deposit Trust	113	-	(113)	-	-	-
Employment Court Trust	133	262	(245)	-	-	150
Fines Trust	23,056	234,278	(231,256)	-	-	26,078
Foreign Currency United States Dollar Trust [1]	-	9,310	(9,310)	-	-	-
Legal Complaints Review Officer Trust	742	323	(640)	-	-	425
Maori Land Court Trust	42	7	(14)	-	-	35
Supreme Court Trust	76	96	(118)	-	-	54
Victims' Claims Trust	28	1	(3)	-	-	26
Labour						
Employment Relations Service Trust	35	258	(266)	-	-	27
Employment Relations Act Security of Costs Trust	6	88	(6)	-	-	88
New Zealand Immigration Service Trust	4,793	2,303	(3,247)	83	(266)	3,666
Land Information New Zealand						
Crown Forestry Licences Trust	3,526	13,137	(16,253)	-	-	410
Deposits Trust	2,095	-	(2,090)	-	-	5
Endowment Rentals Trust	1	2,617	(2,617)	-	-	1
Hunter Gift for the Settlement of Discharged Soldiers Trust	55	-	-	-	-	55
National Library						
Interloan Billing System Trust	3	-	-	390	(393)	-
Macklin Bequest Fund Trust	242	-	-	10	(10)	242
Balance carried forward	428,954	6,030,158	(5,992,050)	26,581	(36,688)	456,955

Statement of Trust Money (continued)

for the year ended 30 June 2010

Department Trust Account	**As at 30 June 2009 $000**	Contributions $000	Distributions $000	Revenue $000	Expenses $000	**As at 30 June 2010 $000**
Balance brought forward	428,954	6,030,158	(5,992,050)	26,581	(36,688)	456,955
New Zealand Defence Force						
New Zealand Defence Force - Veterans' Affairs Trust	12	-	-	-	-	12
Police						
Bequests, Donations and Appeals Trust	161	10	(9)	-	-	162
Found Money Trust	334	124	(402)	-	-	56
Money in Custody Trust	9,336	4,259	(4,119)	-	-	9,476
Reparation Trust	7	50	(49)	-	-	8
Rewards Monies Trust [2]	-	-	-	-	-	-
Social Development						
Australian Recovery Debt Trust	4	43	(43)	-	-	4
Australian Dollar Embargoed Arrears Trust	481	5,088	(5,078)	-	-	491
Maintenance Trust	55	732	(746)	-	-	41
Netherlands Recovery Debt Trust	1	66	(65)	-	-	2
Overseas Debt Recovery Trust [2]	-	-	-	-	-	-
WR Wallace Trust	399	-	(10)	16	-	405
Treasury						
Trustee Act 1956 Trust	1,719	344	(295)	-	-	1,768
Total	**441,463**	**6,040,874**	**(6,002,866)**	**26,597**	**(36,688)**	**469,380**

1 New trust account

2 Inoperative trust account

3 Trust account closed

ADDITIONAL FINANCIAL INFORMATION

Fiscal Indicator Analysis

for the year ended 30 June 2010

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 28 to 164) and the fiscal indicators used to measure the Government's performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

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

Core Crown Residual Cash

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

Debt

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

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

Net debt is debt after deducting financial assets of the core Crown from gross debt. Net debt provides information about the sustainability of the government's accounts, and is used by some international agencies when determining the creditworthiness of a country. However, as some financial assets are held for public policy rather than treasury management purposes (eg, student loans), they are excluded from the calculation of net debt.

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Core Crown Cash Flows from Operations		
50,742	50,668	Total tax receipts	50,631	51,362
678	566	Total other sovereign receipts	566	489
1,338	1,791	Interest, profits and dividends	1,897	1,441
1,943	2,936	Sale of goods & services and other receipts	2,658	2,288
(21,536)	(21,713)	Subsidies and transfer payments	(21,605)	(19,953)
(37,724)	(37,660)	Personnel and operating costs	(37,157)	(35,394)
(2,159)	(1,946)	Finance costs	(1,981)	(2,200)
(254)	-	Forecast for future new operating spending	-	-
300	455	Top-down expense adjustment	-	-
(6,672)	**(4,903)**	**Net cash flows from core Crown operations**	**(4,991)**	**(1,967)**
(2,375)	(2,143)	Net purchase of physical assets	(1,778)	(1,625)
(953)	(974)	Net increase in advances	(926)	(860)
(1,643)	(925)	Net purchase of investments	(1,055)	(1,944)
(250)	(250)	Contribution to NZ Superannuation Fund	(250)	(2,243)
(72)	-	Forecast for future new capital spending	-	-
100	125	Top-down capital adjustment	-	-
(11,865)	**(9,070)**	**Residual cash**	**(9,000)**	**(8,639)**
		Financed by:		
4,579	(994)	Other net sale/(purchase) of marketable securities and deposits	2,002	(512)
(7,286)	**(10,064)**	**Total operating and investing activities**	**(6,998)**	**(9,151)**
		Used in:		
6,056	1,987	Net (repayment)/issue of other New Zealand dollar borrowing	(3,938)	9,359
(3,783)	(799)	Net (repayment)/issue of foreign currency borrowing	3,368	(1,973)
181	34	Issues of circulating currency	15	475
(116)	21	Decrease/(increase) in cash	(817)	(1,761)
2,338	**1,243**		**(1,372)**	**6,100**
(4,948)	**(8,821)**	**Net cash inflow/(outflow) to be offset by domestic bonds**	**(8,370)**	**(3,051)**
		Gross Cash Proceeds from Domestic Bonds		
8,919	12,869	Domestic bonds (market)	12,424	5,775
948	805	Domestic bonds (non-market)	799	541
9,867	**13,674**	**Total gross cash proceeds from domestic bonds**	**13,223**	**6,316**
(4,247)	(4,197)	Repayment of domestic bonds (market)	(4,197)	(2,750)
(672)	(656)	Repayment of domestic bonds (non-market)	(656)	(515)
(4,919)	**(4,853)**	**Total repayments of domestic bonds**	**(4,853)**	**(3,265)**
4,948	**8,821**	**Net (repayments of)/cash proceeds from domestic bonds**	**8,370**	**3,051**

This note illustrates how the financial activities of the core Crown reported in the financial statements relate to the Domestic Bond Programme.

Fiscal Indicator Analysis – Debt

as at 30 June 2010

Forecast Original Budget $m	Forecast Estimated Actuals $m		Actual 30 June 2010 $m	Actual 30 June 2009 $m
		Gross and net debt analysis:		
76,423	**73,643**	Total borrowings	**69,733**	**61,953**
		Net debt:		
64,116	59,935	Core Crown borrowings[1]	58,583	50,545
(559)	71	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	308	428
63,557	**60,006**	**Gross sovereign-issued debt[2]**	**58,891**	**50,973**
61,467	59,584	Less core Crown financial assets[3]	57,209	55,769
2,090	**422**	**Net core Crown debt (including NZS Fund)[4]**	**1,682**	**(4,796)**
13,258	15,250	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	14,189	11,486
15,348	**15,672**	**Net core Crown debt (excluding NZS Fund)[4]**	**15,871**	**6,690**
11,971	10,970	Advances	10,867	10,429
27,319	**26,642**	**Net core Crown debt (excluding NZS Fund and advances)[6]**	**26,738**	**17,119**
		Gross debt:		
63,557	60,006	Gross sovereign-issued debt[2]	58,891	50,973
(14,184)	(7,796)	Less Reserve Bank settlement cash and bank bills	(6,900)	(9,217)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash[7]	1,600	1,600
50,973	**53,810**	**Gross sovereign-issued debt excluding settlement cash and bank bills**	**53,591**	**43,356**

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

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

3. Core Crown financial assets exclude receivables.

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

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

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

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

Information on State-owned Enterprises and Crown Entities

Accounting Policies

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

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

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

Minority Interests

The ownership interest in Air New Zealand Limited is 74.69% (2009: 75.49%). The interest in Air New Zealand Limited is included in the SOE segment.

Balance Dates

Except for those entities listed below, all SOEs and significant CE's have a balance date of 30 June, and the information reported in these financial statements is for the period ended 30 June 2010:

SOE's	Balance date	Information reported to
AsureQuality Limited	30 September	30 June 2010
Crown entities:		
School boards of trustees	31 December	31 December 2009
TEI's	31 December	30 June 2010

Annual Reports

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

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

	30 June 2010				30 June 2009			
	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions to Crown $m	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions to Crown $m
State-owned enterprises								
Airways Corporation of New Zealand Limited	145	146	(1)	5	140	136	5	6
AsureQuality Limited	136	133	4	5	137	130	6	3
Electricity Corporation of New Zealand Limited	-	-	-	-	-	-	-	-
Genesis Power Limited	1,875	1,834	69	39	1,940	1,834	(136)	36
Landcorp Farming Limited	7	163	(6)	10	11	156	10	13
Meridian Energy Limited	2,064	1,787	184	353	1,900	1,657	89	30
Meteorological Service of New Zealand Limited	37	34	2	1	36	34	4	1
Mighty River Power Limited	1,097	1,003	80	286	1,118	914	160	56
New Zealand Post Limited	1,639	1,662	1	6	1,745	1,686	72	13
New Zealand Railways Corporation	1,106	914	173	-	955	694	246	-
Solid Energy New Zealand Limited	690	646	68	54	985	765	111	60
Timberlands West Coast Limited	-	-	-	-	6	11	(4)	25
Transpower New Zealand Limited	735	541	65	-	701	544	93	-
Kordia Group Limited	258	257	(1)	-	254	254	(1)	-
Animal Control Products Limited	6	6	1	1	6	5	1	1
Learning Media Limited	24	22	2	-	24	23	2	-
Quotable Value New Zealand	46	47	1	1	37	35	2	1
KiwiRail Limited	-	-	-	-	158	164	(6)	-
Total State-owned enterprises	**9,865**	**9,195**	**642**	**761**	**10,153**	**9,042**	**654**	**245**
Air New Zealand Limited	4,083	3,991	96	70	4,704	4,881	101	69
Total SOE's and Air New Zealand Limited	**13,948**	**13,186**	**738**	**831**	**14,857**	**13,923**	**755**	**314**
Intra-segmental eliminations	(369)	(374)	(103)	-	(377)	(305)	156	-
Total per statement of segments	**13,579**	**12,812**	**635**	**831**	**14,480**	**13,618**	**911**	**314**
Crown Entities								
Accident Compensation Corporation	5,281	3,931	2,500	-	4,734	4,829	(4,773)	-
Crown research institutes	688	693	(12)	1	675	659	11	10
District health boards (including the Crown Health Funding Agency)	11,255	11,359	(91)	-	10,641	10,822	(161)	-
Earthquake Commission	434	107	363	-	513	126	36	-
Housing New Zealand Corporation	998	1,670	(691)	132	962	909	(64)	2
Museum of New Zealand Te Papa	47	60	(12)	-	48	58	(10)	-
New Zealand Fire Service Commission	313	303	9	-	315	300	12	-
New Zealand Transport Agency	1,995	1,980	15	-	1,980	1,884	98	3
Public Trust	91	96	5	-	125	141	(46)	-
Schools	6,190	6,166	19	-	5,916	5,883	28	-
Tertiary Education Commission	2,858	2,842	16	14	2,795	2,744	52	49
TEIs	-	-	208	-	-	-	49	-
Television New Zealand	357	385	(26)	1	384	381	(1)	-
Other	3,081	2,919	173	9	3,137	2,913	227	4
Total Crown Entities	**33,588**	**32,511**	**2,476**	**157**	**32,225**	**31,649**	**(4,542)**	**68**
Intra-segmental eliminations	(942)	(844)	(103)	-	(896)	(688)	(185)	-
Total per statement of segments	**32,646**	**31,667**	**2,373**	**157**	**31,329**	**30,961**	**(4,727)**	**68**
Total Financial Interest in SOEs, Crown Entities and Air New Zealand Limited	**46,225**	**44,479**	**3,008**	**988**	**45,809**	**44,579**	**(3,816)**	**382**

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

	Purchase of PPE $m	PPE $m	Total assets $m	Borrow-ings $m	Total liabilities $m	Equity $m	30 June 2009 Equity $m
	30 June 2010						
State-owned enterprises							
Airways Corporation of New Zealand Limited	10	106	141	37	96	45	52
AsureQuality Limited	7	30	59	6	27	32	34
Electricity Corporation of New Zealand Limited	-	-	2	-	-	2	2
Genesis Power Limited	85	2,026	2,561	573	1,115	1,446	1,393
Landcorp Farming Limited	28	1,156	1,505	260	268	1,237	1,360
Meridian Energy Limited	453	8,207	8,712	1,869	3,642	5,070	4,284
Meteorological Service of New Zealand Limited	8	19	29	9	16	13	12
Mighty River Power Limited	199	4,308	4,886	1,255	2,206	2,680	2,622
New Zealand Post Limited	48	341	13,075	12,101	12,390	685	669
New Zealand Railways Corporation	549	13,024	13,249	503	856	12,393	12,561
Solid Energy New Zealand Limited	177	563	962	191	518	444	434
Timberlands West Coast Limited	-	-	6	-	-	6	4
Transpower New Zealand Limited	481	2,985	3,590	1,804	2,108	1,482	1,427
Kordia Group Limited	21	149	252	97	156	96	97
Animal Control Products Limited	1	3	7	-	2	5	5
Learning Media Limited	-	1	11	-	5	6	5
Quotable Value New Zealand	1	2	33	1	11	22	22
KiwiRail Limited	-	-	-	-	-	-	-
Total State-owned enterprises	**2,068**	**32,920**	**49,080**	**18,706**	**23,416**	**25,664**	**24,983**
Air New Zealand Limited	372	2,561	4,539	1,138	3,066	1,473	1,659
Total SOE's and Air New Zealand Limited	**2,440**	**35,481**	**53,619**	**19,844**	**26,482**	**27,137**	**26,642**
Intra-segmental eliminations	(238)	(246)	(380)	(97)	(123)	(257)	(183)
Total per statement of segments	**2,202**	**35,235**	**53,239**	**19,747**	**26,359**	**26,880**	**26,459**
Crown Entities							
Accident Compensation Corporation	19	55	17,211	25	27,463	(10,252)	(12,751)
Crown research institutes	70	510	714	35	229	485	497
District health boards (including the Crown Health Funding Agency)	526	4,487	7,158	3,194	5,043	2,115	2,151
Earthquake Commission	3	15	6,028	-	93	5,935	5,571
Housing New Zealand Corporation	306	15,167	15,467	1,954	3,951	11,516	11,779
Museum of New Zealand Te Papa	9	1,104	1,133	-	11	1,122	1,024
New Zealand Fire Service Commission	47	523	573	2	79	494	479
New Zealand Transport Agency	1,267	24,858	25,320	-	366	24,954	24,299
Public Trust	1	7	920	891	900	20	(15)
Schools	131	1,323	2,528	110	800	1,728	1,732
Tertiary Education Commission	1	4	123	21	99	24	21
TEIs	-	-	7,740	-	-	7,740	7,417
Television New Zealand	21	152	294	37	104	190	217
Other	32	168	1,289	42	632	657	565
Total Crown Entities	**2,433**	**48,373**	**86,498**	**6,311**	**39,770**	**46,728**	**42,986**
Intra-segmental eliminations	-	(264)	(1,750)	(1,476)	(1,514)	(236)	(208)
Total per statement of segments	**2,433**	**48,109**	**84,748**	**4,835**	**38,256**	**46,492**	**42,778**
Total Financial Interest in SOEs, Crown Entities and Air New Zealand Limited	**4,635**	**83,344**	**137,987**	**24,582**	**64,615**	**73,372**	**69,237**

Government Reporting Entity as at 30 June 2010

These financial statements are for the Government Reporting entity as specified in Part III of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities:

Departments

Agriculture and Forestry
Archives New Zealand
Building and Housing
Conservation
Corrections
Crown Law Office
Culture and Heritage
Defence
Economic Development
Education
Education Review Office
Environment
Fisheries
Foreign Affairs and Trade
Government Communications Security Bureau
Health
Inland Revenue
Internal Affairs
Justice
Labour
Land Information New Zealand
Māori Development
National Library of New Zealand
New Zealand Customs Service
New Zealand Defence Force
New Zealand Food Safety Authority
New Zealand Police
New Zealand Security Intelligence Service
Office of the Clerk
Pacific Island Affairs
Parliamentary Counsel Office
Parliamentary Service
Prime Minister and Cabinet
Research, Science and Technology
Serious Fraud Office
Social Development
State Services Commission
Statistics
Transport
Treasury
Women's Affairs

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

Offices of Parliament

Office of the Controller and Auditor-General
Office of the Ombudsmen
Parliamentary Commissioner for the Environment

State-owned enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
Genesis Power Limited
Kordia Group Limited
Landcorp Farming Limited
Learning Media Limited
Meridian Energy Limited
Meteorological Service of New Zealand Limited
Mighty River Power Limited
New Zealand Post Limited
New Zealand Railways Corporation*
Quotable Value Limited
Solid Energy New Zealand Limited
Terralink Limited (in liquidation)
Timberlands West Coast Limited
Transpower New Zealand Limited

Air New Zealand Limited (included for disclosure purposes as if it were an SOE)

* includes KiwiRail Holdings

Organisations named or described in Schedule 4 of the Public Finance Act 1989

Agriculture and Marketing Research and Development Trust
Asia New Zealand Foundation
Auckland Transition Agency
Crown Fibre Holdings Limited
Fish and game councils (12)
Leadership Development Centre Trust
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
Research and Education Advanced Network New Zealand Limited
Reserves boards (23)
Road Safety Trust
Sentencing Council
The Māori Trustee

Government Reporting Entity as at 30 June 2010 (continued)

Crown entities

Accident Compensation Corporation
Accounting Standards Review Board
Alcohol Advisory Council of New Zealand
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Career Services
Charities Commission
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Health Financing Agency
Crown research institutes (8)
District health boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Electoral Commission
Electricity Commission
Energy Efficiency and Conservation Authority
Environmental Risk Management Authority
Families Commission
Foundation for Research, Science and Technology
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Research Council of New Zealand
Health Sponsorship Council
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Legal Services Agency
Maritime New Zealand
Mental Health Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Board
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Historic Places Trust (Pouhere Taonga)
New Zealand Lotteries 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 (2,481)
Securities Commission
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Te Māngai Pāho)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary education institutions (31)
Testing Laboratory Registration Council
Transport Accident Investigation Commission

Crown entity subsidiaries are consolidated by their parents and not listed separately in this table