Financial Statements of the Government of New Zealand

for the year ended 30 June 2018

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Ministerial Statement

The year end results for 2017/18 demonstrate the Coalition Government's commitment to managing the economy well, together with prudent and effective fiscal policy. The books show an increasing OBEGAL surplus, a reduction in net core Crown debt, and rising net worth.

The Government is on track to deliver on the Budget Responsibility Rules while making the long-term, sustained investments needed to build infrastructure, lift productivity, and build a more sustainable and inclusive economy.

These results reflect a strong economy, with nominal GDP growing by 5.5% for the year ended 30 June 2018. Core Crown tax revenue was up 6.1 percent from the previous year with all major tax types increasing, reflecting more people in employment, increases in average wages, additional domestic consumption and higher corporate profits. Average wages rose 3.0% and the number of people in employment grew by 3.7%. The Treasury notes that growth in corporate taxation was due to profit growth amongst companies both large and small, and across most sectors of the economy.

Core Crown expenditure rose 5.6% from the previous year, growing at a slower rate than core Crown revenue. The increase in core Crown expenditure was largely due to investment in the health and education sectors, as well as spending on superannuation and other transfers. Expenditure as a percentage of GDP was 27.9 percent, which was below Treasury's Budget 2018 forecast.

The operating balance before gains and losses (OBEGAL) reached a surplus of $5.5 billion, an increase of $1.5 billion when compared to 2016/17. This is $2.4 billion ahead of the OBEGAL position forecast at Budget 2018, and the largest surplus since 2008.

Gains on financial instruments consisted of investment gains of $5.3 billion, reflecting continuing strong investment performance (primarily in NZSF and ACC). Together with losses on non-financial instruments of $2.8 billion, the total Crown operating balance was $8.4 billion. Volatility in this measure reflects volatility in equity markets and long-term liability valuations.

The Crown's assets increased by $26.3 billion to $339.9 billion at 30 June, while total Crown liabilities only increased by $7.2 billion to $204.3 billion. Net worth attributable to the Crown increased by $19.1 billion to $129.6 billion, reflecting the operating result for the year and an upward valuation of the Crown's physical assets of $10.6 billion.

The restarting of contributions to the New Zealand Superannuation Fund and increased capital investment led to a slight decrease in the residual cash surplus, with the core Crown recording a residual cash surplus of $1.3 billion.

This lead to a decline in nominal net core Crown debt to $57.5 billion, a decline of $2.0 billion from 2016/17. In GDP terms, net core Crown debt fell from 21.7% in 2016/17 to 19.9% this year.

The year end statements represent a strong result. The Government is committed to continuing the disciplined fiscal approach that has supported this result, while improving New Zealanders' living standards. Looking ahead we will take a broader approach in order to improve the wellbeing of current and future New Zealanders. Budget 2019 will detail this approach.

Hon Grant Robertson
Minister of Finance

1 October 2018

Statement of Responsibility

These financial statements have been prepared by the Treasury in accordance with the provisions of the Public Finance Act 1989. The financial statements comply with New Zealand generally accepted accounting practice and with Public Benefit Entity Accounting Standards (PBE standards) for the public sector.

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

Gabriel Makhlouf
Secretary to the Treasury

1 October 2018

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 2018 and its operations for the year ended on that date.

Hon Grant Robertson
Minister of Finance

1 October 2018

Commentary on the Financial Statements

Fiscal Overview

FISCAL STRATEGY

Operating revenue

Ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.

Operating expenses

Maintain its expenditure to within the recent historical range of spending as a ratio of GDP. Ensure expenditure is phased, controlled, and directed to maximise its benefits, in particular prioritising investments to address the long-term financial and sustainability challenges facing New Zealand.

Operating balance

Deliver a sustainable operating surplus across an economic cycle.

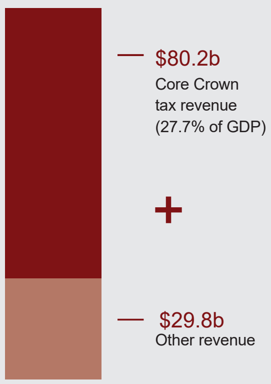
Total Crown

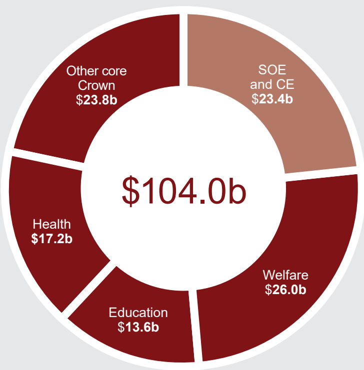
The difference between total Crown revenue and expenses gives us the operating balance before gains and losses (OBEGAL)

$110.0b TOTAL CROWN REVENUE – **$104.0b** TOTAL EXPENSES = **$5.5b** OBEGAL (excluding minority interests)

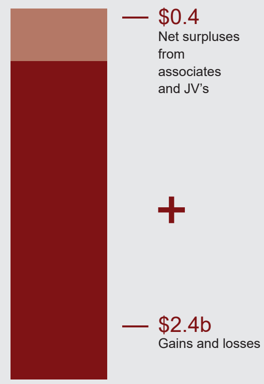
- minority interests $0.4b

FINANCIAL RESULTS





- SOE and Crown Entities
- Core Crown expenses (27.9% of GDP)



$8.4b
Operating balance surplus
(excluding minority interests)

Numbers may not add due to rounding.

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Fiscal strategy

- Capital objectives and fiscal policy (**p104–106**)

Revenue

- Tax revenue (**p9**)
- Other revenue (**p10**)

Expenses

- Functional classification tables (**p39**)
- Detailed expense notes (**p62–71**)
- SOE and Crown entities results (**p147–149**)
- Unappropriated expenditure (**p131–137**)

Net result

- Operating statement (**p38**)
- Gains and losses notes (**p61 and 64**)
- ACC insurance liability (**p64–71**)
- GSF note (**p98–101**)

Debt

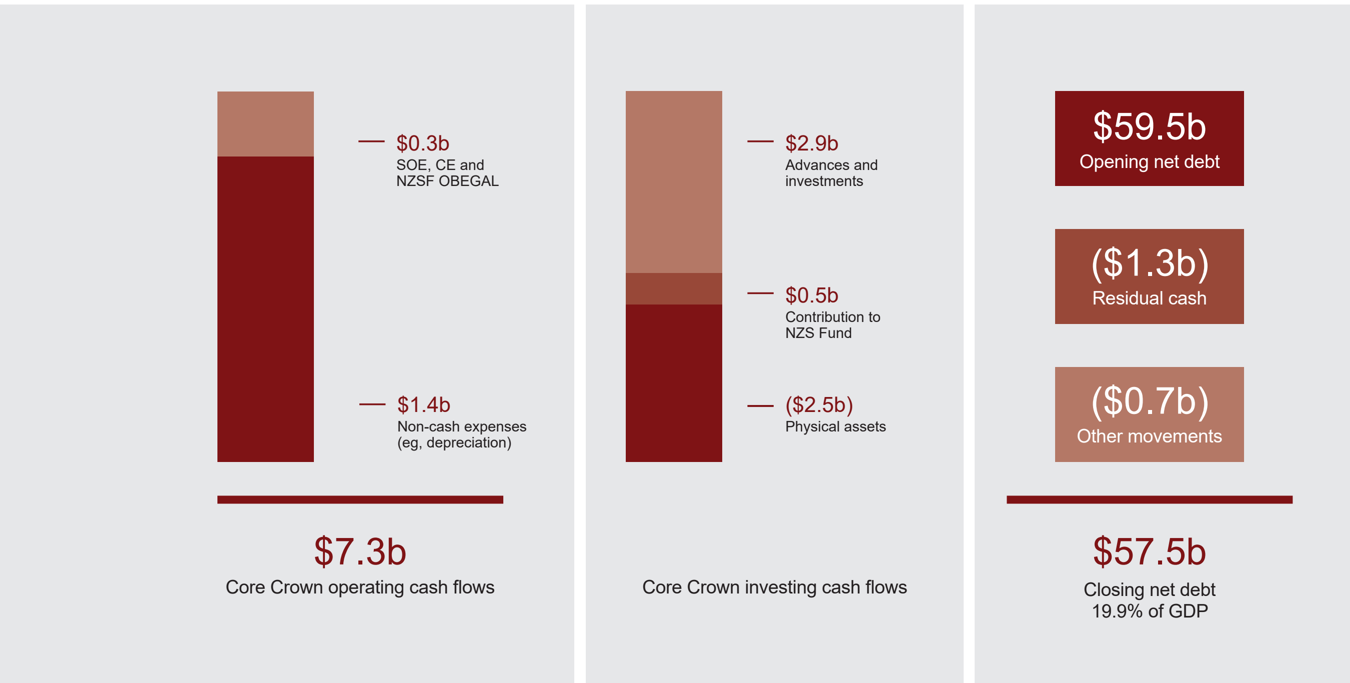
Maintain total debt at prudent levels. Reduce the level of net core Crown debt to 20% of GDP within five years of taking office, and maintain it at prudent levels thereafter.

Core Crown

Moving from total Crown accrual measure to core Crown cash measure

Movement in net debt

$5.5b OBEGAL +
$1.7b NON-RESIDUAL CASH ITEMS – **$5.9b** CAPITAL ITEMS = **$1.3b** RESIDUAL CASH SURPLUS



Non-residual cash movements

- SOE and Crown entities results (**p147–149**)

Other impacts on cash

- Property, plant and equipment (**p78–92**)
- Advances (**p75–77**)
- Core Crown residual cash (**p145**)

Debt

- Debt calculation (**p146**)
- Borrowings note (**p95**)

At a Glance

Core Crown tax revenue was $4.6 billion more than last year and was higher than the *Budget 2018* forecast by $0.7 billion (page 9).

Core Crown expenses were $4.2 billion higher than last year, but $1.1 billion less than *Budget 2018* forecast (page 11).

Residual cash was a surplus of $1.3 billion, down $1.3 billion from last year's residual cash surplus of $2.6 billion (page 15).

Core Crown gross debt increased nominally by $0.9 billion to $88.1 billion from the prior year, and also increased as a percentage of GDP to 30.4% (page 17).

Core Crown net debt decreased in nominal terms by $2.0 billion, while also continuing to decrease as a percentage of GDP (to 19.9%) (page 15).

The operating balance before gains and losses (OBEGAL) surplus of $5.5 billion, was $1.5 billion higher than last year, reflecting a 6.1% growth in core Crown tax revenue 0.5% higher than the increase in core Crown expenses (page 13).

The total Crown operating balance (excluding minority interests) was $8.4 billion as a result of the OBEGAL surplus and total Crown net gains of $2.9 billion (page 14).

Net worth attributable to the Crown increased $19.1 billion due to the operating balance, and uplifts on the Crown's property plant and equipment (page 19).

The financial statements of the Government received an unmodified auditor's opinion for the year ended 30 June 2018.

Table 1 – Financial results

Year ended 30 June						**Forecast 30 June 2018**	
$ million	**Actual 2014**	**Actual 2015**	**Actual 2016**	**Actual 2017**	**Actual 2018**	**Budget 2017**	**Budget 2018**
Core Crown tax revenue[1]	61,563	66,636	70,445	75,644	80,224	77,536	79,537
Core Crown expenses	71,174	72,363	73,929	76,339	80,576	80,486	81,720
Residual cash	(4,109)	(1,827)	(1,322)	2,574	1,346	(1,789)	(1,255)
Core Crown gross debt[2]	81,956	86,125	86,928	87,141	88,053	84,078	87,467
as a percentage of GDP	34.6%	35.1%	33.7%	*31.8%*	30.4%	29.8%	30.1%
Net core Crown debt[3]	59,931	60,631	61,880	59,480	57,495	64,111	60,409
as a percentage of GDP	25.3%	24.7%	24.0%	*21.7%*	19.9%	22.8%	20.8%
OBEGAL (excluding minority interests)	(2,802)	414	1,831	4,069	5,534	2,858	3,141
Operating balance (excluding minority interests)	2,939	5,771	(5,369)	12,317	8,396	5,496	6,997
Total borrowings	103,419	112,580	113,956	111,806	115,652	111,500	115,978
Net worth attributable to the Crown	75,486	86,454	89,366	110,532	129,644	105,566	117,649
as a percentage of GDP	31.9%	35.2%	34.6%	40.3%	44.8%	37.5%	40.4%

1 Core Crown tax revenue is higher than total Crown tax revenue due to eliminations.
2 Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills.
3 Net core Crown debt excluding the New Zealand Superannuation Fund (NZS Fund) and advances.

A comparison of the year end results against *Budget 2018* is included on pages 25 to 26.

These financial statements[1] contain the audited results for the financial year ended 30 June 2018. The results are compared against previous years and against forecasts for the 2017/18 year:

- *Budget 2017* refers to the *2017 Budget Economic and Fiscal Update* published in May 2017, and
- *Budget 2018* refers to the *2018 Budget Economic and Fiscal Update* published in May 2018.

This commentary should be read in conjunction with the financial statements on pages 37 to 130.

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

Summary

The economy remained strong…

Nominal GDP grew by 5.5% in the year to June 2018 to $289.3 billion. Total wage and salary income grew strongly during the year, with average wages up by 3.0% the numbers of people in employment up by 3.7%, and total hours worked increased by 4.4% on average over the year. The GDP growth was reflected in private consumption growth of 4.8%, plus strong contributions to economic growth from residential construction and inbound tourist spending, up by 6.6% and 8.4% respectively. The total population grew by 2.0%, boosted by a net inflow of nearly 65,000 migrants in the year to June.

... with core Crown tax revenue increasing...

Core Crown tax revenue was $80.2 billion, up $4.6 billion (6.1%) from the year before. The increase in core Crown tax revenue was broadly a result of more people in employment, increases in average wages, additional domestic spending and higher corporate profits.

... at a faster pace than growth in core Crown expenses resulting in an OBEGAL surplus...

As a share of the economy, core Crown expenses increased to 27.9% of GDP (27.8% of GDP in 2017); in nominal terms, core Crown expenses increased by $4.2 billion (5.6%) to $80.6 billion.

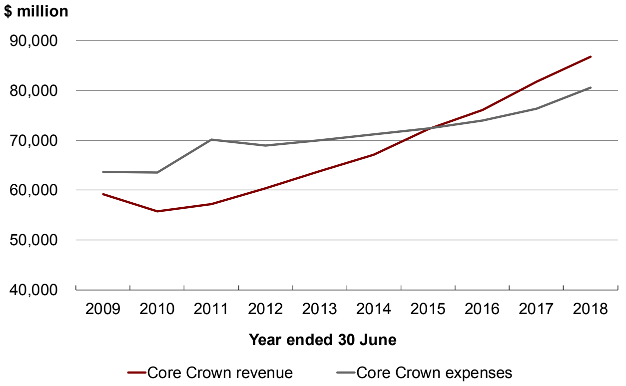
The largest drivers of growth in nominal core Crown expenditure were *Budget 2017* decisions and the Government's *mini-Budget* decisions (which came into effect in 2017/18), as well as an increase in social assistance expenses. Additional increases were in the Transport sector and in relation to the Emissions Trading Scheme (ETS).

Overall the OBEGAL surplus of $5.5 billion increased by $1.5 billion from last year.

… with net gains leading to an operating balance surplus...

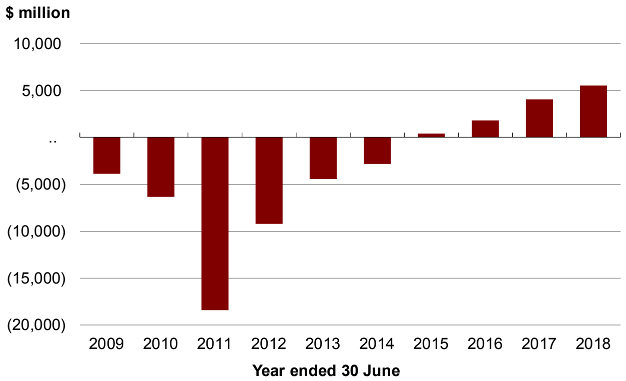
Investment gains were $5.3 billion in 2017/18. Most of the gains this year were from NZS Fund recording an investment gain of $3.6 billion in the current year (compared to a gain of $5.5 billion last year). In addition, ACC recorded investment gains of $1.7 billion (compared to $0.9 billion last year).

Figure 1 – Core Crown revenue and core Crown expenses



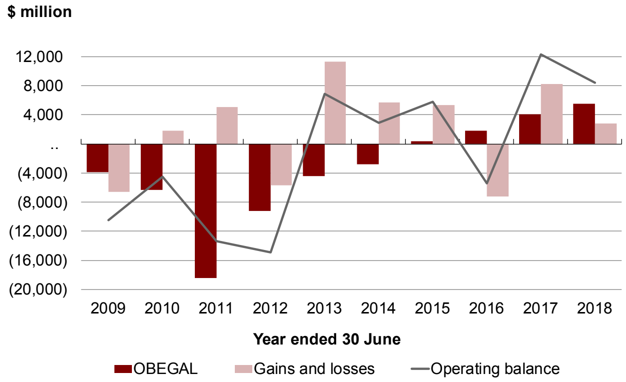
Source: The Treasury

Figure 2 – Operating balance before gains and losses (OBEGAL)



Source: The Treasury

Figure 3 – Operating balance (excluding minority interests)



Source: The Treasury

Offsetting the investment gains, actuarial losses in relation to long-term liability valuations for ACC and Government Superannuation Fund (GSF) totalled $2.4 billion (and compared to an actuarial gain of $1.4 billion last year).

When these results are combined with the OBEGAL surplus, the operating balance (after gains and losses) and excluding minority interests was a surplus of $8.4 billion ($3.9 billion lower than the 2017 operating balance surplus of $12.3 billion).

The Crown's operating balance is particularly sensitive to changes in some key assumptions used to value financial assets and liabilities and non-financial liabilities.

... which contributed to growth on the balance sheet alongside revaluation uplifts…

Alongside the operating balance of $8.4 billion, revaluation uplifts of the Crown's physical assets, increased by $10.6 billion, resulting in net worth attributable to the Crown increasing by $19.1 billion to be $129.6 billion.

Increases in property, plant and equipment and financial assets such as NZS Fund investments contributed to the growth in assets while borrowings and insurance liabilities were the main drivers in liability growth.

Total assets increased by $26.3 billion to $339.9 billion, while liabilities grew by $7.2 billion $204.3 billion.

... and resulted in a core Crown cash surplus, reducing net core Crown debt.

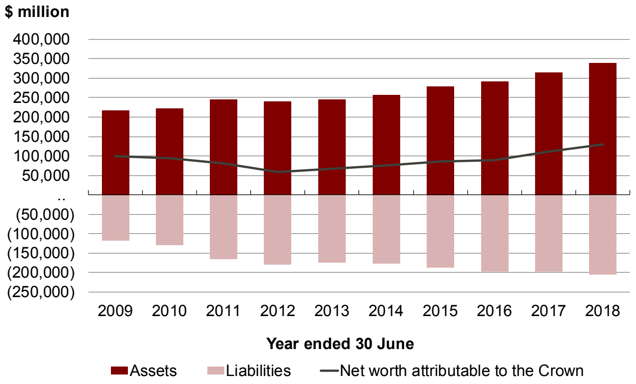
Overall, a core Crown residual cash surplus of $1.3 billion was achieved, a decrease of $1.3 billion from last year's residual cash surplus of $2.6 billion.

The core Crown operating cash flow strengthened on last year, increasing by $1.0 billion, to $7.3 billion. This increase reflects the increase in core Crown tax receipts more than offsetting the growth in core Crown operating payments. Capital spending of $5.9 billion was higher than last year by $2.2 billion.

The capital spending largely consisted of net purchases of physical assets of $2.5 billion, investment in Crown entities of $2.8 billion and the resumption of Government contributions to NZS Fund of $0.5 billion.

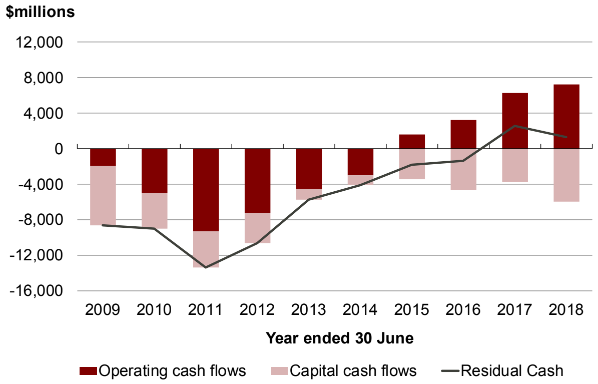
Net core Crown debt decreased nominally by $2.0 billion from last year to be $57.5 billion, largely as a result of the residual cash surplus. As a percentage of GDP, net core Crown debt has continued to fall, from 21.7% in 2016/17 to 19.9% in 2017/18.

Figure 4 – Net worth attributable to the Crown



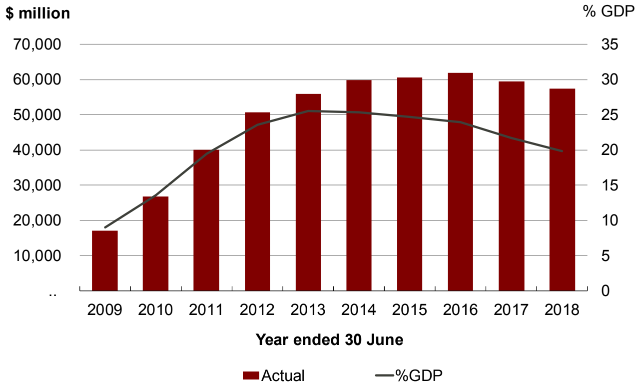
Source: The Treasury

Figure 5 – Core Crown residual cash



Source: The Treasury

Figure 6 – Net core Crown debt[1]



Source: The Treasury

1 Net core Crown debt excluding the NZS Fund and advances.

Revenue

Total Crown revenue was $110.0 billion, an increase of $6.6 billion from last year largely due to increased core Crown tax revenue.

Table 2 – Breakdown of revenue

Year ended 30 June						Forecast 30 June 2018	
$ million	**Actual 2014**	**Actual 2015**	**Actual 2016**	**Actual 2017**	**Actual 2018**	**Budget 2017**	**Budget 2018**
Core Crown tax revenue	61,563	66,636	70,445	75,644	80,224	77,536	79,537
Core Crown other revenue	5,530	5,577	5,676	6,138	6,554	6,224	6,422
Core Crown revenue	67,093	72,213	76,121	81,782	86,778	83,760	85,959
Crown entities, SOEs and eliminations (Other)	21,443	21,592	21,295	21,640	23,195	21,805	23,277
Total Crown revenue	**88,536**	**93,805**	**97,416**	**103,422**	**109,973**	**105,565**	**109,236**
% of GDP							
Core Crown tax revenue	26.0%	27.2%	27.3%	27.6%	27.7%	27.5%	27.3%
Core Crown other revenue	2.3%	2.3%	2.2%	2.2%	2.3%	2.2%	2.2%
Core Crown revenue	28.3%	29.4%	29.5%	29.8%	30.0%	29.7%	29.5%
Crown entities, SOEs and eliminations (Other)	9.1%	8.8%	8.2%	7.9%	8.0%	7.8%	8.0%
Total Crown revenue	**37.4%**	**38.2%**	**37.7%**	**37.7%**	**38.0%**	**37.5%**	**37.5%**

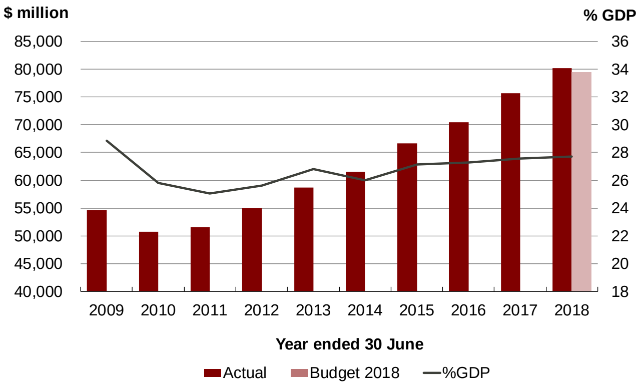
Core Crown Tax Revenue

Core Crown tax revenue was $80.2 billion, up $4.6 billion (6.1%) from the year before. The increase in core Crown tax revenue was broadly a result of more people in employment, increases in average wages, additional domestic spending and higher corporate profits.

Most major tax types increased over the year with the three most significant tax types making up most of the increase (Table 3):

- Source deductions increased by $2.1 billion (7.3%). This increase was due to growth in the number of people in employment on the back of population growth and the effect of rising average tax rates as wages increase.
- Goods and Services Tax (GST) was $1.3 billion (6.7%) higher than last year, with most of the growth coming via domestic consumption, which was up 4.8% on the previous year. Residential investment activity, ie, building new houses and adding to renovating existing houses, grew by 6.6%, accounting for $0.2 billion of the growth in GST.
- Corporate tax revenue increased by $0.8 billion (6.2%), mainly due to profit growth amongst companies both large and small, and across most sectors of the economy. Within corporate tax, tax paid by Portfolio Investment Entities (PIEs) increased by $0.2 billion (38%).

Figure 7 – Core Crown tax revenue



Source: The Treasury

Table 3 **–** Increase in core Crown tax revenue in nominal terms

Year ended 30 June	($ billion)
2017 core Crown tax revenue	**75.6**
Source deductions	2.1
GST	1.3
Corporate tax	0.8
Other movements	0.4
2018 core Crown tax revenue	**80.2**

Source: The Treasury

Revenue (continued)

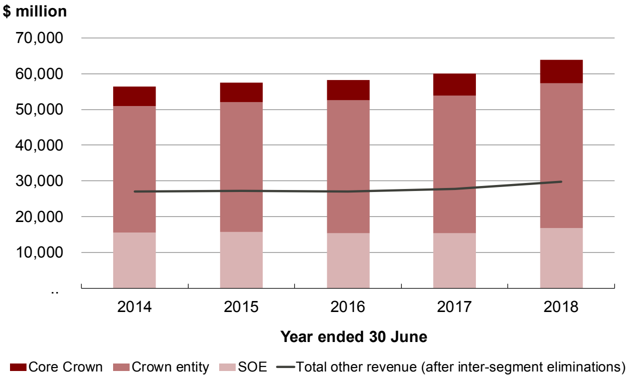
Other Revenue

Other revenue (Table 2) includes other fees and levies (eg, ACC levies), revenue from operations of Crown Entities (CEs) and State-owned Enterprises (SOEs), interest revenue and dividend revenue.

Core Crown other revenue, at $6.6 billion increased by $0.4 billion since last year. Around half of this increase was attributable to revenue from the New Zealand Emissions Trading Scheme (ETS) increasing from $0.5 billion in 2016/17 to $0.7 billion in the current year. This increase was owing to more carbon units being surrendered to the Crown and an increase in the price of these surrendered units.

The SOE and CE sectors (including inter-segment eliminations) recorded revenue of $23.2 billion, an increase of $1.6 billion from the prior year. This increase related largely to sales of goods and services in the SOE sector.

Figure 8 – Other revenue



Source: The Treasury

Expenses

Total Crown expenses were $104.0 billion in the current year, $5.0 billion more than last year.

Table 4 – Breakdown of expenses

Year ended 30 June						Forecast 30 June 2018	
$ million	**Actual 2014**	**Actual 2015**	**Actual 2016**	**Actual 2017**	**Actual 2018**	**Budget 2017**	**Budget 2018**
Social security and welfare	23,026	23,523	24,081	25,294	25,999	26,247	26,110
Health	14,898	15,058	15,626	16,223	17,159	17,096	17,185
Education	12,300	12,879	13,158	13,281	13,629	13,985	13,937
Core government services	4,502	4,134	4,102	3,957	4,670	4,843	5,086
Law and order	3,463	3,515	3,648	3,882	4,184	4,119	4,276
Other core Crown expenses	12,985	13,254	13,314	13,702	14,935	14,196	15,126
Core Crown expenses	**71,174**	**72,363**	**73,929**	**76,339**	**80,576**	**80,486**	**81,720**
Crown entities, SOEs and eliminations (Other)	20,005	20,701	21,208	22,668	23,438	21,823	23,943
Total Crown expenses	**91,179**	**93,064**	**95,137**	**99,007**	**104,014**	**102,309**	**105,663**
% of GDP							
Social security and welfare	9.7%	9.6%	9.3%	9.2%	9.0%	9.3%	9.0%
Health	6.3%	6.1%	6.1%	5.9%	5.9%	6.1%	5.9%
Education	5.2%	5.2%	5.1%	4.8%	4.7%	5.0%	4.8%
Core government services	1.9%	1.7%	1.6%	1.4%	1.6%	1.7%	1.7%
Law and order	1.5%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%
Other core Crown expenses	5.4%	5.5%	5.1%	5.1%	5.3%	5.0%	5.2%
Core Crown expenses	**30.0%**	**29.5%**	**28.6%**	**27.8%**	**27.9%**	**28.6%**	**28.1%**
Crown entities, SOEs and eliminations (Other)	8.5%	8.4%	8.2%	8.3%	8.1%	7.7%	8.2%
Total Crown expenses	**38.5%**	**37.9%**	**36.8%**	**36.1%**	**36.0%**	**36.3%**	**36.3%**

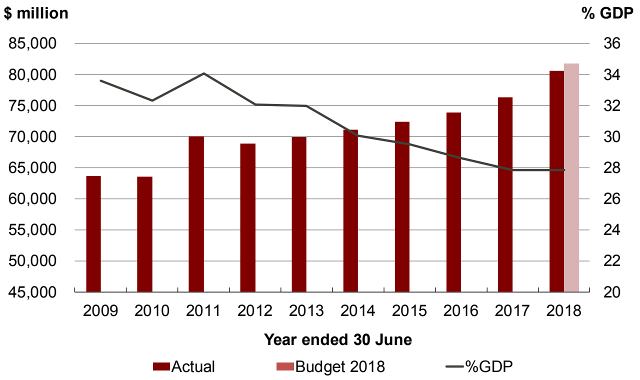
Core Crown Expenses

While nominal expenditure increased by $4.2 billion (almost double the previous year's growth), core Crown expenses as a share of the economy were slightly higher than the previous year at 27.9% of GDP (Figure 9).

This nominal growth is largely the result of the Government decisions made at *Budget 2017* and the Government's *mini-Budget*. The largest decisions related to Health, Education and Law and Order, which came into effect in 2017/18 along with increased social assistance spending. Table 5 shows the largest contributors to the increase in core Crown expenses over the year:

- Social assistance expenses were higher than last year by $0.7 billion. This was owing to an increase in payments to New Zealand Superannuation recipients, as recipient numbers increased from around 716,900 in 2016/17, to 741,300 in 2017/18 and payment rates increased due to wage adjustments.
- Transport expenses increased by $0.4 billion from prior year, due to an increase in state highway maintenance, in particular relating to the Kaikōura alternate route, and work to address damage caused by significant weather events.

Figure 9 – Core Crown expenses



Source: The Treasury

Table 5 – Movement in core Crown expenses

Year ended 30 June	($ billion)
2017 core Crown expenses	**76.3**
Budget decisions	2.6
Social assistance expenses	0.7
Transport expenses	0.4
ETS expense	0.4
Other movements	0.2
2018 core Crown expenses	**80.6**

Source: The Treasury

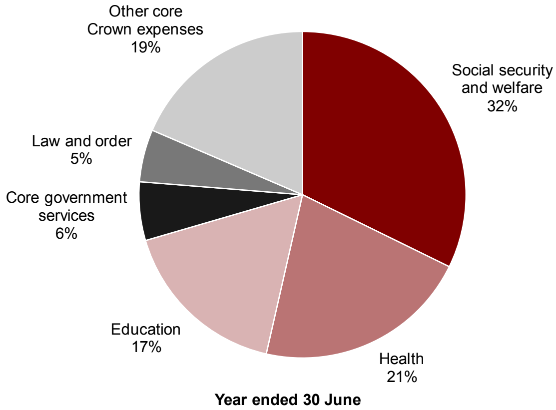
Expenses (continued)

- ETS expenses increased by $0.4 billion compared to last year. This was due to the increased price of carbon units issued.

Figure 10 shows the composition of core Crown expenses by key areas of Government spending. Social security and welfare and health expenses make up just over half (53%) of the core Crown expenses, while education is the third highest area of expenditure (17%).

Other core Crown expenses (19%) includes a number of other areas of spending (eg, transport, economic, defence, environmental protection and finance costs) and this remained consistent with spending in the prior year.

Figure 10 – Composition of core Crown expenses



Source: The Treasury

Other Expenses

The SOE and CE sectors (including inter-segment eliminations) recorded expenses that were $0.8 billion (3.4%) higher than 2016/17. The largest driver of the increase was DHB expenses being $0.5 billion higher than the previous year as a result of allocations to Health in *Budget 2017*.

Operating Balance

Table 6 – Total Crown operating balance (excluding minority interests)

Year ended 30 June $ million	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Forecast 30 June 2018 Budget 2017	Budget 2018
Total Crown OBEGAL	**(2,802)**	**414**	**1,831**	**4,069**	**5,534**	**2,858**	**3,141**
Gains and losses:							
ACC actuarial gain/(loss)	479	(1,352)	(5,099)	387	(1,881)	-	(883)
GSF actuarial gain/(loss)	577	(322)	(2,028)	964	(553)	-	(149)
ETS net position	(324)	(366)	(1,503)	73	(462)	-	(448)
Investment portfolios:							
NZS Fund	3,735	3,156	(76)	5,512	3,564	2,280	3,896
ACC	730	2,397	1,420	901	1,713	189	908
Other gains/(losses)[1]	544	1,844	86	411	481	169	532
Total Crown gains/(losses)	**5,741**	**5,357**	**(7,200)**	**8,248**	**2,862**	**2,638**	**3,856**
Total Crown operating balance	**2,939**	**5,771**	**(5,369)**	**12,317**	**8,396**	**5,496**	**6,997**
% of GDP							
Total Crown OBEGAL	-1.2%	0.2%	0.7%	1.5%	1.9%	1.0%	1.1%
Total Crown gains/(losses)	2.4%	2.2%	-2.8%	3.0%	1.0%	1.0%	1.3%
Total Crown Operating balance	**1.2%**	**2.4%**	**-2.1%**	**4.5%**	**2.9%**	**2.0%**	**2.4%**

1 Other gains and losses includes the net surplus from associates and joint ventures/operations.

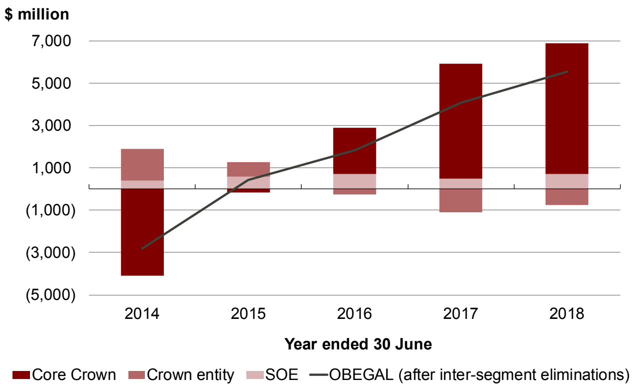
OBEGAL (Operating Balance Before Gains and Losses)

The OBEGAL surplus of $5.5 billion is an improvement of $1.5 billion from last year.

Figure 11 shows the composition of OBEGAL from the different reporting segments of the Government. For the year ended 30 June 2018, the core Crown segment continued its upwards trend as a result of the strong tax outturn, outpacing the increase in core Crown expenses, as discussed earlier.

The SOE segment remained relatively stable, increasing slightly from a surplus of $0.5 billion in 2016/17, to a surplus of $0.7 billion in 2017/18.

Figure 11 – Components of OBEGAL by segment



Source: The Treasury

Partially offsetting the core Crown results, the Crown entity segment reported a deficit of $0.8 billion, $0.3 billion less than the previous year's deficit of $1.1 billion. The primary driver of this improved result relates to lower insurance expenditure of $0.4 billion. Both ACC and Southern Response had lower insurance expenses compared to 2017 and this was partially offset by EQC's higher insurance expenses. In addition, higher District Health Boards expenditure also reduced the Crown entity segment's OBEGAL result.

Operating Balance (continued)

Operating Balance

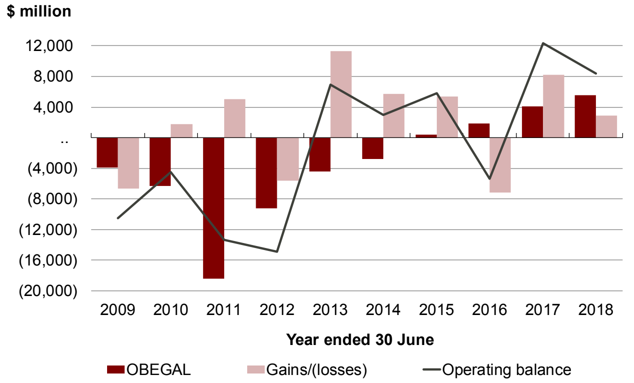
When the net gains/(losses) and the net surplus from associates and joint ventures ($0.4 billion) for the year are combined with the OBEGAL surplus, this resulted in a total Crown operating balance surplus of $8.4 billion, $3.9 billion lower than last year's operating balance surplus of $12.3 billion.

Total net gains for the year were $2.4 billion, $5.3 billion lower than the prior year's gains of $7.7 billion.

Gains on financial instruments consisted of investment gains of $5.3 billion ($1.0 billion lower than the prior year), reflecting continued strong investment performance (primarily in NZSF and ACC). The decrease from the prior year was mainly due to unfavourable movements in exchange rates.

Losses on non-financial instruments of $2.8 billion ($4.1 billion lower than the prior year's gains) largely consisted of actuarial losses on the ACC and GSF long term liabilities. These losses were due to decreases in the discount rates (used to value all outstanding claims in today's dollars). In addition, losses on the Emissions Trading Scheme of $0.5 billion were incurred primarily due to the valuation of carbon units at a higher price.

Figure 12 – Operating balance (excluding minority interests)



Source: The Treasury

As can be seen from the volatility in Figure 12, the operating balance is particularly sensitive to the effect of gains and losses resulting from balance sheet movements and actuarial valuations. Note 2 (pages 53 to 58) of the financial statements discusses the key judgements and assumptions underpinning these financial statements.

Debt

Table 7 – Net debt, gross debt and residual cash

Year ended 30 June	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Forecast 30 June 2018 Budget 2017	Budget 2018
Net debt[1] ($m)	59,931	60,631	61,880	59,480	57,495	64,111	60,409
Net debt (% GDP)	25.3%	24.7%	24.0%	21.7%	19.9%	22.8%	20.8%
Residual cash ($m)	(4,109)	(1,827)	(1,322)	2,574	1,346	(1,789)	(1,255)
Residual cash (% GDP)	-1.7%	-0.7%	-0.5%	0.9%	0.5%	-0.6%	-0.4%
Gross debt[2] ($m)	81,956	86,125	86,928	87,141	88,053	84,078	87,467
Gross debt (% GDP)	34.6%	35.1%	33.7%	31.8%	30.4%	29.8%	30.1%
Total Borrowings	103,419	112,580	113,956	111,806	115,652	111,500	115,978

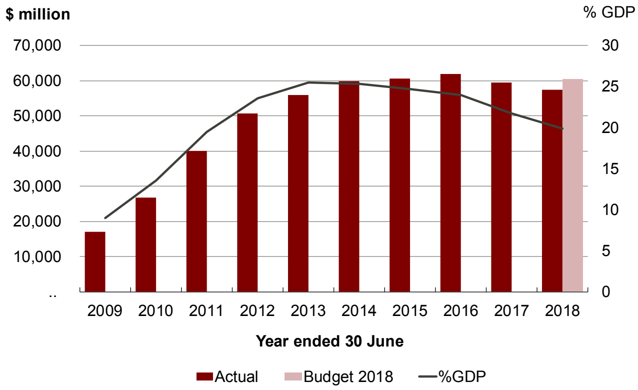
1 Net debt is defined as core Crown net debt excluding the NZS Fund and advances.
2 Gross debt is defined as gross sovereign-issued debt excluding the Reserve Bank settlement cash and Reserve Bank bills.

Net Debt

Net debt has decreased by $2.0 billion from $59.5 billion in 2016/17 to $57.5 billion in the current year. This is largely owing to the residual cash surplus of $1.3 billion, explained below. As a share of the economy, net debt continued to fall (19.9% of GDP versus 21.7% of GDP a year earlier).

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

Figure 13 – Net core Crown debt



Source: The Treasury

Residual Cash

Net cash flows from core Crown operations for the year exceeded net capital spending, resulting in a residual cash surplus of $1.3 billion. This compares to a residual cash surplus of $2.6 billion last year. Table 8 summarises the key residual cash movements from last year to the current year.

- Tax receipts were $5.4 billion higher than last year which was in line with the improvement in core Crown revenue discussed on page 9.
- Operating payments (including interest) were $4.1 billion higher than last year, in line with the increase in core Crown expenses.
- Capital payments were up $2.2 billion from last year at $5.9 billion in 2017/18 (detailed on next page).

Table 8 – Movement in residual cash

Year ended 30 June	($ billion)
2017 core Crown residual cash surplus	**2.6**
Increase in tax receipts	5.4
Increase in operating payments	(4.1)
Increase in capital spending	(2.2)
Other movements	(0.4)
2018 core Crown residual cash surplus	**1.3**

Source: The Treasury

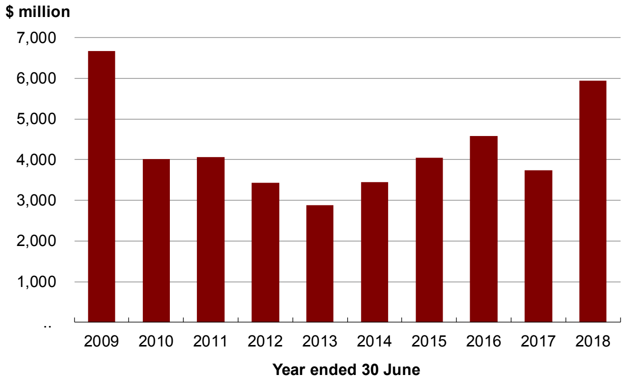
Debt (continued)

Capital spending for 2017/18 totalled $5.9 billion and included:

- Net purchase of physical assets of $2.5 billion, including $0.8 billion by the Ministry of Education in relation to school property, $0.5 billion for defence equipment and $0.3 billion by the Ministry of Health for hospitals.
- Net investments of $2.8 billion, the largest of which was the Crown's $1.6 billion investment in NZTA for state highways. Other investments included $0.4 billion in KiwiRail, $0.3 billion in City Rail Link and $0.2 billion in Southern Response.
- Net advances were an outflow of $0.1 billion.
- Government contributions to the NZ Superannuation Fund were $0.5 billion resuming for the first time since 2009.

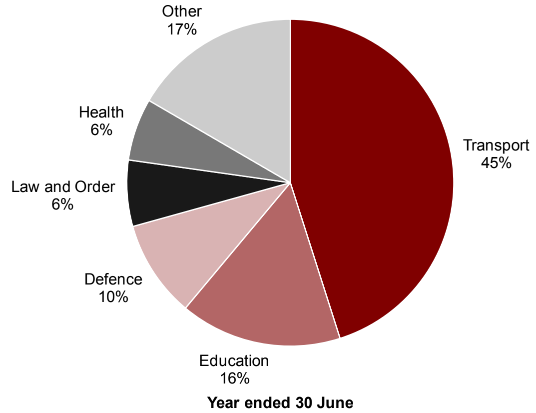
By analysing capital cash flows by sector, Figure 15 shows that 61% of capital spending ($3.3 billion) was within the transport and education sectors. The total spend in the transport sector was $2.5 billion (45%), largely owing to work on the state highway network. The education sector spent $0.9 billion (16%) purchasing physical assets, investing in schools and upgrading existing property to maintain the quality of the property portfolio.

Figure 14 – Net core Crown capital cash flows



Source: The Treasury

Figure 15 – Profile of net core Crown capital cash flows



Source: The Treasury

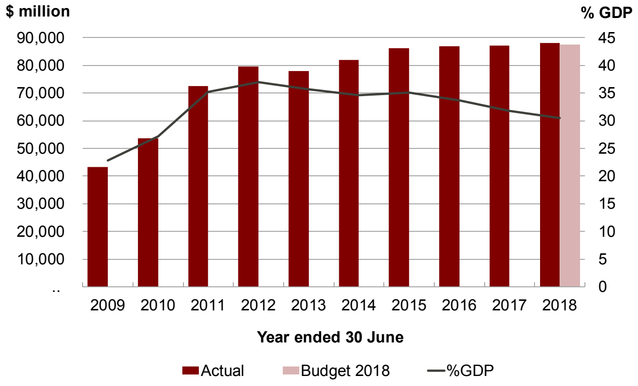
Debt (continued)

Gross Debt

Gross debt, which reflects the borrowings of the core Crown, increased nominally by $1.0 billion from $87.1 billion in 2016/17 to $88.1 billion (Figure 16). However, as a percentage of the economy, gross debt decreased by 1.4% to 30.4% of GDP (31.8% of GDP a year earlier).

The increase in nominal gross debt was predominantly due to the increase in derivatives of $0.8 billion as well as a small increase from the issuance of Government bonds.

Figure 16 – Gross debt



Source: The Treasury

Total Crown borrowing

Overall total borrowing for the Government increased by $3.9 billion from $111.8 billion in 2016/17 year to $115.7 billion. For further information, please refer to page 18.

Crown's Borrowing Programme

The total level of borrowings outstanding at the year ended 30 June 2018 remains similar to the previous year. The proceeds from bond issuance were largely used to fund the December 2017 bond maturity and to begin repurchases of the March 2019 bond. Repurchasing the March 2019 bond prior to maturity assists in smoothing the Crown's cash profile, reduces refinancing risk, and minimises any residual market impacts associated with the maturity of this bond.

Table 9 – Cash proceeds from debt programme

Year ended 30 June						**Forecast 30 June 2018**	
$ million	**Actual 2014**	**Actual 2015**	**Actual 2016**	**Actual 2017**	**Actual 2018**	**Budget 2017**	**Budget 2018**
Issue of government bonds	7,716	8,058	8,079	7,847	7,043	6,874	7,034
Repayment of government bonds	(2,196)	(8,684)	(1,779)	(6,080)	(6,828)	(11,602)	(7,263)
Net issue/(repayment) of short-term borrowing[1]	(935)	4,179	(3,513)	160	100	200	-
Total market debt cash flows	**4,585**	**3,553**	**2,787**	**1,927**	**315**	(4,528)	(229)
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	(482)	(139)	(830)	-	-	-
Net issue/(repayment) of short-term borrowing	-	(480)	(100)	-	-	-	-
Total non-market debt cash flows	**-**	**(962)**	**(239)**	**(830)**	-	-	-
Total debt programme cash flows	**4,585**	**2,591**	**2,548**	**1,097**	**315**	(4,528)	(229)

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

Government Financing

In accordance with the principles of responsible fiscal management set out in the Public Finace Act 1989, one of the Government's key fiscal objectives is to reduce net core Crown debt to 20% of GDP within five years of taking office.

Net core Crown debt represents the difference between gross debt which shows the amount of debt issued by the Crown to finance activities beyond cash generated funding and liquid financial assets (excluding the NZS Fund and advances) held by the core Crown. Net core Crown debt provides a useful insight into how past policy decisions (particularly around spending and tax) have impacted on the Government's financing requirements. Looking into the future net core Crown debt provides a means for assessing the Government's ability to sustain its current spending, tax and other policies.

There are a number of other debt indicators that are reported in these statements that provide different insights into the Government's borrowing. Total borriowing provides the most comprehensive picture of the Government's borrowing actitives. Total borrowings represents gross debt (mentioned above) and the borrowings undertaken by Crown Entities and SOEs. Total borrowings provides a whole-of-Government perspective of financing that has been required to fund all of the Government's activity.

The Government does have some discretion around how to finance its activity which will have different impacts on debt indicators. For example, if the Government chooses to allow a Crown Entity to borrow directly from the market this would increase total borrowing but would not impact on gross debt or net core Crown debt.

Table 10 – Debt Reconciliation

$ million	Actual 2018	Actual 2017
Net core Crown debt	**57,495**	**59,480**
Core Crown financial assets[1]	37,942	33,140
Gross sovereign-issued debt	**95,437**	**92,620**
Other adjustments[2]	(7,384)	(5,479)
Gross debt	**88,053**	**87,141**
Crown entities, SOEs borrowings and eliminations	27,599	24,665
Total borrowings	**115,652**	**111,806**

1 Core Crown financial assets excluding financial assets held by NZS Fund and advances.

2 Adjustments relate to Reserve Bank and Debt Management Office settlement cash.

Source: The Treasury

Net Worth Attributable to the Crown

Table 11 – Net worth

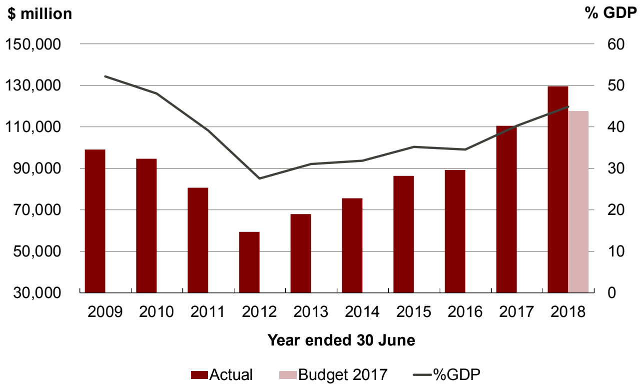
Year ended 30 June $ million	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Forecast 30 June 2018 Budget 2017	Budget 2018
Net worth attributable to the Crown	75,486	86,454	89,366	110,532	129,644	105,566	117,649
Net worth attributable to minority interests	5,211	5,782	6,155	5,940	5,993	5,876	5,918
Total net worth	**80,697**	**92,236**	**95,521**	**116,472**	**135,637**	**111,442**	**123,567**
Net worth attributable to the Crown as a % of GDP	**31.9%**	**35.2%**	**34.6%**	**40.3 %**	**44.8%**	**37.5%**	**40.4%**

Net worth attributable to the Crown primarily consists of the accumulation of past operating surpluses and deficits (referred to as taxpayers' funds) and revaluation uplifts in the value of the Crown's physical assets (the property, plant and equipment revaluation reserve).

Along with the Crown's operating balance surplus, revaluation uplifts of the Crown's physical assets resulted in an increase in the Crown's net worth in the 2017/18 year (for more information, please refer to page 20).

Net worth attributable to the Crown was $129.6 billion at 30 June 2018, an increase of $19.1 billion from a year earlier. As a share of the economy, net worth attributable to the Crown grew 4.5% from 40.3% of GDP in 2016/17 to 44.8% of GDP in the current year.

Figure 17 – Net worth attributable to the Crown

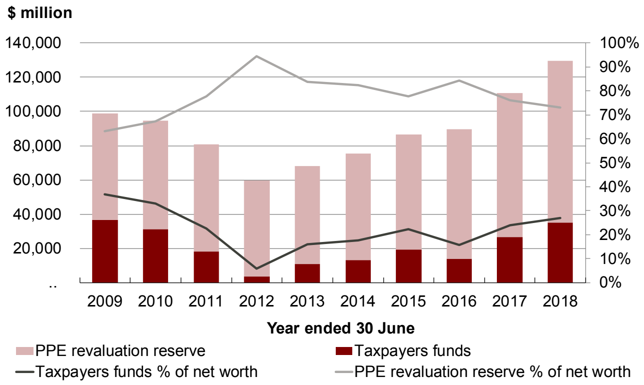


Source: The Treasury

Figure 18 shows that, while the nominal level of net worth attributable to the Crown has recovered from the decline which began in 2009, the composition of net worth has changed. The property, plant and equipment revaluation reserve has shown steady growth over the last few years, the main driver of this has been the increase in land and building prices. The increase in the current year was mainly due to the revaluation of the state highway network, we have discussed this on page 23. Although the property, plant and equipment revaluation reserve grew by 12.6%, as a percentage of net worth attributable to the Crown it has decreased from 76.1% in 2016/17 to 73.1%.

Taxpayers' funds, which is directly affected by the operating balance, increased from the prior year, growing by $8.4 billion. As a percentage of net worth attributable to the Crown, it has increased to 26.9% in the current year.

Figure 18 – Composition of net worth attributable to the Crown



Source: The Treasury

Net worth attributable to minority interests largely represents the share of net assets attributable to the investors in the mixed ownership companies (Air New Zealand, Genesis Energy, Mercury NZ and Meridian Energy). Net worth attributable to minority interests was in line with prior years at $6.0 billion in 2017/18 year.

Net worth attributable to the Crown

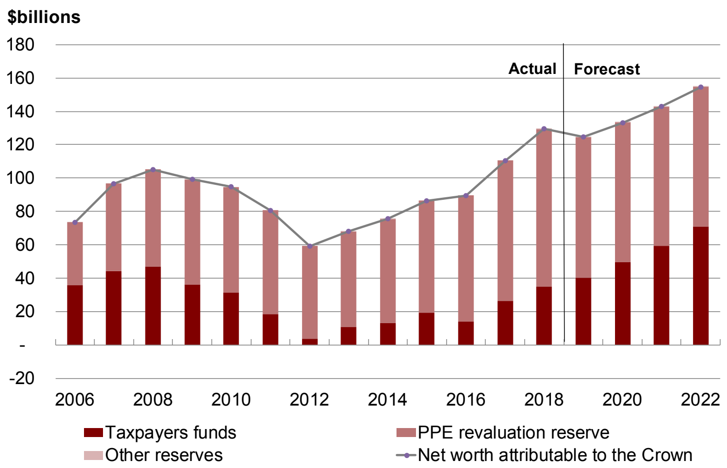
Why is net worth attributable to the Crown important?

Net worth is an important factor that shows the resilience of the Crown's finances. Net worth measures the difference between the Crown's total assets (what the Government owns) and its liabilities (what the Government owes). However, not all of this net worth is attributable to the Crown. Minority interest shareholdings in the Government entities (eg, Air New Zealand, Genesis Energy, Mercury NZ and Meridian Energy) are entitled to part of the net worth of the companies they have invested in. The Crown owns the rest. Net worth attributable to the Crown is a measure of the Crown's share of the statement of financial position.

Net worth attributable to the Crown (NWAC) has risen in each of the last six years. For the year ended 30 June 2018, NWAC is $129,644 million. Figure 19 shows that the nominal level of NWAC recovered from a decline, which began in 2008 due to the global financial crisis (GFC), and then the impact of the 2011 Canterbury earthquakes.

A positive level of net worth indicates that the Crown broadly has sufficient assets to meet its liabilities. Prudent net worth should provide a sufficient buffer, given the Crown's expected future fiscal outcomes and risks to those outcomes, to ensure the Crown is resilient to fiscal shocks (such as natural disasters or significant deterioration in the global economy). A positive level of NWAC requires the sum of retained operating surpluses/deficits and revaluation reserves attributable to the Crown to be positive.

Figure 19 – Composition of net worth attributable to the Crown



Source: The Treasury

Prior to the GFC, NWAC was approximately equally attributable to retained operating surpluses and the Property, Plant and Equipment revaluation reserve. Subsequent operating deficits to 2012 almost fully exhausted the retained operating surpluses to the extent that the property, plant and equipment revaluation reserve made up 94.4% of total NWAC in 2012.

Since then, retained operating surpluses have grown as revenues (including gains) have exceeded expenses (including losses). In addition, the property, plant and equipment revaluation reserve has grown, driven by price increases in land and buildings. While the property, plant and equipment revaluation reserve still makes up a large portion of NWAC, 73.1% for the year ended 30 June 2018, retained operating surpluses are forecast to continue to grow and are expected to make up 45.9% of NWAC in 2022.

Net Worth Attributable to the Crown (continued)

Total Crown Balance Sheet

Total Crown assets were $339.9 billion at 30 June 2018, a $26.3 billion increase from last year. This growth was largely in social sector assets ($17.2 billion), while financial assets grew by $7.8 billion and commercial assets by $1.3 billion.

Total Crown liabilities were $204.3 billion, an increase of $7.2 billion from the previous year.

Table 12 – Composition of the statement of financial position

Year ended 30 June						Forecast 30 June 2018	
$ million	**Actual 2014**	**Actual 2015**	**Actual 2016**	**Actual 2017**	**Actual 2018**	**Budget 2017**	**Budget 2018**
Social assets	133,158	139,706	149,419	162,649	179,835	159,135	166,607
Financial assets	74,636	87,039	87,921	94,224	101,995	87,056	100,990
Commercial assets	49,030	52,469	55,339	56,736	58,102	56,585	57,295
Total assets	**256,824**	**279,214**	**292,679**	**313,609**	**339,932**	**302,776**	**324,892**
Social liabilities	17,015	17,625	19,223	20,089	22,993	19,761	20,890
Financial liabilities	129,589	137,218	144,354	143,186	146,835	136,217	145,583
Commercial liabilities	29,523	32,135	33,581	33,862	34,467	35,356	34,852
Total liabilities	**176,127**	**186,978**	**197,158**	**197,137**	**204,295**	**191,334**	**201,325**
Net worth	**80,697**	**92,236**	**95,521**	**116,472**	**135,637**	111,442	123,567
Minority interests	(5,211)	(5,782)	(6,155)	(5,940)	(5,993)	(5,876)	(5,918)
Net worth attributable to the Crown	**75,486**	**86,454**	**89,366**	**110,532**	**129,644**	**105,566**	**117,649**

Social Assets and Liabilities

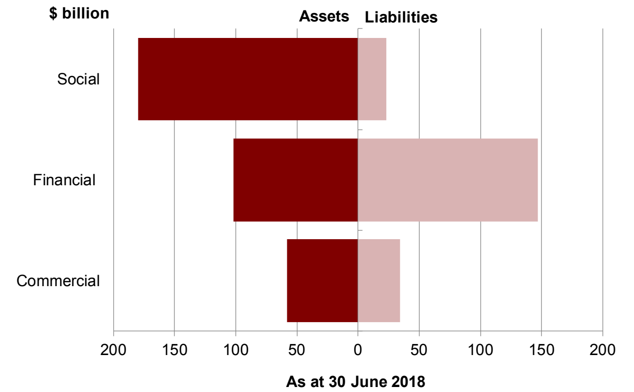
Social sector net worth at $156.8 billion was $14.3 billion higher than last year, driven largely by an increase in social assets.

The Crown's social assets were valued at $179.8 billion, a $17.2 billion increase since last year, and made up 52.9% of the Crown's total assets. The largest uplifts related to the following:

- The value of state highways (including land) increased by $9.3 billion, mainly reflecting valuation improvements, the development of new state highway assets and improvements to existing state highway network (detailed on page 23).
- The housing portfolio increased by $1.7 billion of which $1.3 billion relates to an increase in housing stock and the revaluation of this stock. The revaluation increase included the effect of removing the encumbrances on the Christchurch and Invercargill housing stock.

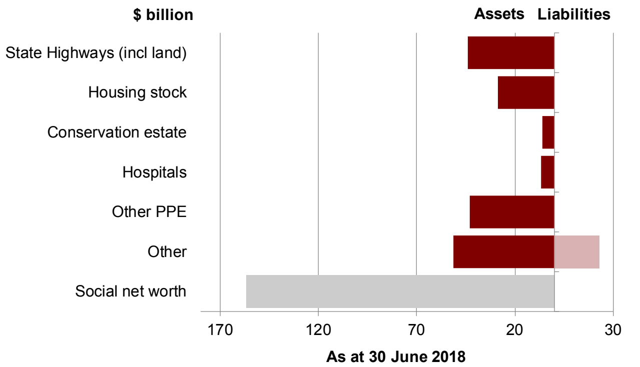
Social liabilities were $23.0 billion, a $2.9 billion increase compared to 2016/17. This increase was largely due to increased borrowings across the social sector including $0.7 billion by Housing Corporation New Zealand (refer to page 18 for box on Government Financing).

Figure 20 – Total Crown balance sheet



Source: The Treasury

Figure 21 – Social assets and liabilities



Source: The Treasury

Net Worth Attributable to the Crown (continued)

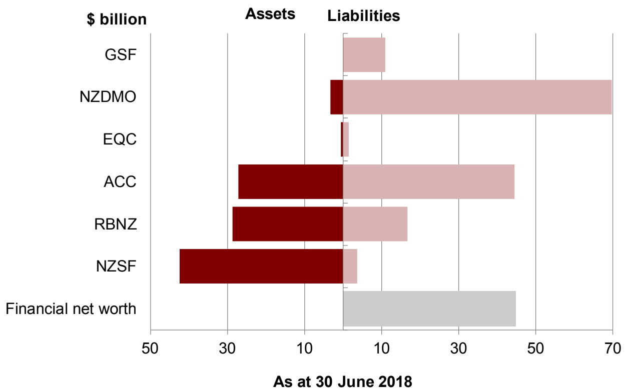
Financial Assets and Liabilities

Financial sector net worth decreased by $4.1 billion, from negative $44.9 billion last year to negative $49.0 billion in the current year. The financial sector includes the Treasury's Debt Management Office which manages the Crown's bond programme and therefore holds the majority of the Crown's debt (while the assets funded by the debt are largely in the social sector).

The value of financial assets and financial liabilities are particularly sensitive to changes in market prices. Note 2, on pages 53 to 58, sets out some of the sensitivities of the key assumptions regarding these assets and liabilities.

The Crown's financial sector assets were valued at $102.0 billion, a $7.8 billion increase compared to last year. The RBNZ recorded assets growing by $6.0 billion, which directly impacts the financial balance sheet.

Figure 22 – Financial assets and liabilities



Source: The Treasury

Financial sector liabilities were $146.8 billion, $3.7 billion higher than the previous year, mainly due to increases in the value of RBNZ's and ACC's liabilities, offset by a decrease in the value of the Treasury's Debt Management Office liabilities.

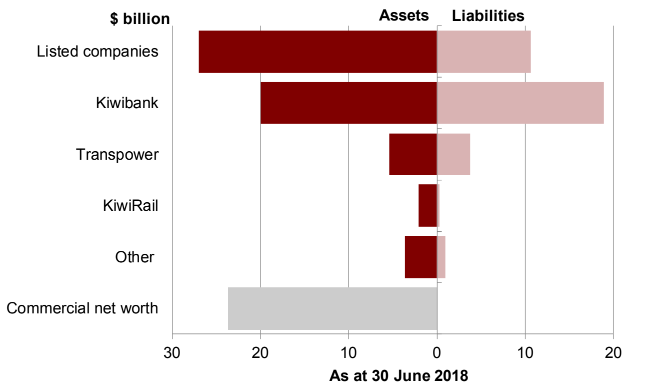
Commercial Assets and Liabilities

Commercial sector net worth, at $23.6 billion, increased by $0.8 billion from last year.

The Crown's commercial assets were valued at $58.1 billion, a $1.3 billion increase over the year. This was spread over a number of entities. This increase mainly relates to net revaluation increases and purchases of property, plant and equipment.

Commercial liabilities, at $34.5 billion, increased by $0.6 billion from the prior year. This was largely related an increase in borrowings for the purchase of property, plant and equipment.

Figure 23 – Commercial assets and liabilities



Source: The Treasury

State Highway Valuation

The state highway network is a significant Crown asset and is valued annually based on the cost of replacing the network in its current condition[1]. The reported value of the network (excluding land) has increased by $7.9 billion this year from $23.8 billion to $31.7 billion.

Additions of $2.2 billion reflect the construction of new roads, improvements to the existing network and capital work-in-progress on current projects during 2018. This differs from the cost of maintaining the network, which is recorded as an operating expense when it is incurred.

The net uplift in value of $5.6 billion reflects changes in estimates and assumptions underpinning the network valuation, resulting from an in-depth review of some of the valuation inputs.

Table 13 – State Highways valuation

$ million	Actual 2018	Actual 2017
Opening Balance 2017	**23,829**	**22,347**
Additions	2,232	1,553
Disposals	(11)	(30)
Net revaluation	5,651	(41)
Other	1	-
Closing Balance 2018	**31,702**	**23,829**

Source: The Treasury

The valuation approach

The state highway network consists of 11,556 kilometres of state highways and 2,693 bridges. These roads are managed by the New Zealand Transport Agency (NZTA), and exclude local roads, which are managed by local authorities. NZTA maintain a road assessment and maintenance management (RAMM) database and other databases, which have information that is used to help determine the valuation.

The network is categorised into components of formation, pavement structure, pavement surface, bridges, drainage, traffic facilities, culverts and subways and other structures. To determine the current replacement cost, and depreciation to reflect the age and current condition of these components, significant estimates and assumptions must be used. These include assuming quantities of components that would be required in replacing the network, their estimated unit cost, the expected life of the components, and the appropriate construction overhead factors to apply. These estimates and assumptions also reflect variations in construction costs and regional differences in prices. Construction costs can vary due to the type of terrain the road is constructed on (flat, rolling or steep) and whether it is being constructed in a rural or urban environment.

Improvements in the valuation process this year

This year NZTA implemented a number of improvements in the valuation (affecting both “additions” and “net revaluation” in Table 13 above). The three most significant areas of uplift are due to:

- revising unit cost estimates (after engaging an independent company specialising in infrastructure development to review unit costs), resulting in a $2.4 billion uplift
- updating the preliminary and general overhead factor assumption from 10% for roading assets and 15% for structures to an average of 34% across all project types, resulting in a $4 billion uplift[2], and
- ensuring that all capital work-in-progress for minor projects (less than $20 million in value) are included in the valuation, resulting in an uplift of $591 million.

In previous years, although estimates (indexed for price changes) and assumptions were applied consistently in the valuation process, it was noted there were some uncertainties due to limited information on quantities and useful lives within some databases and incomplete information relating to certain cost components.

While the work undertaken during the 2017/18 year has reduced the likelihood of understatement of the state highway valuation, further work is planned to improve the valuation. In 2018/19 the intention is to continue to refine the valuation process, with a focus on professional fees, formation costs and ongoing monitoring of brownfield costs[3].

For further discussion on the valuation and changes in assumptions, refer to Note 16 of the Financial Statements of the Government.

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1 The valuation methodology used is *optimised depreciated replacement cost* (ODRC) and represents the gross replacement cost of the asset, less allowances for physical deterioration (depreciation), and for obsolescence and relevant surplus capacity (optimised).

2 An analysis of recent projects revealed that preliminary and general overhead costs are higher than previously estimated due to higher on-site construction overheads and general cost increases.

3 Brownfield cost is a generic term for the additional costs of constructing in a particular location because of the increased intensity of surrounding land use (brown) compared to the cost of constructing in a vacant greenfield situation. For example, costs relating to one-off capital works relating to relocation and refurbishment of assets owned by other parties/compensation to landowners, increased traffic management and security, noise and dust limitations, and restricted hours of work.

The broader Crown balance sheet

Generally, current measures are more relevant for decision making and accountability purposes than historic numbers that may be decades out of date. Therefore, many of the Crown's assets and liabilities are measured using valuation methodologies requiring multiple inputs and assumptions. Some balance sheet items are valued using prices set by established active market, such as financial instruments, where other items use market-based evidence, typically involving discounted cash flow (DCF) valuations, drawing on market determined estimates for cash flows and discount rates (for example, in valuing electricity generation assets). For specialised assets that do not generate cash flows, but provide service potential, optimised depreciation replacement cost (ODRC) is typically used.

As a result, the value of many assets and liabilities cannot be measured with precision, and are inherently uncertain, but reflect the best estimate that can reasonably be determined at a point in time using a DCF or ODRC valuation method. This means a number of assets and liabilities are sensitive to changes in underlying assumptions. When new information about an assumption is applied, the value of an asset or liability can change periodically (up or down) depending on the valuation cycle for a particular asset.

Note 2 of the Financial Statements of the Government discusses the key assumptions, judgements and estimates underpinning the financial statements and provides some sensitivity analysis.

Year End Results Compared to *Budget 2018*

The *Budget Economic and Fiscal Update 2018* (*Budget 2018*) was published on 17 May 2018.

Table 14 – Comparison to *Budget 2018*

Year ended 30 June $ million	Actual 2018	Budget 2018	Variance to Budget 2018 $m	Variance to Budget 2018 %
Core Crown tax revenue	80,224	79,537	687	0.9%
Core Crown expenses	80,576	81,720	1,144	1.4%
OBEGAL (excluding minority interests)	5,534	3,141	2,393	76.2%
Operating balance (excluding minority interests)	8,396	6,997	1,399	20.0%
Residual cash	1,346	(1,255)	2,601	207.3%
Gross debt	88,053	87,467	(586)	(0.7%)
as a percentage of GDP	30.4%	30.1%		
Net debt	57,495	60,409	2,914	4.8%
as a percentage of GDP	19.9%	20.8%		
Total Borrowings	115,652	115,978	326	0.3%
Net worth attributable to the Crown	129,644	117,649	11,995	10.2%
as a percentage of GDP	44.8%	40.4%		

Core Crown Tax Revenue

Core Crown tax revenue was $0.7 billion (0.9%) higher than expected in *Budget 2018*, with the largest differences being:

- Source deduction revenue was $0.3 billion (1.1%) above forecast. Labour market data was in line with forecast, so this positive variance was the result of a higher-than-expected average effective tax rate.
- Corporate tax revenue was $0.3 billion (2.4%) above forecast. PIE tax was higher than forecast owing to better-than-expected investment fund profits. Provisional tax revenue was also above forecast, indicating that 2017/18 profits were higher than was forecast in *Budget 2018*.

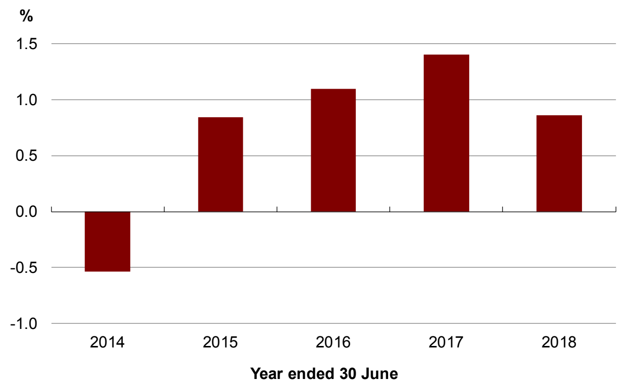
The tax variance to forecast was below 1%. Overall, this is in line with prior variances as shown in Figure 24.

Table 15 – Core Crown tax revenue compared to Estimated Actuals

Year ended 30 June	($ billion)
Budget 2018 core Crown tax revenue	**79.5**
Source deductions	0.3
Corporate tax	0.3
Other movements	0.1
Actual 2018 core Crown tax revenue	**80.2**

Source: The Treasury

Figure 24 – Core Crown tax revenue variance to Estimated Actuals



Source: The Treasury

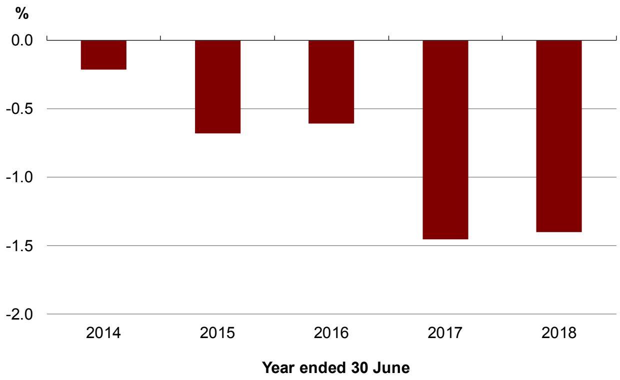
Year End Results Compared to *Budget 2018* (continued)

Core Crown Expenses

Core Crown expenses were $1.1 billion (1.4%) lower than expected.

The lower than forecast result was largely owing to changes in demand for services (eg, lower than forecast expenses across the education sector and lower than expected year-end family tax credit claims); one-off factors such as lower than forecast impairments; and timing delays with expenditure now expected to be spent in the 2018/19 fiscal year (eg, Provincial Growth Fund and social housing expenses).

Figure 25 – Core Crown expenses variance to Estimated Actuals



Source: The Treasury

OBEGAL

The OBEGAL surplus was $2.4 billion higher than *Budget 2018* forecast. The majority of the variance against *Budget 2018* relates to the favourable variances in core Crown revenue and core Crown expenses discussed earlier. In addition, KiwiRail had an improved OBEGAL result versus *Budget 2018* of $0.3 billion, largely due to lower than forecast impairment expenses.

Operating Balance

The total Crown operating balance was $1.4 billion higher than forecast in *Budget 2018*, the primary reason for this is due to the favourable OBEGAL result, offset by increased actuarial losses from forecast.

Residual Cash

The residual cash surplus was $2.6 billion higher than *Budget 2018* with cash flows from operations $1.8 billion higher than forecast and capital payments $0.8 billion lower than forecast.

Operating cash flows were favourable to forecast with operating payments making up $1.3 billion of this and tax receipts increasing by $0.6 billion. This is similar to the core Crown revenue and expenditure trends.

Capital payments were $0.8 billion lower than *Budget 2018,* driven by less than forecast purchase of physical assets and investments.

Net Debt

Net debt at $57.5 billion (19.9% of GDP) was $2.9 billion below forecast mainly driven by the residual cash surplus.

Gross Debt

Gross debt at $88.1 billion (30.4% of GDP) was broadly in line with forecast.

Total Borrowings

Borrowings at 30 June 2018 was $115.7 billion in line with the *Budget 2018* forecast of $116.0 billion.

Net Worth Attributable to the Crown

The net worth attributable to the Crown was $12.0 billion stronger than *Budget 2018* forecast mainly due to an upwards revaluation of physical assets of $10.7 billion and a favourable operating balance of $1.4 billion against *Budget 2018.*

Historical Financial Information

Year ended 30 June $ million	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual
Statement of financial performance										
Core Crown tax revenue	54,681	50,744	51,557	55,081	58,651	61,563	66,636	70,445	75,644	80,224
Core Crown other revenue	4,510	5,013	5,642	5,347	5,154	5,530	5,577	5,676	6,138	6,554
Core Crown revenue	59,191	55,757	57,199	60,428	63,805	67,093	72,213	76,121	81,782	86,778
Crown entities, SOE revenue and eliminations	19,508	17,976	23,448	22,321	21,873	21,443	21,592	21,295	21,640	23,195
Total Crown revenue	**78,699**	**73,733**	**80,647**	**82,749**	**85,678**	**88,536**	**93,805**	**97,416**	**103,422**	**109,973**
Social security and welfare	19,189	20,814	21,724	21,956	22,459	23,026	23,523	24,081	25,294	25,999
Health	12,368	13,128	13,753	14,160	14,498	14,898	15,058	15,626	16,223	17,159
Education	11,455	11,724	11,650	11,654	12,504	12,300	12,879	13,158	13,281	13,629
Core government services	5,293	2,974	5,563	5,428	4,294	4,502	4,134	4,102	3,957	4,670
Law and order	2,992	3,103	3,312	3,338	3,394	3,463	3,515	3,648	3,882	4,184
Other core Crown expenses	12,415	11,811	14,097	12,403	12,813	12,985	13,254	13,314	13,702	14,935
Core Crown expenses	63,711	63,554	70,099	68,939	69,962	71,174	72,363	73,929	76,339	80,576
Crown entities, SOE expenses and eliminations	18,881	16,494	28,944	23,050	20,068	20,005	20,701	21,208	22,668	23,438
Total Crown expenses	**82,592**	**80,048**	**99,043**	**91,989**	**90,030**	**91,179**	**93,064**	**95,137**	**99,007**	**104,014**
OBEGAL (excluding minority interests)	**(3,893)**	**(6,315)**	**(18,396)**	**(9,240)**	**(4,414)**	**(2,802)**	**414**	**1,831**	**4,069**	**5,534**
Gains/(losses)	(6,612)	1,806	5,036	(5,657)	11,339	5,741	5,357	(7,200)	8,248	2,862
Operating balance (excluding minority interests)	**(10,505)**	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**	**2,939**	**5,771**	**(5,369)**	**12,317**	**8,396**
Statement of financial position										
Property, plant and equipment	110,135	113,330	114,854	108,584	109,833	116,306	124,558	134,499	144,550	159,018
Financial assets	93,359	95,971	115,362	116,178	118,779	123,918	135,787	138,255	147,050	157,520
Other assets	13,657	14,054	14,999	15,556	15,804	16,600	18,869	19,925	22,009	23,394
Total assets	**217,151**	**223,355**	**245,215**	**240,318**	**244,416**	**256,824**	**279,214**	**292,679**	**313,609**	**339,932**
Borrowings	61,953	69,733	90,245	100,534	100,087	103,419	112,580	113,956	111,806	115,652
Other liabilities	55,683	58,634	74,083	80,004	74,318	72,708	74,398	83,202	85,331	88,643
Total liabilities	**117,636**	**128,367**	**164,328**	**180,538**	**174,405**	**176,127**	**186,978**	**197,158**	**197,137**	**204,295**
Minority interests	447	402	308	432	1,940	5,211	5,782	6,155	5,940	5,993
Net worth attributable to the Crown	**99,068**	**94,586**	**80,579**	**59,348**	**68,071**	**75,486**	**86,454**	**89,366**	**110,532**	**129,644**
Cash position										
Core Crown residual cash	(8,639)	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346
Debt Indicators										
Net debt	17,119	26,738	40,128	50,671	55,835	59,931	60,631	61,880	59,480	57,495
Gross debt	43,356	53,591	72,420	79,635	77,984	81,956	86,125	86,928	87,141	88,053

Time series information has been restated to ensure comparability with current year's information.

Historical Financial Information

Year ended 30 June as % of GDP	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual
Nominal GDP (revised)	189,554	196,734	205,830	215,118	218,759	236,860	245,359	258,202	274,267	289,293
Statement of financial performance										
Core Crown tax revenue	28.8%	25.8%	25.0%	25.6%	26.8%	26.0%	27.2%	27.3%	27.6%	27.7%
Core Crown other revenue	2.4%	2.5%	2.8%	2.5%	2.4%	2.3%	2.2%	2.2%	2.2%	2.3%
Core Crown revenue	31.2%	28.3%	27.8%	28.1%	29.2%	28.3%	29.4%	29.5%	29.8%	30.0%
Crown entities, SOE and elimination revenue	10.3%	9.2%	11.4%	10.4%	10.0%	9.1%	8.8%	8.2%	7.9%	8.0%
Total Crown revenue	**41.5%**	**37.5%**	**39.2%**	**38.5%**	**39.2%**	**37.4%**	**38.2%**	**37.7%**	**37.7%**	**38.0%**
Social security and welfare	10.1%	10.6%	10.6%	10.2%	10.3%	9.7%	9.6%	9.3%	9.2%	9.0%
Health	6.5%	6.7%	6.7%	6.6%	6.6%	6.3%	6.1%	6.1%	5.9%	5.9%
Education	6.0%	6.0%	5.7%	5.4%	5.7%	5.2%	5.2%	5.1%	4.8%	4.7%
Core government services	2.8%	1.5%	2.7%	2.5%	2.0%	1.9%	1.7%	1.6%	1.4%	1.6%
Law and order	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.4%
Other core Crown expenses	6.6%	5.9%	6.8%	5.7%	5.8%	5.4%	5.5%	5.1%	5.1%	5.3%
Core Crown expenses	33.6%	32.3%	34.1%	32.0%	32.0%	30.0%	29.5%	28.6%	27.8%	27.9%
Crown entities, SOE and elimination expenses	10.0%	8.4%	14.0%	10.8%	9.2%	8.5%	8.4%	8.2%	8.3%	8.1%
Total Crown expenses	**43.6%**	**40.7%**	**48.1%**	**42.8%**	**41.2%**	**38.5%**	**37.9%**	**36.8%**	**36.1%**	**36.0%**
OBEGAL (excluding minority interests)	**-2.1%**	**-3.2%**	**-8.9%**	**-4.3%**	**-2.0%**	**-1.2%**	**0.2%**	**0.7%**	**1.5%**	**1.9%**
Gains/(losses)	-3.4%	0.9%	2.4%	-2.6%	5.2%	2.4%	2.2%	-2.8%	3.0%	1.0%
Operating balance (excluding minority interests)	**-5.5%**	**-2.3%**	**-6.5%**	**-6.9%**	**3.2%**	**1.2%**	**2.4%**	**-2.1%**	**4.5%**	**2.9%**
Statement of financial position										
Property, plant and equipment	58.1%	57.6%	55.8%	50.5%	50.2%	49.1%	50.8%	52.1%	52.7%	55.0%
Financial assets and sovereign receivables	49.3%	48.8%	56.0%	54.0%	54.3%	52.3%	55.3%	53.5%	53.6%	54.4%
Other assets	7.2%	7.1%	7.3%	7.2%	7.2%	7.0%	7.7%	7.8%	8.0%	8.1%
Total assets	**114.6%**	**113.5%**	**119.1%**	**111.7%**	**111.7%**	**108.4%**	**113.8%**	**113.4%**	**114.3%**	**117.5%**
Borrowings	32.7%	35.4%	43.8%	46.7%	45.8%	43.7%	45.9%	44.1%	40.8%	40.0%
Other liabilities	29.4%	29.8%	36.0%	37.2%	33.9%	30.7%	30.3%	32.3%	31.1%	30.6%
Total liabilities	**62.1%**	**65.2%**	**79.8%**	**83.9%**	**79.7%**	**74.4%**	**76.2%**	**76.4%**	**71.9%**	**70.6%**
Minority interests	0.2%	0.2%	0.2%	0.2%	0.9%	2.1%	2.4%	2.4%	2.1%	2.1%
Net worth attributable to the Crown	**52.3%**	**48.1%**	**39.1%**	**27.6%**	**31.1%**	**31.9%**	**35.2%**	**34.6%**	**40.3%**	**44.8%**
Cash position										
Core Crown residual cash	-4.6%	-4.6%	-6.5%	-4.9%	-2.6%	-1.7%	-0.7%	-0.5%	0.9%	0.5%
Debt Indicators										
Net debt	9.0%	13.6%	19.5%	23.6%	25.5%	25.3%	24.7%	24.0%	21.7%	19.9%
Gross debt	22.9%	27.2%	35.2%	37.0%	35.6%	34.6%	35.1%	33.7%	31.8%	30.4%

Independent Audit Report of the Controller and Auditor-General

CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND FOR THE YEAR ENDED 30 JUNE 2018

Opinion

I have audited the financial statements of the Government of New Zealand (the financial statements of the Government) for the year ended 30 June 2018 using my staff, resources, and appointed auditors and their staff. The financial statements of the Government on pages 38 to 141 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2018, the statement of financial performance, analysis of expenses by functional classification, statement of comprehensive revenue and expense*,* statement of changes in net worth, and statement of cash flows for the year ended on that date, a statement of segments, and notes to the financial statements that include accounting policies, borrowings as at 30 June 2018, and other explanatory information;
- a statement of unappropriated expenditure for the year ended 30 June 2018;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended 30 June 2018; and
- a statement of trust money administered by departments for the year ended 30 June 2018.

In my opinion, the financial statements of the Government on pages 38 to 141:

- present fairly, in all material respects the Government's:
  - financial position as at 30 June 2018;
  - financial performance and cash flows for the year ended on that date;
  - borrowings as at 30 June 2018;
  - unappropriated expenditure for the year ended 30 June 2018;
  - expenses or capital expenditure incurred in emergencies for the year ended 30 June 2018; and
  - trust money administered by departments for the year ended 30 June 2018;
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity accounting standards.

My audit was completed on 1 October 2018. This is the date on which my opinion is expressed.

The basis for my opinion is explained below and I outline the key audit matters addressed in my audit. In addition, I outline the responsibilities of the Treasury and the Minister of Finance and my responsibilities relating to the financial statements of the Government. I also comment on other information and explain my independence.

Basis for opinion

I carried out my audit in accordance with *The Auditor-General's Auditing Standards*, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements of the Government* section of this report.

I have fulfilled my responsibilities in accordance with *The Auditor-General's Auditing Standards*.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the Government for the current year. In applying my professional judgement to determine key audit matters, I considered those matters that are complex, have a high degree of uncertainty, or are important to the public because of their size or nature. This year, I have included the entitlements under the Holidays Act 2003 as a key audit matter because of the significant uncertainties associated with the obligations to remediate issues under the Act and the public interest in this matter as it affects a significant number of current and former public servants.

The key audit matters addressed in my audit of the financial statements of the Government as a whole, and in forming my opinion thereon, are as follows.

Recognising tax revenue	How we addressed this matter
The largest source of revenue for the Government is income tax. This revenue source totals $51.8 billion for the year ended 30 June 2018. As outlined in Note 2, income tax is subject to significant assumptions and judgements due to the timing differences between the reporting date and when taxpayers file tax returns. In order to record tax revenue, judgement is applied to estimating: - the amount of tax revenue to be collected from provisional taxpayers who have not yet filed their final tax return; - the amount of tax revenue where payments have been received but no provisional or final tax return has been filed; and - the amount of tax revenue to be collected from, or refunded to, taxpayers who are not subject to provisional tax.	We obtained an understanding of the systems, processes, and controls in place over the receipt and review of provisional and final tax returns, tax assessments, and tax revenue receipts. We assessed controls in place over significant reconciliation processes. We tested the underlying data used in the various tax revenue estimation models to ensure that it was relevant and was used appropriately. This was performed by reviewing evidence to support key assumptions. The sensitivity of key assumptions was also tested. We tested the reasonableness of the estimation models by checking actual revenue received related to previous financial years against estimates made in those years. I am satisfied that the assumptions and judgements applied in estimating tax revenue are reasonable.
Valuing property, plant, and equipment	**How we addressed this matter**
The Government owns significant physical assets totalling $159.0 billion. The valuation of some of these assets requires significant judgement due to the uncertainties inherent in the valuation of these assets, the quality of data available, and the benefits these assets provide. I have identified some specific assets where such judgements are evident.	
State highway network	
As outlined in Note 16, the state highway network has been valued at $31.7 billion at 30 June 2018 by an independent external valuer. Due to the unique nature of the state highway network, the value of the assets cannot be measured with precision. Significant estimates and assumptions have been applied to the valuation, which include assumptions on: quantities and rates used in the construction of state highway network components, the remaining life of the assets, and the unit costs to apply. Changes to the underlying estimates and assumptions can cause a material movement in the state highway valuation. There are some uncertainties about the values assigned to different components (formation, bridges, etc.) of the state highway network due to limited information on quantities and useful lives within some databases and incomplete information relating to certain cost components. Some of the costs associated with road construction (for example, traffic management) in urban areas are assessed as being a significant part of the network that may potentially be undervalued. An allowance to recognise these costs has been included since 2014 where a reliable estimate can be made.	We obtained an understanding of how the state highway network is valued, the significant estimates and assumptions used, and the reasonableness thereof. This involved confirming the competence, capabilities, and objectivity of the valuer, challenging the valuers' key assumptions, and assessing the valuation procedures, including the information extracted from databases. We also considered whether there were any limitations placed on the valuer and the appropriateness of centrally calculated rates that were applied to the valuation. We also carried out audit procedures to confirm that key controls were operating over the systems and processes used to record cost and other asset information related to the state highway network. I am satisfied that the value of the state highway network at 30 June 2018 is reasonable and consistent with valuation practices, and that the disclosures outlining the inherent uncertainties in the valuation are appropriate.

Valuing property, plant, and equipment (continued)	How we addressed this matter
Rail network	
As outlined in Note 16, the rail network has been valued at $1.2 billion at 30 June 2018. In arriving at this value, the freight and the metro transport parts of the network have been valued on different bases, reflecting the commercial nature of the freight part of the network and the public benefit nature of the metro transport part of the network. The extent to which the freight part of the network is commercial is open to debate. The Government is currently conducting a review of rail, which is working towards defining the purpose of rail and determining the appropriate structure and capital requirements and funding mechanisms for KiwiRail in future years. This review is ongoing and might result in changes that could affect the valuation of the freight part of the network. As outlined in Note 16, the valuation of the rail network could increase by up to $5.0 billion if the entire rail network was not considered commercial and it was valued on an optimised depreciated replacement cost basis.	We considered the evidence around the commercial nature versus the public benefit nature of the freight part of the rail network. The evidence included reviewing: - the State-owned Enterprises Act 1986; - strategy documents; - forecast results; - correspondence setting out the Ministers' expectations; and - minutes from KiwiRail Board meetings. As in past years, the evidence showed mixed results for the commercial nature versus the public benefit nature of the freight part of the rail network. We also considered the updated terms of reference for the review of rail in New Zealand. The outcome of the current review will be key in deciding whether valuing the freight network on a commercial basis remains appropriate. Due largely to the current review of rail, I am satisfied that the judgement to value the freight part of the network on a commercial basis for the current year, although marginal, remains reasonable, and that the disclosures appropriately outline the significant judgements.
Electricity generation assets	
As outlined in Note 16, the electricity generation assets, which are at least 51% owned by the Government, are valued at $15.9 billion at 30 June 2018.The valuation of these assets is carried out by specialist valuers because of the complexity and significance of the assumptions about the future prices of electricity, the generation costs, and the generation volumes that these assets will create. As a result, small changes to these assumptions, in particular, the forecast prices of electricity and the discount rates used to determine the present value of these prices – could significantly change the value of these assets.	We obtained an understanding of how electricity generation assets are valued. This involved confirming the competence, capabilities, and objectivity of the valuers, testing the valuers' procedures for carrying out the valuations, including the information they used to carry them out, and challenging the valuers' critical assumptions and judgements. We also used our own valuation specialists to assess the valuers' procedures. We tested the sensitivity of the key underlying assumptions used by the valuers to ensure that they were reasonable, and we compared the forecast prices of electricity to the expected longer-term wholesale prices and market data where it was available. I am satisfied that the valuation of electricity generation assets at 30 June 2018 is reasonable, and that the disclosures appropriately outline the sensitivity and the complexity of the valuation of electricity generation assets.

Valuing insurance and superannuation liabilities	How we addressed this matter
The Government has insurance liabilities of $45.3 billion and public servants' superannuation liabilities of $11.0 billion as at 30 June 2018. The valuation of these liabilities is complex and requires actuaries to estimate the value, based on assumptions about the future. I have identified some specific liabilities because of the significance of the value of those liabilities and the uncertainties inherent in the valuations.	
Accident Compensation Corporation's outstanding claims liability	
As outlined in note 11, the outstanding claims liability of the Accident Compensation Fund (ACC) has been valued at $40.6 billion at 30 June 2018 by an independent actuary. Key assumptions used to value the outstanding claims liability include: - selecting an appropriate risk-free discount rate to present value future cash flows; - selecting an appropriate risk margin for the inherent uncertainty in the estimate of the present value of future cash flows; - estimating the impact of inflation and innovation on future medical costs; and - estimating the length of rehabilitation from injuries. The sensitivity of each assumption is analysed in Note 11. This sensitivity analysis indicates that assumptions are closely linked, cannot be viewed in isolation, and changes in assumptions can have a large impact on the value of the liability as well as the actuarial gain or loss recognised.	We obtained an understanding of how ACC's outstanding claims liability is valued by assessing the reasonableness of the approach taken to value the liability. We also reviewed the key assumptions adopted by ACC for each significant claim type to ensure that these were appropriate. We tested the systems and controls and carried out detailed testing of the process for recording claims. We tested key assumptions by evaluating them against past claims experience. We assessed the reasonableness of forecasts that diverged from past experience by looking at the evidence supporting the forecasts. We engaged our own actuaries to review the scope, approach, and reasonableness of the estimate of the liability. We tested the reconciliations of the underlying claims data to ACC's systems, examined the sensitivity analysis for movements in key assumptions, and evaluated the related financial statement disclosures. I am satisfied that the assumptions and judgements applied in estimating ACC's outstanding claims liability at 30 June 2018 are reasonable, and that the disclosures outline the sensitivity of the valuation to changes in assumptions.
Government Superannuation Fund's unfunded liability	
As outlined in Note 20, the Government's liability for public servants' superannuation entitlements for past and current members of the Government Superannuation Fund has been valued at $11.0 billion at 30 June 2018 by an independent actuary. The present value of the unfunded liability is also sensitive to the estimated return on the Fund's assets, expected rates of salary increases for public servants who are members of the Fund, and estimated inflation and discount rates. The Fund's assets are exposed to share price risks arising from its holding of equity instruments. Equity instruments are reported at fair value. Movements in share prices therefore directly translate into movements in the value of the share investment portfolio. The sensitivity of critical assumptions and judgements is analysed in Note 20. This sensitivity analysis indicates that assumptions are closely linked, cannot be viewed in isolation, and changes in assumptions can have a large impact on the value of the liability.	We obtained an understanding of how the Government's liability for public servants' superannuation entitlements is valued. This involved confirming the competence, capabilities, and objectivity of the actuary, as well as testing the actuary's valuation procedures. We engaged our own actuaries to review the assumptions, judgements, and procedures used to value the liability. We tested key controls that ensure the completeness and accuracy of membership data that was used in the actuary's valuation. We evaluated the appropriateness of key assumptions used in estimating the return on assets owned by the Fund and compared the expected rates of salary increases against external benchmarks. I am satisfied that the Government's reported liability for public servants' superannuation entitlements at 30 June 2018 is reasonable, and that the disclosures outline the sensitivities of the valuation to changes in assumptions.

Valuing financial assets and liabilities	How we addressed this matter
As outlined in Note 26, as at 30 June 2018, the Government has financial assets of $142.5 billion (of which $80.3 billion are valued at fair value and $62.2 billion are valued at amortised cost) and financial liabilities of $131.2 billion (of which $10.2 billion are valued at fair value and $121.0 billion are valued at amortised cost). Financial assets and liabilities measured at fair value include derivatives (which have a principal value of $232.5 billion), marketable securities, and share investments. Where quoted market prices are not available to determine the value of financial assets and liabilities, fair value must be estimated. This is done by applying a valuation approach that is most appropriate for the asset or liability, such as using valuation models. Inputs into the models will use market data when available; otherwise inputs are derived from non-market data, which requires judgement. The fair value of financial assets and financial liabilities that are valued using non-observable inputs are valued at $4.3 billion and $0.06 billion respectively.	We obtained an understanding of the valuation techniques, controls, and inputs used to determine the fair value of financial assets and liabilities. We also carried out a range of audit procedures that reflected the nature of the financial assets and liabilities being valued, the valuation techniques adopted, and the uncertainties that existed in determining their fair values. These audit procedures included: - testing the internal controls in place over data relating to financial assets and liabilities that has been entered into financial and treasury systems; - obtaining an understanding of the controls and valuation approaches applied where a fund manager carries out the valuation; - comparing the fair value of financial assets and liabilities to independent information and investigating any significant variances; and - assessing the appropriateness of the inputs used for valuing financial assets and liabilities where the fair value was dependent on non-observable inputs. I am satisfied that the fair values of financial assets and liabilities at 30 June 2018 are reasonable and that the disclosures outline the significant judgements.
Entitlements under the Holidays Act 2003	**How we addressed this matter**
As outlined in Note 25, a number of entities have commenced a review of payroll calculations in order to ensure compliance with the Holidays Act 2003 and other relevant legislation. Where possible, provision has been made in the financial statements of the Government for obligations arising from those reviews or settlement has been made in the current or previous financial year. To the extent that an obligation cannot reasonably be quantified at 30 June 2018, an unquantified contingent liability has been disclosed. Work continues to be undertaken by entities to calculate the potential liability required to remediate the issues associated with the calculation of these entitlements. In the case of certain sectors, complexities exist and the calculation of the liability is taking longer than expected to resolve. Entities within these sectors employ a significant number of public servants and the liabilities to settle these obligations remain uncertain.	For those entities most significantly affected, we obtained an understanding of the progress made in resolving the payroll calculation issues and we assessed the reasonableness of the approach to the financial reporting of these issues. We carried out a range of procedures to audit the liabilities recognised, including: - reviewing processes followed for valuing the liabilities and testing a sample of transactions, - assessing the competence, capabilities, and objectivity of independent experts who were involved in the valuation, - challenging critical assumptions and judgements made in estimating the liabilities. Where no liability could be reliably measured, we engaged with and challenged entities and their experts to understand the complexities associated with the calculation of a liability, what uncertainties existed, and the progress being made to resolve these uncertainties. I am satisfied that the liabilities recognised for entitlements represent the best estimate using available information and that, in those cases where a liability cannot be reliably measured, the disclosures are appropriate.

Responsibilities of the Treasury and the Minister of Finance for the financial statements of the Government

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

- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity accounting standards; and
- present fairly the Government's financial position, financial performance, and cash flows; and
- present fairly the Government's:
  - borrowings;
  - unappropriated expenditure;
  - expenses or capital expenditure incurred in emergencies; and
  - trust money administered by departments.

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

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

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

In carrying out their respective responsibilities for the financial statements of the Government, the Treasury and the Minister of Finance are responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements of the Government

My objectives are to obtain reasonable assurance about whether the financial statements of the Government as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *The Auditor-General's Auditing Standards* will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions readers take on the basis of the financial statements of the Government.

For the budget information reported in the financial statements of the Government, my procedures were limited to checking that the amounts agree to the Government's relevant published budgets.

I did not evaluate the security and controls over the publication, whether in printed or electronic form, of the financial statements of the Government.

As part of an audit in accordance with *The Auditor-General's Auditing Standards*, I exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- I identify and assess the risks of material misstatement of the financial statements of the Government, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control used by the Treasury to prepare the financial statements of the Government.
- I evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates and related disclosures made by the Treasury.
- I conclude on the appropriateness of using the going concern basis of accounting that has been used by the Treasury to prepare the financial statements of the Government, up to the date of my auditor's report, based on the audit evidence I have obtained.
- I evaluate the overall presentation, structure, and content of the financial statements of the Government, including the disclosures, and whether the financial statements of the Government represent the underlying transactions and events in a manner that achieves fair presentation.

As part of my audit, I obtain information from my staff and appointed auditors of the organisations that are consolidated into the financial statements of the Government, including information about:

- elimination of transactions between the organisations that are consolidated into the financial statements of the Government;
- application by those organisations of appropriate accounting policies and Treasury instructions to prepare the financial statements of the Government; and
- the risks of material misstatement of the financial statements of those organisations that may affect the financial statements of the Government.

I communicate with the Treasury, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Treasury, I determine those matters that were of most significance in my audit of the financial statements of the Government for the current year and are therefore the key audit matters described in this report.

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

Other information

The Treasury is responsible for the other information. The other information comprises the information included on pages 1 to 152, but does not include the financial statements of the Government and my auditor's report thereon.

My opinion on the financial statements of the Government does not cover the other information and I do not express any form of audit opinion or assurance conclusion on that information.

In connection with my audit of the financial statements of the Government, my responsibility is to read the other information. In doing so, I consider whether the other information is materially inconsistent with the financial statements of the Government or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on my work, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Independence

While carrying out this audit, my staff and appointed auditors and their staff complied with the Auditor-General's independence requirements, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code).*

As an Officer of Parliament, I am constitutionally and operationally independent of the Government. Prior to commencing my role as Auditor-General on 2 July 2018, I was Deputy Director-General for the Ministry for Primary Industries. Thus, the Deputy Auditor-General deals with all matters relating to the Ministry for Primary Industries. Other than this matter, and in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in the Government.

John Ryan
Controller and Auditor-General
Wellington, New Zealand

Audited Financial Statements of the Government of New Zealand

Statement of Financial Performance

for the year ended 30 June 2018

2018 Forecast Budget 2017 $m	Budget 2018 $m		Note	Actual 30 June 2018 $m	Actual 30 June 2017 $m
		Revenue			
76,872	78,825	Taxation revenue	3	79,596	74,973
5,057	5,240	Other sovereign revenue	3	5,223	5,081
81,929	**84,065**	**Total sovereign revenue**		**84,819**	**80,054**
16,994	18,477	Sales of goods and services	4	18,228	16,871
2,807	2,740	Interest revenue	5	2,798	2,727
3,835	3,954	Other revenue	6	4,128	3,770
23,636	**25,171**	**Total revenue earned through operations**		**25,154**	**23,368**
105,565	**109,236**	**Total revenue (excluding gains)**		**109,973**	**103,422**
		Expenses			
25,680	25,540	Transfer payments and subsidies	7	25,366	24,459
23,003	23,669	Personnel expenses	8	23,690	22,599
4,563	4,777	Depreciation		4,275	4,073
41,000	42,830	Other operating expenses	9	41,614	38,296
4,224	4,121	Interest expenses	5	4,151	4,162
4,546	4,840	Insurance expenses	11	4,918	5,418
293	186	Forecast new operating spending		-	-
(1,000)	(300)	Top-down expense adjustment		-	-
102,309	**105,663**	**Total expenses (excluding losses)**		**104,014**	**99,007**
398	432	Less minority interests share of operating balance before gains and losses		425	346
2,858	**3,141**	**Operating balance before gains and losses (OBEGAL) (excluding minority interests)**		**5,534**	**4,069**
2,538	5,251	Net gains/(losses) on financial instruments	5	5,331	6,330
(88)	(1,579)	Net gains/(losses) on non-financial instruments	10	(2,802)	1,321
2,450	**3,672**	**Total gains/(losses)**		**2,529**	**7,651**
26	17	Less minority interests share of total gains/(losses)		87	(27)
2,424	**3,655**	**Gains/(losses) (excluding minority interests)**		**2,442**	**7,678**
214	201	Net surplus from associates and joint ventures		420	570
5,496	**6,997**	**Operating balance (excluding minority interests)**		**8,396**	**12,317**
		Operating balance consists of:			
5,496	6,997	Operating balance (excluding minority interests)		8,396	12,317
424	449	Minority interests share of operating balance	22	512	319
5,920	**7,446**	**Operating balance (including minority interests)**		**8,908**	**12,636**

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 2018

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		Total Crown expenses		
30,795	30,738	Social security and welfare	30,195	29,794
16,389	16,786	Health	16,746	15,645
14,741	14,746	Education	14,607	14,112
4,572	4,935	Core government services	4,495	3,762
4,435	4,602	Law and order	4,494	4,161
7,949	8,831	Economic and industrial services	8,928	8,452
9,637	10,167	Transport and communications	9,940	9,360
2,286	2,255	Defence	2,239	2,145
1,012	1,286	Environmental protection	1,227	863
2,391	2,583	Heritage, culture and recreation	2,518	2,433
1,986	2,180	Primary services	2,134	1,886
1,954	2,044	Housing and community development	1,878	1,820
239	163	GSF pension expenses	163	231
406	340	Other	299	181
4,224	4,121	Finance costs	4,151	4,162
293	186	Forecast new operating spending	-	-
(1,000)	(300)	Top-down expense adjustment	-	-
102,309	**105,663**	**Total Crown expenses (excluding losses)**	**104,014**	**99,007**

Social security and welfare has been restated from $30,599 million in 2017 to $29,794 million. Budget comparatives have also been restated. Due to income related rents payments for social housing tenants previously presented on a gross basis, this year this revenue and expenditure has been eliminated between Government reporting entities, as this payment is more like a subsidy than rental payments on behalf of tenants.

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZ Superannuation Fund and the Reserve Bank, but not Crown entities and State-owned Enterprises. Details of unappropriated expenditure can be found on page 131.

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		Core Crown expenses		
26,247	26,110	Social security and welfare	25,999	25,294
17,096	17,185	Health	17,159	16,223
13,985	13,937	Education	13,629	13,281
4,843	5,086	Core government services	4,670	3,957
4,119	4,276	Law and order	4,184	3,882
3,001	2,930	Economic and industrial services	2,732	2,544
2,329	2,452	Transport and communications	2,559	2,176
2,294	2,263	Defence	2,251	2,146
1,015	1,287	Environmental protection	1,238	871
885	881	Heritage, culture and recreation	850	850
730	851	Primary services	807	644
530	602	Housing and community development	552	539
220	150	GSF pension expenses	150	217
406	340	Other	299	181
3,493	3,484	Finance costs	3,497	3,534
293	186	Forecast new operating spending	-	-
(1,000)	(300)	Top-down expense adjustment	-	-
80,486	**81,720**	**Total core Crown expenses (excluding losses)**	**80,576**	**76,339**

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

Statement of Comprehensive Revenue and Expense

for the year ended 30 June 2018

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	Actual 30 June 2017 $m
5,920	**7,446**	**Operating balance (including minority interests)**	**8,908**	**12,636**
		Other comprehensive revenue and expense		
-	(22)	Revaluation of physical assets	10,090	7,888
-	-	Share of associates revaluation of physical assets	578	1,035
28	273	Transfers to/(from) reserves	59	57
(1)	5	(Gains)/losses transferred to the statement of financial performance	(25)	62
-	32	Foreign currency translation differences on foreign operations	122	(10)
4	(97)	Other movements	(34)	39
31	**191**	**Total other comprehensive revenue and expense**	**10,790**	**9,071**
5,951	**7,637**	**Total comprehensive revenue and expense**	**19,698**	**21,707**
		Attributable to:		
429	520	- minority interests	586	541
5,522	7,117	- the Crown	19,112	21,166
5,951	**7,637**	**Total comprehensive revenue and expense**	**19,698**	**21,707**

Statement of Changes in Net Worth

for the year ended 30 June 2018

2018 Forecast Budget 2017 $m	Budget 2018 $m		Note	Actual Taxpayer funds $m	Reserves $m	Minority interests $m	Total net worth $m
95,521	**95,521**	**Net worth at 30 June 2016**		**13,932**	**75,434**	**6,155**	**95,521**
9,893	12,636	Operating balance		12,317	-	319	12,636
1,156	8,923	Net revaluations	16	-	8,745	178	8,923
139	47	Transfers to/(from) reserves		207	(199)	49	57
-		(Gains)/losses transferred to the					
(11)	62	statement of financial performance		-	62	-	62
(18)	(10)	Foreign currency translation differences on foreign operations		-	(10)	-	(10)
(7)	49	Other movements		-	44	(5)	39
11,152	**21,707**	**Total comprehensive revenue and expense**		**12,524**	**8,642**	**541**	**21,707**
(750)	(756)	Transactions with minority interests	22	-	-	(756)	(756)
105,923	**116,472**	**Net worth at 30 June 2017**		**26,456**	**84,076**	**5,940**	**116,472**
5,920	7,446	Operating balance		8,396	-	512	8,908
-	(22)	Net revaluations	16	-	10,598	70	10,668
28	273	Transfers to/(from) reserves		12	49	(2)	59
(1)	5	(Gains)/losses transferred to the statement of financial performance		-	(25)	-	(25)
-	32	Foreign currency translation differences on foreign operations		-	115	7	122
4	(97)	Other movements		(23)	(10)	(1)	(34)
5,951	**7,637**	**Total comprehensive revenue and expense**		**8,385**	**10,727**	**586**	**19,698**
(432)	(542)	Transactions with minority interests	22	-	-	(533)	(533)
111,442	**123,567**	**Net worth at 30 June 2018**		**34,841**	**94,803**	**5,993**	**135,637**

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

Statement of Cash Flows

for the year ended 30 June 2018

2018 Forecast			Actual	
Budget 2017 $m	Budget 2018 $m		30 June 2018 $m	30 June 2017 $m
		Cash Flows From Operations		
		Cash was provided from		
75,563	77,945	Taxation receipts	78,566	73,099
4,484	4,535	Other sovereign receipts	4,594	4,515
17,473	18,616	Sales of goods and services	18,387	16,948
2,395	2,373	Interest receipts	2,466	2,431
4,062	4,869	Other operating receipts	4,038	4,882
103,977	**108,338**	**Total cash provided from operations**	**108,051**	**101,875**
		Cash was disbursed to		
26,512	26,404	Transfer payments and subsidies	25,382	25,293
66,838	69,050	Personnel and operating payments	67,687	62,836
4,813	4,080	Interest payments	4,098	4,179
293	186	Forecast new operating spending	-	-
(1,000)	(300)	Top-down expense adjustment	-	-
97,456	**99,420**	**Total cash disbursed to operations**	**97,167**	**92,308**
6,521	**8,918**	**Net cash flows from operations**	**10,884**	**9,567**
		Cash Flows From Investing Activities		
		Cash was provided from		
632	290	Sale of physical assets	418	619
113,284	102,056	Sale of shares and other securities	102,569	91,597
-	-	Sale of intangible assets	-	32
1,882	2,613	Repayment of advances	1,898	2,088
71	90	Sale of investments in associates	127	216
115,869	**105,049**	**Total cash provided from investing activities**	**105,012**	**94,552**
		Cash was disbursed to		
9,061	9,508	Purchase and construction of physical assets	8,090	6,828
107,895	105,596	Purchase of shares and other securities	107,361	90,708
814	859	Purchase of intangible assets	817	780
3,078	2,827	Advances made	2,397	3,077
86	333	Acquisition of investments in associates	505	364
446	185	Forecast new capital spending	-	-
(840)	(485)	Top-down capital adjustment	-	-
120,540	**118,823**	**Total cash disbursed to investing activities**	**119,170**	**101,757**
(4,671)	**(13,774)**	**Net cash flows from investing activities**	**(14,158)**	**(7,205)**
1,850	**(4,856)**	**Net cash flows from operating and investing activities**	**(3,274)**	**2,362**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2018

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
1,850	**(4,856)**	**Net cash flows from operating and investing activities**	**(3,274)**	**2,362**
		Cash Flows From Financing Activities		
		Cash was provided from		
170	460	Issue of circulating currency	395	265
6,873	7,034	Issue of Government bonds	7,043	7,408
6	171	Issue of foreign currency borrowings	358	2,534
8,765	17,925	Issue of other New Zealand dollar borrowings	16,950	15,697
15,814	**25,590**	**Total cash provided from financing activities**	**24,746**	**25,904**
		Cash was disbursed to		
11,602	7,263	Repayment of Government bonds	6,828	6,080
946	5,420	Repayment of foreign currency borrowings	1,028	486
6,138	8,676	Repayment of other New Zealand dollar borrowings	13,895	17,507
492	560	Dividends paid to minority interests	541	656
19,178	**21,919**	**Total cash disbursed to financing activities**	**22,292**	**24,729**
(3,364)	**3,671**	**Net cash flows from financing activities**	**2,454**	**1,175**
(1,514)	**(1,185)**	**Net movement in cash**	**(820)**	**3,537**
17,495	18,732	Opening cash balance	18,732	15,617
3	521	Foreign-exchange gains/(losses) on opening cash	1,428	(422)
15,984	**18,068**	**Closing cash balance**	**19,340**	**18,732**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2018

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance		
6,521	**8,918**	**Net Cash Flows from Operations**	**10,884**	**9,567**
		Gains/(losses)		
2,538	5,251	Net gains/(losses) on financial instruments	5,331	6,330
(88)	(1,579)	Net gains/(losses) on non-financial instruments	(2,802)	1,321
26	17	Less minority interests share of net gains/(losses)	87	(27)
2,424	**3,655**	**Total gains/(losses)**	**2,442**	**7,678**
		Other Non-cash Items in Operating Balance		
(4,563)	(4,777)	Depreciation	(4,275)	(4,073)
(743)	(720)	Amortisation and impairment of non-financial assets	(906)	(1,102)
(801)	(1,049)	Cost of concessionary lending	(704)	(753)
(126)	99	Impairment of financial assets (excl receivables)	105	50
548	576	Change in accumulating pension expenses	568	472
145	(440)	Change in accumulating insurance expenses	(628)	(1,047)
(184)	215	Other non-cash items	529	258
(5,724)	**(6,096)**	**Total other non-cash items in operating balance**	**(5,311)**	**(6,195)**
		Movements in Working Capital		
496	848	Increase/(decrease) in receivables	1,614	1,170
1,028	289	Increase/(decrease) in accrued interest	265	312
(11)	(107)	Increase/(decrease) in inventories	177	57
(7)	(30)	Increase/(decrease) in prepayments	(8)	151
(20)	(83)	Decrease/(increase) in deferred revenue	(200)	(46)
789	(397)	Decrease/(increase) in payables/provisions	(1,467)	(377)
2,275	**520**	**Total movements in working capital**	**381**	**1,267**
5,496	**6,997**	**Operating balance (excluding minority interests)**	**8,396**	**12,317**

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

Statement of Financial Position

as at 30 June 2018

2018 Forecast				Actual	
Budget 2017 $m	Budget 2018 $m		Note	30 June 2018 $m	30 June 2017 $m
		Assets			
15,984	18,068	Cash and cash equivalents		19,340	18,732
17,452	19,317	Receivables	12	21,385	18,529
45,514	50,236	Marketable securities, deposits and derivatives in gain	13	51,117	50,506
30,140	36,440	Share investments	14	36,256	30,700
29,805	28,985	Advances	15	29,422	28,583
970	1,059	Inventory		1,344	1,167
2,352	2,648	Other assets		2,817	3,079
142,577	149,823	Property, plant & equipment	16	159,018	144,550
14,618	14,808	Equity accounted investments	17	15,416	14,210
3,713	3,808	Intangible assets and goodwill		3,817	3,553
616	185	Forecast new capital spending		-	-
(965)	(485)	Top-down capital adjustment		-	-
302,776	**324,892**	**Total assets**		**339,932**	**313,609**
		Liabilities			
5,932	6,440	Issued currency		6,375	5,980
12,479	13,007	Payables	18	14,422	14,794
2,086	2,307	Deferred revenue		2,424	2,224
111,500	115,978	Borrowings	19	115,652	111,806
41,219	44,109	Insurance liabilities	11	45,294	42,786
9,917	10,579	Retirement plan liabilities	20	10,991	11,006
8,201	8,905	Provisions	21	9,137	8,541
191,334	**201,325**	**Total liabilities**		**204,295**	**197,137**
111,442	**123,567**	**Total assets less total liabilities**		**135,637**	**116,472**
		Net Worth			
29,141	33,477	Taxpayer funds		34,841	26,456
76,526	84,097	Property, plant and equipment revaluation reserve	16	94,750	84,164
(101)	75	Other reserves		53	(88)
105,566	**117,649**	**Total net worth attributable to the Crown**		**129,644**	**110,532**
5,876	5,918	Net worth attributable to minority interests	22	5,993	5,940
111,442	**123,567**	**Total net worth**		**135,637**	**116,472**

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

Statement of Segments

Current Year Actual vs Estimated Actuals (Budget 2018)

	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2018 $m	Forecast Budget 2018 $m	Actual 2018 $m	Forecast Budget 2018 $m	Actual 2018 $m	Forecast Budget 2018 $m	Actual 2018 $m	Forecast Budget 2018 $m	Actual 2018 $m	Forecast Budget 2018 $m
Revenue										
Taxation revenue	80,224	79,537	-	-	-	-	(628)	(712)	79,596	78,825
Other sovereign revenue	1,638	1,586	4,966	5,074	-	-	(1,381)	(1,420)	5,223	5,240
Revenue from core Crown funding	-	-	29,017	29,149	139	124	(29,156)	(29,273)	-	-
Sales of goods and services	1,598	1,684	2,269	2,259	14,911	15,095	(550)	(561)	18,228	18,477
Interest revenue	1,175	1,143	1,032	1,037	964	957	(373)	(397)	2,798	2,740
Other revenue	2,143	2,009	3,176	2,708	858	939	(2,049)	(1,702)	4,128	3,954
Total Revenue (excluding gains)	**86,778**	**85,959**	**40,460**	**40,227**	**16,872**	**17,115**	**(34,137)**	**(34,065)**	**109,973**	**109,236**
Expenses										
Transfer payments and subsidies	26,237	26,392	-	-	-	-	(871)	(852)	25,366	25,540
Personnel expenses	7,249	7,241	13,546	13,538	2,935	2,925	(40)	(35)	23,690	23,669
Other operating expenses	43,593	44,717	27,584	27,313	11,731	12,286	(32,101)	(31,869)	50,807	52,447
Interest expenses	3,497	3,484	95	52	1,058	1,070	(499)	(485)	4,151	4,121
Forecast new operating spending	-	186	-	-	-	-	-	-	-	186
Top-down expense adjustment	-	(300)	-	-	-	-	-	-	-	(300)
Total Expenses (excluding losses)	**80,576**	**81,720**	**41,225**	**40,903**	**15,724**	**16,281**	**(33,511)**	**(33,241)**	**104,014**	**105,663**
Minority interest share of operating balance before gains/(losses)	(2)	-	-	(4)	(448)	(440)	25	12	(425)	(432)
Operating Balance before gains and losses (excluding minority interests)	**6,200**	**4,239**	**(765)**	**(680)**	**700**	**394**	**(601)**	**(812)**	**5,534**	**3,141**
Gains/(losses) and other items	3,243	3,830	291	335	161	12	(833)	(321)	2,862	3,856
Operating Balance (excluding minority interests)	**9,443**	**8,069**	**(474)**	**(345)**	**861**	**406**	**(1,434)**	**(1,133)**	**8,396**	**6,997**
Assets										
Financial assets	104,255	99,447	51,302	50,169	25,287	25,209	(23,324)	(21,779)	157,520	153,046
Property, plant and equipment	41,279	40,686	84,300	76,078	33,438	33,059	1	-	159,018	149,823
Investments in associates, CEs and SOEs	45,838	45,983	12,698	12,338	250	280	(43,370)	(43,793)	15,416	14,808
Other assets	3,656	3,448	1,659	1,500	2,729	2,615	(66)	(48)	7,978	7,515
Forecast adjustments	-	(300)	-	-	-	-	-	-	-	(300)
Total Assets	**195,028**	**189,264**	**149,959**	**140,085**	**61,704**	**61,163**	**(66,759)**	**(65,620)**	**339,932**	**324,892**
Liabilities										
Borrowings	97,749	97,249	5,517	5,240	30,628	30,796	(18,242)	(17,307)	115,652	115,978
Other liabilities	34,758	32,168	53,974	52,943	8,517	8,265	(8,606)	(8,029)	88,643	85,347
Total Liabilities	**132,507**	**129,417**	**59,491**	**58,183**	**39,145**	**39,061**	**(26,848)**	**(25,336)**	**204,295**	**201,325**
Net Worth	**62,521**	**59,847**	**90,468**	**81,902**	**22,559**	**22,102**	**(39,911)**	**(40,284)**	**135,637**	**123,567**
Cost of Acquisition of Physical Assets (Cash)	**2,334**	**2,896**	**3,991**	**4,367**	**1,765**	**2,244**	**-**	**1**	**8,090**	**9,508**

Statement of Segments (continued)

	Current Year Actual vs Prior Year Actual									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2018 $m	Actual 2017 $m	Actual 2018 $m	Actual 2017 $m	Actual 2018 $m	Actual 2017 $m	Actual 2018 $m	Actual 2017 $m	Actual 2018 $m	Actual 2017 $m
Revenue										
Taxation revenue	80,224	75,644	-	-	-	-	(628)	(671)	79,596	74,973
Other sovereign revenue	1,638	1,458	4,966	4,919	-	-	(1,381)	(1,296)	5,223	5,081
Revenue from core Crown funding	-	-	29,017	27,252	139	106	(29,156)	(27,358)	-	-
Sales of goods and services	1,598	1,607	2,269	2,194	14,911	13,675	(550)	(605)	18,228	16,871
Interest revenue	1,175	1,119	1,032	998	964	918	(373)	(308)	2,798	2,727
Other revenue	2,143	1,954	3,176	2,980	858	772	(2,049)	(1,936)	4,128	3,770
Total Revenue (excluding gains)	**86,778**	**81,782**	**40,460**	**38,343**	**16,872**	**15,471**	**(34,137)**	**(32,174)**	**109,973**	**103,422**
Expenses										
Transfer payments and subsidies	26,237	25,264	-	-	-	-	(871)	(805)	25,366	24,459
Personnel expenses	7,249	6,890	13,546	12,878	2,935	2,869	(40)	(38)	23,690	22,599
Other operating expenses	43,593	40,651	27,584	26,428	11,731	10,714	(32,101)	(30,006)	50,807	47,787
Interest expenses	3,497	3,534	95	158	1,058	1,060	(499)	(590)	4,151	4,162
Total Expenses (excluding losses)	**80,576**	**76,339**	**41,225**	**39,464**	**15,724**	**14,643**	**(33,511)**	**(31,439)**	**104,014**	**99,007**
Minority interest share of operating balance before gains/(losses)	(2)	-	-	10	(448)	(347)	25	(9)	(425)	(346)
Operating Balance before gains and losses (excluding minority interests)	**6,200**	**5,443**	**(765)**	**(1,111)**	**700**	**481**	**(601)**	**(744)**	**5,534**	**4,069**
Gains/(losses) and other items	3,243	6,621	291	1,530	161	124	(833)	(27)	2,862	8,248
Operating Balance (excluding minority interests)	**9,443**	**12,064**	**(474)**	**419**	**861**	**605**	**(1,434)**	**(771)**	**8,396**	**12,317**
Assets										
Financial assets	104,255	94,841	51,302	48,175	25,287	24,876	(23,324)	(20,842)	157,520	147,050
Property, plant and equipment	41,279	39,221	84,300	72,599	33,438	32,730	1	-	159,018	144,550
Investments in associates, CEs and SOEs	45,838	43,001	12,698	12,143	250	219	(43,370)	(41,153)	15,416	14,210
Other assets	3,656	3,313	1,659	1,870	2,729	2,730	(66)	(114)	7,978	7,799
Total Assets	**195,028**	**180,376**	**149,959**	**134,787**	**61,704**	**60,555**	**(66,759)**	**(62,109)**	**339,932**	**313,609**
Liabilities										
Borrowings	97,749	93,730	5,517	4,082	30,628	30,222	(18,242)	(16,228)	115,652	111,806
Other liabilities	34,758	34,898	53,974	50,804	8,517	8,326	(8,606)	(8,697)	88,643	85,331
Total Liabilities	**132,507**	**128,628**	**59,491**	**54,886**	**39,145**	**38,548**	**(26,848)**	**(24,925)**	**204,295**	**197,137**
Net Worth	**62,521**	**51,748**	**90,468**	**79,901**	**22,559**	**22,007**	**(39,911)**	**(37,184)**	**135,637**	**116,472**
Cost of Acquisition of Physical Assets (Cash)	**2,334**	**1,988**	**3,991**	**3,129**	**1,765**	**1,715**	**-**	**(4)**	**8,090**	**6,828**

Notes to the Financial Statements

Note 1: Basis of Reporting

Statement of compliance

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

These financial statements have been prepared in accordance with Public Sector PBE Accounting Standards (PBE Standards) – Tier 1. These standards are based on International Public Sector Accounting Standards (IPSAS).

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

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

These financial statements were authorised for issue by the Minister of Finance on 1 October 2018.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2018.

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 Financial Statements of the Government. Such entities are primarily in the education sector.

Basis of preparation

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

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

The accounting policies included in these financial statements are the significant accounting policies for the Financial Statements of the Government and appear in grey shaded boxes. A full list of Crown accounting policies can be found at http://www.treasury.govt.nz/publications/guidance/reporting/accounting.

Comparatives

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

Comparatives referred to as *Budget 2017* were 2018 forecasts published in the *2017 Budget Economic and Fiscal Update*, while *Budget 2018* were 2018 forecasts published in the *2018 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 forecast estimates.

Forecast new capital spending is an amount provided in the forecasts to represent the impact on the financial position and cash flows of capital initiatives expected to be introduced over the forecast period. Forecast new operating spending is an amount included in the forecasts to provide for the operating balance impact of policy initiatives, changes to demographics, and other forecasting changes expected to occur over the forecast period. Top-down adjustment is an adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to State-owned Enterprises or Crown entity forecasts.

Note 1: Basis of Reporting (continued)

Segment analysis

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

- Core Crown: This group, which includes Ministers, government departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund, most closely represents the budget sector and provides information that is useful for fiscal analysis purposes. Investments in Crown entities and SOEs are reported at historic cost in this segment with no impairment. This ensures losses in those entities are reflected in the appropriate segment.

- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

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

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

Accounting Standards issued and not yet effective and not early adopted

Standards and amendments to standards, issued but not yet effective that have not been early adopted, and that are relevant to these Financial Statements are:

Financial Instruments

PBE IFRS 9: *Financial Instruments* was issued in January 2017 replacing the existing standard PBE IPSAS 29 and NZ IAS 39, *Financial instruments: Recognition and Measurement.* The standard is effective for periods beginning on or after 1 January 2021. The Crown has resolved to early adopt this standard for non-hedge financial instruments from 1 July 2018 and has exercised the option under PBE IFRS 9 to continue to apply the hedge accounting requirements of PBE IPSAS 29.

The main changes under the standard for non-hedge financial instruments are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.

- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.

While the impact of the adoption continues to be assessed the following are expected to be the key areas of impact:

- The measurement classification rules mean that student loans are now valued at fair value, rather than the previous basis of amortised cost. This will result in a one-off increase of $628 million to the value of the student loan asset based on the valuation at 30 June 2018. This uplift reflects the different points in time that the student loan asset is measured under the two different methods (refer to Note 15).

- The impact on impairment allowances in relation to Kiwibank loans and advances have been reviewed as part of the bank's NZ IFRS 9 conversion project. As at 30 June 2018 Kiwibank's best estimate on the impact of the transition, due to the application of the expected credit loss model, is a +/- $2 million movement in equity as at 1 July 2018.

- Enhanced and updated disclosures especially around credit risk management and exposure.

Note 1: Basis of Reporting (continued)

Consolidated Financial Statements

PBE IPSAS 35 *Consolidated Financial Statements* issued in December 2016 (replacing IPSAS 6 *Consolidated and Separate Financial Statements*) is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted, but the Crown does not intend to adopt it before the 2019/20 Financial Statements of the Government.

The assessment to date of PBE IPSAS 35 against the entities in which the Government has an interest, suggests any significant impact on the entities consolidated in the financial statements is unlikely.

Employee Benefits

PBE IPSAS 39 *Employee Benefits* issued in January 2017 (updating the existing standard PBE IPSAS 25 *Employee Benefits*) is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted, but the Crown does not intend to adopt it before the 2019/20 Financial Statements of the Government.

The new standard will have an impact on the way the Government Superannuation Fund defined benefit pension scheme is presented in the financial statements with actuarial gains/losses being presented in the Statement of Other Comprehensive Revenue and Expenses rather than as a gain or loss in the Statement of Financial Performance (refer to Note 10 for values).

Government Reporting Entity as at 30 June 2018

Reporting entity

The Government reporting entity as defined in section 2(1) of the Public Finance Act 1989 means:

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

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

Basis of combination

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

Core Crown entities

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

Other entities

- State-owned Enterprises
- Crown entities (excluding tertiary education institutions)
- Air New Zealand Limited
- Regenerate Christchurch
- Education Council of Aotearoa New Zealand
- Organisations listed in Schedule 4 and 4A (*Non-listed companies in which the Crown is majority or sole shareholder*) of the Public Finance Act 1989
- Organisations listed in Schedule 5 (*Mixed ownership model companies*) of the Public Finance Act 1989
- Legal entities listed in Schedule 6 (*Legal entities created by Treaty of Waitangi Settlement Acts*) of the Public Finance Act 1989

The Crown has a full residual interest in all the above entities with the exception of Air New Zealand Limited, Tāmaki Redevelopment Company Limited (listed in Schedule 4A of the Public Finance Act 1989), Regenerate Christchurch, City Rail Link Limited and the entities listed in Schedule 5 of the Public Finance Act 1989 (Mixed Ownership Model Companies).

Note 1: Basis of Reporting (continued)

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

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

Core Crown Segment

Departments

Crown Law Office
Department of Conservation
Department of Corrections
Department of Internal Affairs
Department of the Prime Minister and Cabinet
Education Review Office
Government Communications Security Bureau
Inland Revenue Department
Land Information New Zealand
Ministry for Culture and Heritage
Ministry for Pacific Peoples
Ministry for Primary Industries
Ministry for the Environment
Ministry for Women
Ministry of Business, Innovation, and Employment
Ministry of Defence
Ministry of Education
Ministry of Foreign Affairs and Trade
Ministry of Health
Ministry of Justice
Ministry of Māori Development
Ministry of Social Development
Ministry of Transport
New Zealand Customs Service
New Zealand Defence Force
New Zealand Police
New Zealand Security Intelligence Service
Office of the Clerk of the House of Representatives
Oranga Tamariki, Ministry for Children
Parliamentary Counsel Office
Parliamentary Service
Serious Fraud Office
State Services Commission
(Includes Social Investment Agency as a departmental agency)
Statistics New Zealand
Te Kāhui Whakamana Rua Tekau mā Iwa—Pike River Recovery Agency
The Treasury

Offices of Parliament

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

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

Note 1: Basis of Reporting (continued)

State-owned Enterprises Segment

State-owned Enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
KiwiRail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited
Mercury NZ Limited
Meridian Energy Limited

Other

Air New Zealand Limited
Kiwi Group Holdings Limited (including Kiwibank)

Crown entities Segment

Crown entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Families Commission
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
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

Note 1: Basis of Reporting (continued)

Crown entities Segment (continued)

School Boards of Trustees (2,406)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Transport Accident Investigation Commission
WorkSafe New Zealand

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust
Asia New Zealand Foundation
Fish and Game Councils (12)
Game Animal Council
Leadership Development Centre Trust
Māori Trustee
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngāi Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Reserves Boards (21)
Te Ariki Trust

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

Crown Asset Management Limited
Crown Infrastructure Partners Limited (previously Crown Fibre Holdings Limited)
Education Payroll Limited
Ōtākaro Limited
Predator Free 2050 Limited
Research and Education Advanced Network New Zealand Limited
Southern Response Earthquake Services Limited
Tāmaki Redevelopment Company Limited
The Network for Learning Limited

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

Te Urewera

Others

Education Council of Aotearoa New Zealand
Regenerate Christchurch
Christ Church Reinstatement Trust

Other entities not fully consolidated into the financial statements of the Government with only the Crown's interest in them being included

Crown entities

Tertiary Education Institutions (27)

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

City Rail Link Limited

Tertiary education institutions are equity-accounted for the reasons explained in note 17 and City Rail Link Limited is reported as a joint operation as a consequence of the agreements with Auckland Council in these financial statements for the period ended 30 June 2018. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

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

Note 2: Key Assumptions and Judgements

These financial statements reflect the Government's financial position (service potential and financial capacity) as at 30 June 2018, and the financial results of operations and cash flows for the year ended on that date. Underpinning these financial statements are a number of judgements, estimations and assumptions. These include assumptions and judgements about the future, in particular, the service benefits and future cash flows in relation to existing assets and liabilities.

Key assumptions

The assumptions in these financial statements are based on the best information available at the time of their preparation. Given the inherent uncertainty of predicting the future, actual events are likely to differ from these assumptions, which may have a material impact on the results reported in these financial statements Key assumptions are discussed below.

	Assumption
Foreign exchange rates	That foreign currency denominated financial assets and liabilities will be able to be translated to New Zealand dollars at the exchange rate prevailing at balance date.
Share prices	That listed share investments, which consist of approximately 95% of the Government's total share investments, can be realised at quoted market prices at balance date.
Interest rates	That current market yield curves provide an appropriate basis for determining the value of the majority of marketable securities and borrowings.
Carbon price	That the carbon price, determined by the Ministry for the Environment based on the quoted NZU spot price at the end of the reporting date as published by OM Financial Limited on their CommTrade Carbon website, reflects the value of units that will be surrendered to the Crown.
Property prices	That current property prices, determined using market evidence, provide the most relevant basis on which to value land and buildings owned by the Crown.
Depreciation rates	That the economic useful life of assets (used to determine depreciation rates) will equate to the estimates determined using a combination of engineering and historical evidence.
Student loans	That the effective interest rate, consumer price index adjustment, future salary inflation rate and interest rate for overseas borrowers are appropriate for the valuation of student loans.
Asset Purpose	That assets will continue to be held for their intended purpose. Assets that are held for commercial purposes are subject to a commercially recoverable amount test (the higher of the income that can be generated from the asset, or the proceeds from its sale). Assets that are held for public benefit purposes are generally valued at optimised depreciated replacement cost. Optimisation means that surplus assets are identified. If not surplus, it can be assumed the asset will be replaced, and therefore the asset value is not reduced below its optimised depreciated replacement cost. If surplus, the asset will be valued at its net selling price.

With respect to the asset purpose assumption, the valuation of the Rail Freight Network is particularly uncertain at present. Treated as a for-profit asset since 2012, this asset has a carrying value of $186 million (2017: $96 million). The Crown is currently conducting a review to consider KiwiRail's structure, capital requirements and funding mechanisms within the context of rail's purpose within a multi modal transport system. This review may change the assumptions underlying the future valuations of KiwiRail's Rail Freight Network.

Decisions from this review, expected in early 2019, may affect the mix of assets and operations, the extent of the rail network, and which of the entities within the Crown might own those assets and/or perform those operations. That in turn could result in some or all of the freight assets being revalued using the optimised depreciated replacement cost methodology that was used prior to 2012. The potential impact of this revaluation could increase the asset value up to $5.1 billion and result in the reversal of some or all of the $1.4 billion impairment expense previously recognised. For further information, see note 16.

Note 2: Key Assumptions and Judgements (continued)

A number of long-term assets and liabilities are valued by estimating future cash flows which are then discounted to present value. Some of the cash flows, in particular those relating to long-term liabilities (eg, ACC and GSF obligations) use assumptions to predict cash flows as far as 80 years into the future. Therefore, changes in a number of economic variables can have a significant impact on the Government's financial position and performance. The most significant of these are:

Economic variable	**Assumptions and Methodology**
Inflation rates	Inflation rate assumptions are used to help estimate future cash flows, as prices are expected to increase through time. The consumer price index (CPI) is most commonly used to indicate the inflation rate. However, some costs (referred to as superimposed inflation) are assumed to increase faster than the rate of inflation due to factors such as innovation in medical treatment.
Discount rates (time value of money)	Discount rates are used to determine the value of future cash flows in today's dollar values. The Treasury sets a risk free discount rate for accounting valuation purposes. In the near term discount rates are based on market data and then smoothed to a single long-term risk-free interest rate of 4.75%. A full description of the evidence and methodology used to determine this rate can be found at: http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates
Amount and duration of future cash flows	Judgements around the duration of future cash flows are critical for valuations. Some examples of this are: • the length of rehabilitation from injuries for the ACC obligation • mortality rates for the GSF obligation • repayment rates of student loans. These assumptions are largely based on extrapolating historical experience. As time goes on, better information becomes available and estimates are updated to reflect more current information.

Sensitivity of key assumptions

The tables below outline the sensitivity of the key assumptions discussed above on the significant valuations included in the statement of financial position. They do not include second or third-order effects on forecast revenues and expenses. A negative impact on the Operating Balance is designated by the use of brackets.

The value of financial assets and financial liabilities are particularly sensitive to changes in market prices and account for a significant portion of the financial position. At 30 June 2018 financial assets totalled $142.5 billion (2017: $133.3 billion) while financial liabilities totalled $131.4 billion (2017: $128.4 billion).

	Impact on operating balance	
	2018	**2017**
	$m	**$m**
NZ dollar exchange rate strengthens by 10%	(846)	(793)
NZ dollar exchange rate weakens by 10%	983	922
Share prices strengthen by 10%	3,580	3,044
Share prices weaken by 10%	(3,580)	(3,044)
Increase in NZ interest rates 1% (100 basis points)	(1,550)	(946)
Decrease in NZ interest rate 1% (100 basis points)	1,697	1,122
NZD carbon price increases by $1	(120)	(118)
NZD carbon price decreases by $1	120	118

In relation to assumptions concerning property prices, land and buildings account for 57% (2017: 58%) of total property, plant and equipment and 67% (2017: 68%) of the asset revaluation reserve. A significant decline in property prices would not impact the operating balance but would reduce net worth.

Note 2: Key Assumptions and Judgements (continued)

Long term liabilities such as the ACC claims liability $43.3 billion (2017: $40.3 billion) and the GSF retirement plan $11.0 billion (2017: $11.0 billion) are particularly sensitive to the assumptions associated with estimating discounted cash flows. The table below outlines the sensitivity of those liabilities to key assumptions:

	Change	Impact on operating balance	
		2018	2017
		$m	$m
Sensitivity of assumptions			
Risk-free discount rate	+1%	7,392	6,675
	-1%	(9,559)	(8,712)
Inflation rates (including superimposed inflation)	+1%	(9,566)	(8,769)
	-1%	7,375	6,818
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims (ACC only)	+1%	(3,272)	(3,233)
	-1%	2,555	2,384
Average weighted term to settlement from reporting date (ACC only)	+1 year	470	1,139
	-1 year	(479)	(1,175)

Areas of significant estimation

These financial statements include estimated amounts that have a number of uncertainties (discussed below).

Key estimation	Basis of estimation
Recognition of tax revenue and associated receivables	The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. **Income tax** Income tax revenue is recognised on an accruals basis in the period the taxable event occurs. It is deemed to accrue evenly over the period to which it relates. Where income tax returns have not been filed for the relevant period, accrued income tax revenue receivable or payable has been estimated based on current provisional assessments or prior year terminal assessments. The outcome of income tax revenue and refunds is not known with certainty until income tax returns for the period have been filed. This usually occurs sometime after the publication of these financial statements. The measurement of the tax revenue accruals requires significant estimates where terminal tax assessments are not yet available for the period. Key features of the estimation used are as follows: • Where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment for the period, revenue is recognised based on provisional tax at balance date plus estimated provisional tax due after the balance date that relates to the current period. The estimation of provisional tax due after balance date uses forecast cash flows from Treasury which are based on assumptions in the Treasury's most recent *Budget Economic and Fiscal Update*. A key assumption in this estimation is the split of cash receipts between terminal and provisional tax. This split is calculated based on historical information. A change in the assumption may change the amount of revenue recognised. • Where taxpayers have made payments to Inland Revenue but have not submitted a provisional tax assessment for the period, their credit balance is accrued as revenue. Payments into the tax pool are not captured by this approach as payments into the tax pool are not limited to provisional tax and information as to their nature is not available. At year-end this is not considered to be material as provisional assessments should have been filed for the year-end.

Note 2: Key Assumptions and Judgements (continued)

Key estimation	Basis of estimation
Recognition of tax revenue	• For individual taxpayers not subject to provisional tax, an estimate is made of the tax revenues receivable and refundable based on prior year returns adjusted for current year experience. • For company taxpayers not subject to provisional tax for the current year, revenue is recognised when terminal tax is assessed, ie, no estimate of tax revenue is accrued in the period of the taxable event. This is because a reliable estimate cannot be made in the period of the taxable event. **Business Transformation** The Inland Revenue (IR) is currently undertaking a major business transformation process which involves implementing a new core IT platform, START (Simplified Tax And Revenue Technology). As with any major transformation, the IR may identify things that they can or should be doing differently. As maintaining the integrity of the tax system is critical, any systematic or procedural issues that are identified are, and will be, resolved in a timely and accurate way.
Rail network	These financial statements report the value of the rail network at $1.1 billion (2017: $0.9 billion). The rail network infrastructure used for freight services (including dual use assets required for freight operations) is measured at fair value, reflecting the amount that could be expected to be received from a third party in an orderly transaction. The portion of dual use assets not required for freight operations and metro only assets are reported in these financial statements at an optimised depreciated replacement cost basis, as the community benefits enabled by this investment do not provide a return at the whole-of-Government level. The valuation of the freight services on a commercial basis reflects the objectives of the Government to achieve a commercial return on those assets. Any change from a commercial valuation to public benefit valuation at optimised depreciated replacement cost would result in a significant increase in the reported value of rail assets as disclosed in note 16.
Electricity generation assets	These financial statements report the value of electricity generation assets at $15.9 billion (2017: $15.9 billion). There are a number of key assumptions used to value electricity generation assets. These assumptions relate to future revenue streams and expenses and generation volumes, as well as the discount rate used to calculate the present value of those revenues and expenses.

Note 2: Key Assumptions and Judgements (continued)

Key estimation	Basis of estimation
State Highway network (excluding land)	These financial statements report the value of the state highway network at $31.7 billion (2017: $23.8 billion). There are necessarily significant assumptions and judgements required in determining the replacement values assigned to different components (pavement, formation, bridges, etc,) of the state highway network, the appropriate overhead cost factors to apply and the life of component assets for depreciation. These assumptions are set out in Note 16. The valuation inputs and/or assumptions subject to the most estimation uncertainty are: • Preliminary and general costs (P&G costs). P&G costs are the construction overheads on projects. An analysis of recent projects revealed that P&G costs are higher than previously estimated due to higher on-site construction overheads and general costs increases. This has resulted in an increase in P&G costs from 10% for roading assets and 15% for structures to an average of 34% across all project types. • Professional fees. Professional fees are the costs of professional services of external consultants and internal costs for investigations, design, project management and quality assurance. Professional fees of 15% are derived based on project averages. • Formation Formation is the constructed land form profile and platform on which the pavement structure is built. The unit cost used on the valuation are based on those established by the valuer over several years valuing the state highway and local roading networks and indexed to 2018 dollars. • Bridges Bridge construction dates, lengths, widths and associated characteristics are extracted from the NZ Transport Agency's database. The replacement cost of bridges is based on bridge span (single or multi-span) or if it is a motorway ramp. There is also a provision for bridges that have been deemed to be exceptional in nature/service level in which case a specific unit cost has been applied. • Brownfield costs Brownfield cost is a generic term for the additional costs of constructing in a particular location because of the increased intensity of surrounding land use compared to the cost of constructing in a vacant greenfield situation. They include one-off capital works relating to relocation and refurbishment of assets owned by other parties, and compensation to landowners. Other components of the brownfield cost result from the increased constraints or requirements imposed when constructing in an already developed location, such as increased traffic management and security, noise and dust limitations and restricted hours of work. The valuation does not include a specific allowance for "historic brownfield" costs for assets prior to 2014. However, it is estimated that a significant portion of existing brownfields costs has been captured as a result of the 2017/18 review of the P&G costs. Work undertaken in 2017/18 has reduced the likelihood of understatement of the state highway valuation; however, further work is planned to improve the valuation. The intention is to continue to refine the valuation process in 2018/19, with a focus on professional fees, formation costs and ongoing monitoring of brownfield costs.

Note 2: Key Assumptions and Judgements (continued)

Other uncertainties

In addition to those items in the statement of financial position there are a number of liabilities or assets that may arise in the future but are not currently recognised. This is because they are dependent on uncertain future events occurring or the liability/asset cannot be measured reliably. If these contingencies crystallise, there will be an associated impact on the operating balance and net worth of the Crown. These contingencies are reported in note 25 of these financial statements.

Risk management

The Crown's financial position at balance date is exposed to risks through possible changes in the key assumptions and judgements described above that could materially impact on the value of the Crown's assets and liabilities.

The Crown's current risk management framework generally involves holding individual government reporting entities responsible for managing the risks that they individually face, subject to legislation and central guidance such as the Public Finance Act 1989 and Treasury Instructions. Government-wide financial resilience is supported through relatively low debt levels, a strong financial position and effective budgeting.

With respect to its financial portfolios, the Government's financial instrument holdings expose it primarily to the financial risks of changes in interest rates, foreign exchange rates, risk of default and liquidity risk. These risks are managed at portfolio level consistent with the policy purpose of the portfolio and risk management objectives. Detailed information on the exposure to market risk and policies for managing this risk are available in the separate financial statements prepared by the entities who manage each portfolio.

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

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

Derivative financial instruments are often used across the portfolios to manage exposure to interest rate, and foreign currency risk. Refer to pages 123 and 124 for further derivative information.

Note 3: Sovereign Revenue

2018 Forecast Budget 2017 $m	2018 Forecast Budget 2018 $m		Actual 30 June 2018 $m	Actual 30 June 2017 $m
		Direct Income Tax Revenue		
		Individuals		
29,498	30,380	Source deductions	30,721	28,641
6,497	6,661	Other persons	6,819	6,382
(1,686)	(1,777)	Refunds	(2,102)	(1,638)
554	555	Fringe benefit tax	559	525
34,863	**35,819**	**Total individuals**	**35,997**	**33,910**
		Corporate Tax		
12,110	12,622	Gross companies tax	13,022	12,228
(206)	(187)	Refunds	(157)	(188)
589	638	Non-resident withholding tax	627	599
-	3	Foreign-source dividend withholding payments	3	(10)
12,493	**13,076**	**Total corporate tax**	**13,495**	**12,629**
		Other Direct Income Tax		
1,519	1,545	Resident withholding tax on interest revenue	1,531	1,472
685	762	Resident withholding tax on dividend revenue	753	743
2,204	**2,307**	**Total other direct income tax**	**2,284**	**2,215**
49,560	**51,202**	**Total direct income tax**	**51,776**	**48,754**
		Indirect Income Tax Revenue		
		Goods and Services Tax		
32,354	33,448	Gross goods and services tax	33,899	31,259
(11,774)	(12,757)	Refunds	(13,086)	(11,751)
20,580	**20,691**	**Total goods and services tax**	**20,813**	**19,508**
		Other Indirect Taxation		
1,900	1,911	Petroleum fuels excise and duty[1]	1,898	1,908
1,715	1,753	Tobacco excise and duty[1]	1,807	1,677
1,437	1,505	Road user charges	1,551	1,469
1,003	1,028	Alcohol excise and duty[1]	1,017	985
148	172	Other customs duty	172	152
529	563	Miscellaneous indirect taxation	562	520
6,732	**6,932**	**Total other indirect taxation**	**7,007**	**6,711**
27,312	**27,623**	**Total indirect taxation**	**27,820**	**26,219**
76,872	**78,825**	**Total taxation revenue**	**79,596**	**74,973**
		Other Sovereign Revenue		
2,689	2,721	ACC levies	2,643	2,882
518	562	Fire service levies	568	392
329	309	EQC levies	309	283
261	229	Child support and working for families penalties	231	262
96	96	Court fines	118	105
1,164	1,323	Other miscellaneous items	1,354	1,157
5,057	**5,240**	**Total other sovereign revenue**	**5,223**	**5,081**
81,929	**84,065**	**Total sovereign revenue**	**84,819**	**80,054**

1 Includes customs excise-equivalent duty.

More detailed unaudited information on tax revenue and receipts can be found at www.treasury.govt.nz/government/revenue/taxoutturn

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.

Note 3: Sovereign Revenue (continued)

Tax revenue is recognised when a tax recognition point has occurred and the tax revenue can be reliably measured as described in the table below.

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax (RWT)	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Income tax	The earning of assessable income during the taxation period by the taxpayer
Goods and services tax (GST)	When the purchase or sale of taxable goods and services occurs during the taxation period
Customs and excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment of the fee or charge is made
Other indirect taxes	When the debt to the Crown arises
ACC levies	The levy revenue is earned evenly over the levy period
Other levies	When the obligation to pay the levy is incurred

Note 4: Sales of Goods and Services

2018 Forecast			Actual	
Budget 2017 $m	Budget 2018 $m		30 June 2018 $m	30 June 2017 $m
8,102	9,344	Sales of goods	9,155	8,259
8,892	9,133	Rendering of services	9,073	8,612
16,994	**18,477**	**Total sales of goods and services**	**18,228**	**16,871**

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received.

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

Note 5: Investment Income/(Expense)

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		Interest Revenue		
601	590	Student loans (interest unwind)	604	602
1,274	1,204	Other financial assets classified as amortised cost or available for sale	1,223	1,190
3	3	Financial assets classified as held for trading	4	4
929	943	Financial assets classified as fair value through the operating balance	967	931
2,807	**2,740**	**Total interest revenue**	**2,798**	**2,727**
		Interest Expense		
4,207	4,180	Financial liabilities classified as amortised cost	3,803	3,834
(22)	(90)	Financial liabilities classified as fair value through the operating balance	309	296
39	31	Interest unwind on provisions	39	32
4,224	**4,121**	**Total interest expenses**	**4,151**	**4,162**
(1,417)	**(1,381)**	**Net interest income/(expense)**	**(1,353)**	**(1,435)**
		Gains and Losses on Financial Instruments		
12	123	Foreign exchange gains on financial assets and financial liabilities measured at amortised cost	1,486	7
(8)	352	Foreign exchange losses on financial assets and financial liabilities measured at amortised cost	(183)	(448)
-	-	Change in fair value of financial assets and financial liabilities classified as held for trading	4	3
(101)	(6)	Gains/(losses) on disposal of financial assets and financial liabilities measured at amortised cost	(107)	(214)
1,619	5,085	Change in fair value of financial assets and financial liabilities classified as fair value through the operating balance	7,491	2,071
1,522	**5,554**	**Net gains/(losses) on financial assets and financial liabilities**	**8,691**	**1,419**
1,016	(303)	Net gain/(loss) on derivatives	(3,360)	4,911
2,538	**5,251**	**Net gains/(losses) on financial instruments**	**5,331**	**6,330**
		Other investment income/(expense)		
917	833	Dividend income	877	871
917	**833**	**Total other investment income/(expense)**	**877**	**871**
2,038	**4,703**	**Total investment income/(expenditure)**	**4,855**	**5,766**

Student loans are advanced on an interest-free basis, therefore they are discounted to reflect their fair value. The interest unwind reflects the increase in value as the period to repayment reduces (refer note 15).

Interest revenue and expense is accrued using the effective interest method. The effective interest rate exactly discounts estimated future cash receipts / payments through the expected life of the financial instrument's net carrying amount. The method applies this rate to the principal outstanding to determine interest revenue or expense each period.

Gains and losses may be reported in the Statement of Financial Performance when assets and liabilities are revalued in certain circumstances as described in the accounting policies for those assets and liabilities. For the purposes of reporting the operating balance before gains and losses (OBEGAL) these gains and losses are excluded from total revenue and total expenses; and presented elsewhere in the Statement of Financial Performance.

Note 6: Other Revenue

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
621	587	Rental revenue	581	575
917	833	Dividends	877	871
208	213	Sale of royalties	270	222
1	31	EQC insurance claim on reinsurers	83	(216)
2,088	2,290	Other revenue	2,317	2,318
3,835	**3,954**	**Total other revenue**	**4,128**	**3,770**

Income related rents for social housing tenants were presented gross in previous financial years. This year this revenue and expenditure has been eliminated between Government reporting entities, as this payment is more like a subsidy than rental payments on behalf of tenants. Rental revenue in 2017 has been restated from $1,380 million to $575 million. Budget comparatives have also been restated.

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

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

Note 7: Transfer Payments and Subsidies

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
13,671	13,703	New Zealand superannuation	13,699	13,043
1,663	1,693	Jobseeker support and emergency benefit	1,697	1,697
1,823	1,696	Family tax credit	1,639	1,723
1,531	1,540	Supported living payment	1,541	1,533
1,218	1,208	Accommodation assistance	1,204	1,127
1,117	1,109	Sole parent support	1,117	1,159
810	920	KiwiSaver subsidies	897	743
644	647	Official development assistance	643	520
603	575	Other working for families tax credits	556	596
505	509	Student allowances	511	465
118	37	Income related rent subsidy	19	10
379	379	Disability allowances	379	377
1,598	1,524	Other social assistance benefits	1,464	1,466
25,680	**25,540**	**Total transfer payments and subsidies**	**25,366**	**24,459**

Income related rent payments for social housing tenants were presented gross in previous financial years. This year this revenue and expenditure has been eliminated between Government reporting entities, as this payment is more like a subsidy than rental payments on behalf of tenants. Due to a change in accounting policy in the current year, income related rent subsidy has been restated from $815 million in 2017 to $10 million. Budget comparatives have also been restated.

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

Note 8: Personnel Expenses

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
21,656	22,107	Salaries and wages	21,812	20,966
457	552	Costs incurred on defined contribution plans (eg, KiwiSaver)	628	591
262	182	Costs incurred on GSF and other defined benefit plans	174	245
628	828	Other personnel expenses	1,076	797
23,003	**23,669**	**Total personnel expenses**	**23,690**	**22,599**

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised as an expense 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.

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

Termination expenses 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 as the expense arises as a result of an offer to encourage voluntary redundancy. Termination expenses 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.

Key management personnel compensation was $11 million (2017: $10 million). This reflects salaries, benefits and allowances. Key management personnel are the 28 Ministers of the Crown who are members of the Executive Council (including the Prime Minister).

The Ministers' remuneration and other benefits are set out by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013. Members of Parliament, including members of the Executive, have access to other non-cash entitlements as determined by the Speaker of the House of Representatives. Details of these entitlements (eg, travel discounts) can be found on the New Zealand Parliament website (www.parliament.govt.nz).

Note 9: Other Operating Expenses

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
5,611	5,574	Grants and subsidies	5,436	4,906
1,721	1,939	Repairs and maintenance	2,209	1,986
1,272	1,371	Rental and leasing costs	1,363	1,289
1,175	1,229	Clinical supplies	1,290	1,218
743	720	Amortisation and impairment of non-financial assets	906	1,102
1,047	646	Impairment of financial assets	590	607
801	1,049	Cost of concessionary lending	704	753
541	699	Lottery prize payments	686	652
371	358	Inventory expenses	278	278
3	3	Fees paid to audit firms other than the Auditor-General (refer below)	4	5
27,715	29,242	Other operating expenses	28,148	25,500
41,000	**42,830**	**Total other operating expenses**	**41,614**	**38,296**

Note 9: Other Operating Expenses (continued)

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

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

Audit fees paid to the Controller and Auditor-General

Fees paid to the Controller and Auditor-General (including independent auditors providing services on behalf of the Controller and Auditor-General) for the audit of the financial statements of the Government and its reporting entities were $42.0 million (2017: $41.8 million). These fees include $0.2 million (2017: $0.2 million) for the audit of these financial statements. Audit fees for assurance and related services paid to the Controller and Auditor-General were $1.5 million (2017: $0.8 million). As the Controller and Auditor-General is part of the Government reporting entity, these fees are eliminated on consolidation.

Note 10: Net Gains and Losses on Non-Financial Instruments

2018 Forecast				Actual	
Budget 2017 $m	Budget 2018 $m		Note	30 June 2018 $m	30 June 2017 $m
-	(883)	Actuarial gains/(losses) on ACC outstanding claims	11	(1,881)	387
-	(149)	Actuarial gains/(losses) on GSF liability	20	(553)	964
-	(448)	Gains/(losses) on the Emissions Trading Scheme	21	(462)	73
(88)	(93)	Gains/(losses) on disposal or revaluation of property, plant and equipment		71	(193)
-	(6)	Other gains/(losses) on non-financial instruments		23	90
(88)	**(1,579)**	**Net gains/(losses) on non-financial instruments**		**(2,802)**	**1,321**

The ACC and GSF liabilities are valued by an independent actuary (refer notes 11 and 20). Actuarial gains/(losses) represent differences between actual results and what the actuary had assumed when previously calculating the liability and the effect of changes in actuarial assumptions (experience adjustments).

Note 11: Insurance

2018 Forecast			Actual	
Budget 2017 $m	Budget 2018 $m		30 June 2018 $m	30 June 2017 $m
		Insurance expense by entity		
4,613	4,758	Accident Compensation Corporation (ACC)	4,363	4,587
(28)	76	Earthquake Commission (EQC)	514	332
(49)	(54)	Southern Response	(28)	325
10	60	Other	69	174
4,546	**4,840**	**Total insurance expenses**	**4,918**	**5,418**

At 30 June 2018 the total amount paid or payable for damage in relation to the Canterbury earthquakes was reassessed and is now expected to be lower than previously expected. This reduction is recognised as a credit in the claims expense for Southern Response.

Note 11: Insurance (continued)

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		Insurance liability by entity		
40,707	42,725	ACC liability	43,314	40,288
295	925	EQC property damage liability	1,453	1,853
166	358	Southern Response liability	401	668
51	101	Other insurance liabilities	126	57
-	-	Inter-segment eliminations	-	(80)
41,219	**44,109**	**Total insurance liabilities**	**45,294**	**42,786**
		By component		
		Outstanding claims liability	42,351	39,998
		Unearned premium liability	2,134	2,019
		Unearned premium liability deficiency	809	769
		Total insurance liabilities	**45,294**	**42,786**
		By maturity		
		Expected to be settled within one year	6,920	7,256
		Expected to be outstanding for more than one year	38,374	35,530
		Total insurance liabilities	**45,294**	**42,786**
		Assets arising from insurance obligations are:		
		Receivables for premiums	2,381	2,280
		Reinsurance claim recoveries	236	222

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

Further information on these liabilities may also be found in the annual reports of each of these entities and on their respective websites. The objectives, policies and procedures for managing these risks are set out in the governing statutes and policy documents of each entity.

All assets held by the three insurance entities are considered available to back present and future claims obligations. There are no deferred acquisition costs (eg, marketing costs) in respect of insurance obligations at the reporting date. In addition each of these entities is backed by a guarantee from the Crown.

The outstanding claims liability is the present value of the central estimate of expected payments for claims incurred plus a risk margin. The unearned premium liability represents premiums received to provide insurance cover after 30 June 2018. The unearned premium liability deficiency is the extent that the unearned premium liability is insufficient to cover expected future claims (ie, payments for future accidents within the period covered by the premiums received).

The remainder of this note provides detailed analysis of the ACC insurance expense and liability.
ACC's insurance obligations arise primarily from the accident compensation scheme provision of no fault personal injury cover for all New Zealand citizens, residents and temporary visitors to New Zealand.

Note 11: Insurance (continued)

	Actual 30 June 2018 $m	30 June 2017 $m
Analysis of ACC Insurance Expense		
By type		
Claims expense	6,578	4,524
Movement in unearned premium deficiency liability	92	109
Other underwriting expenses	191	160
Total ACC claims and other expenses	**6,861**	**4,793**
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss) - (refer note 10)	(1,881)	387
Operating costs relating to claims	(617)	(593)
Total ACC insurance expenses (excluding gains/(losses) and operations)	**4,363**	**4,587**

Net claims incurred in the table below refers to the adjustment in the liability arising from claims incurred in the current financial year and reassessment of claims incurred in previous years. This reassessment results from new information on these claims (including new claims relating to incidents incurred in previous years) and changes in assumptions.

	Actual 30 June 2018 $m	30 June 2017 $m
ACC Claims Incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	8,435	8,117
Discount and discount movement	(3,820)	(3,902)
Total current year net claims incurred	**4,615**	**4,215**
Previous years' net ACC claims incurred		
Reassessment of gross claims and expenses – undiscounted	696	7,113
Discount and discount movement	1,267	(6,804)
Total previous years' net claims incurred	**1,963**	**309**
ACC claims expense	**6,578**	**4,524**

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

	Actual 30 June 2018 $m	30 June 2017 $m
Net ACC Underwriting Result		
Premium revenue (refer to note 3)	2,643	2,882
ACC underwriting revenue	**2,643**	**2,882**
Less claims and other expenses	(6,861)	(4,793)
Net ACC underwriting surplus/(deficit)	**(4,218)**	**(1,911)**
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	2,844	2,820
Cash payments	(3,904)	(3,590)
Net ACC operating cash flows	**(1,060)**	**(770)**

Note 11: Insurance (continued)

Analysis of ACC insurance liability

An independent actuarial estimate by Taylor Fry, consulting actuaries, has been made of the future expenditure relating to accidents that occurred prior to balance date, whether or not the claims have been reported to or accepted by ACC. The Taylor Fry actuarial report is signed by Mr Alan Greenfield, Fellow of the Institute of Actuaries of Australia and Mr Ross Simmonds, Fellow of the New Zealand Society of Actuaries. Mr Ross Simmonds is also a Fellow of the Institute and Faculty of Actuaries (UK).

	Actual	
	30 June 2018 $m	**30 June 2017 $m**
The ACC liability comprises:		
ACC outstanding claims liability	40,605	37,739
ACC unearned premium liability	1,937	1,870
ACC unearned premium liability deficiency	772	679
Total ACC liability	**43,314**	**40,288**
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	83,021	78,259
Discount adjustment	(47,069)	(44,854)
Risk margin	4,653	4,334
Total outstanding ACC claims liability	**40,605**	**37,739**
Discounted central estimate of future payments for outstanding claims	33,856	31,466
Claims handling expenses	2,096	1,939
Outstanding claims liability before risk margin	**35,952**	**33,405**
Risk margin	4,653	4,334
Total outstanding ACC claims liability	**40,605**	**37,739**
Movement in Outstanding ACC Claims Liability		
Opening balance	37,739	36,663
Claims incurred for the year	4,688	4,849
Claims paid out in the year	(4,436)	(4,138)
Discount rate unwind	733	752
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	(735)	1,849
- change in discount rate	2,724	(3,452)
- change in inflation rate	(108)	1,216
Closing outstanding ACC claims liability	**40,605**	**37,739**

Note 11: Insurance (continued)

	Actual 30 June 2018 $m	30 June 2017 $m
Movement in ACC Unearned Premium Liability		
Opening balance	1,870	1,873
Earning of premiums previously deferred	(1,870)	(1,873)
Deferral of premiums on current year contracts	1,937	1,870
Closing ACC unearned premium liability	**1,937**	**1,870**
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	1,937	1,870
Adjusted for unearned premium relating to claims arising from medical misadventure premium liabilities without deficiency	(112)	(107)
Adjusted ACC unearned premium liability	**1,825**	**1,763**
Discounted central estimate of payments for insured future claims	2,333	2,194
Risk margin	264	248
Present value of expected cash flows for future accident claims	**2,597**	**2,442**
Total ACC unearned premium liability deficiency	**772**	**679**

Claims development historical analysis

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

	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	30 June 2018 $m
Estimate of ultimate claims costs:								
At the end of the accident year	6,877	6,794	7,264	7,192	6,884	7,914	8,038	
One year later	6,118	6,608	6,547	6,682	7,272	7,160		
Two years later	5,546	5,762	5,823	7,062	7,230			
Three years later	4,979	5,007	6,252	7,382				
Four years later	4,458	5,180	6,316					
Five years later	4,780	5,633						
Six years later	5,068							
Current estimate of cumulative claim costs	5,068	5,633	6,316	7,382	7,230	7,160	8,038	46,827
Cumulative payments	(1,597)	(1,688)	(1,833)	(1,940)	(1,907)	(1,772)	(1,119)	(11,856)
Outstanding claims undiscounted	**3,471**	**3,945**	**4,483**	**5,442**	**5,323**	**5,388**	**6,919**	**34,971**
Discount								(20,978)
Claims handling costs								2,363
2011 and prior claims (net present value)								24,227
Short tail outstanding claims								22
Total outstanding ACC claims liability								**40,605**

Note 11: Insurance (continued)

Key assumptions

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

(i) Risk-free discount rates

The projected cash flows were discounted using a series of forward discount rates at the balance date derived from the yield curve for New Zealand government bonds. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is a short term discount rate of 3.51% (2017: 3.8%) and a long term discount rate of 4.75% beyond 39 years (2017: 4.75% beyond 39 years).

(ii) Risk margin

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

(iii) Inflation and indexation

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

(iv) Rehabilitation rate

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

(v) Liability adequacy test

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

Note 11: Insurance (continued)

	30 June 2018 Next Year	30 June 2018 Beyond Next Year	30 June 2017 Next Year	30 June 2017 Beyond Next Year
Summary of assumptions				
Average weighted term to settlement from reporting date	16 years 8 months		16 years 1 month	
Weighted average risk margin	13.0%		13.0%	
Probability of adequacy of liability	75.0%		75.0%	
Weighted average risk margin for liability adequacy test	13.0%		13.0%	
Probability of adequacy of liability to cover unearned premiums	75.0%		75.0%	
Risk-free discount rate	1.8%	1.9% to 4.8%	2.0%	2.4% to 4.8%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	1.9%	1.9% to 2.2%	2.7%	2.7% to 3.0%
Impairment benefits	1.7%	1.7% to 2.0%	2.2%	1.7% to 2.0%
Social rehabilitation benefits (serious and non serious injury)	1.9%	1.9% to 2.2%	1.9%	1.9% to 2.2%
Hospital rehabilitation benefits	1.9%	1.9% to 2.2%	1.9%	1.9% to 2.2%
Medical costs	1.9%	1.9% to 2.2%	1.9%	1.9% to 2.2%
Superimposed inflation:				
Social rehabilitation benefits (serious injury)	0.2%	0.0% to 3.2%	19.0%	1.2% to 7.5%
Social rehabilitation benefits (non-serious injury)	0.7%	0.8% to 3.2%	5.1%	1.0%
Hospital rehabilitation benefits	3.0%	3.0%	4.0%	4.0%
Medical costs (GPs)	3.0%	3.0%	3.0%	3.0%
Medical costs (Radiology)	2.0%	2.0%	2.0%	2.0%
Medical costs (Physiotherapists)	2.0%	2.0%	2.0%	2.0%
Medical costs others (specialists)	2.5%	2.5%	2.5%	2.5%

Note 11: Insurance (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 2018 $m	30 June 2017 $m
Sensitivity of assumptions			
Average weighted term to settlement from reporting date	+1 year	(470)	(1,139)
	-1 year	479	1,175
Risk-free discount rate	+1%	(5,791)	(5,114)
	-1%	7,624	6,826
Inflation rates (including superimposed inflation)	+1%	7,781	7,031
	-1%	(5,859)	(5,342)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	1,494	790
	-1%	(1,206)	(594)
Social rehabilitation benefits - superimposed inflation after two years for serious injury claims	+1%	3,272	3,233
	-1%	(2,555)	(2,384)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $35,952 million (2017: $33,405 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 2018. These estimated cash flows include the effects of assumed future inflation.

	Actual	
	30 June 2018 $m	30 June 2017 $m
No later than 1 year	2,712	2,559
Later than 1 year and no later than 2 years	1,927	1,885
Later than 2 years and no later than 5 years	4,948	4,782
Later than 5 years and no later than 10 years	7,523	7,260
Later than 10 years and no later than 15 years	7,016	6,837
Later than 15 years and no later than 20 years	6,666	6,607
Later than 20 years and no later than 25 years	6,423	6,459
Later than 25 years and no later than 30 years	6,190	6,290
Later than 30 years and no later than 35 years	5,927	6,074
Later than 35 years and no later than 40 years	5,633	5,737
Later than 40 years and no later than 45 years	5,285	5,276
Later than 45 years and no later than 50 years	4,860	4,684
Later than 50 years	17,911	13,809
Undiscounted outstanding claims liability	**83,021**	**78,259**

Note 12: Receivables

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
10,098	10,507	Tax receivables	11,559	10,313
2,517	2,830	ACC levy receivables	2,308	2,225
760	779	Social benefit receivables	808	736
280	366	Other levies, fines and penalty receivables	325	350
13,655	**14,482**	**Sovereign receivables**	**15,000**	**13,624**
15	135	Reinsurance receivables	236	222
3,782	4,700	Trade and other receivables	6,149	4,683
17,452	**19,317**	**Total receivables**	**21,385**	**18,529**
		By maturity		
16,209	17,716	Expected to be realised within one year	19,711	16,898
1,243	1,601	Expected to be outstanding for more than one year	1,674	1,631
17,452	**19,317**	**Total receivables**	**21,385**	**18,529**

Receivables arising from sovereign revenue will be initially recognised at fair value. These receivables are subsequently adjusted for penalties and interest as they are charged, and as they are tested for impairment. Interest and penalties charged on tax receivables are presented as tax revenue in the statement of financial performance.

Reinsurance and other recoveries receivable on paid claims and outstanding claims, are recognised as revenue in the statement of financial performance. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are measured as the present value of the expected future receipts.

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

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

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

Tax receivables, ACC levy receivables and social benefit receivables are considered to be short term, so their carrying value represents a reasonable approximation of their fair value.

Other levies, fines and penalty receivables comprise debtor portfolios administered by Ministry of Justice (ie, court fines) and Inland Revenue (ie, child support). These receivables are recorded at fair value, which on initial recognition represent the face value of the amount owed to the Crown, adjusted to reflect the amount expected to be recoverable. For the current year the initial adjustment from face value to fair value of these receivables was $201 million (2017: $201 million), with $137 million (2017: $129 million) of the adjustment relating to child support debt administered by Inland Revenue.

Social benefit receivables comprise benefit overpayments, advances on benefits and recoverable special needs grants primarily administered by the Ministry of Social Development.

Trade and other receivables are relatively short term, with $5,668 million (2017: $4,567 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

Note 12: Receivables (continued)

30 June 2018	Gross receivable $m	Impairment $m	Net receivable $m
Tax receivables	13,594	(2,035)	11,559
ACC levy receivables	2,418	(110)	2,308
Social benefit receivables	1,617	(809)	808
Other levies, fines and penalty receivables	2,855	(2,530)	325
Reinsurance receivables	236	-	236
Trade and other receivables	6,256	(107)	6,149
Total receivables	**26,976**	**(5,591)**	**21,385**

30 June 2017	Gross receivable $m	Impairment $m	Net receivable $m
Tax receivables	12,348	(2,035)	10,313
ACC levy receivables	2,341	(116)	2,225
Social benefit receivables	1,506	(770)	736
Other levies, fines and penalty receivables	2,891	(2,541)	350
Reinsurance receivables	222	-	222
Trade and other receivables	4,782	(99)	4,683
Total receivables	**24,090**	**(5,561)**	**18,529**

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 of 5.0% (2017: 5.0%).

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

Tax receivables are classified as past due when any outstanding tax is not paid by the taxpayer's due date. IRD has debt management policies and procedures to actively manage the collection of past due debt.

Note 12: Receivables (continued)

	Actual 30 June 2018 $m	Actual 30 June 2017 $m
Gross Tax Receivable		
Current	10,491	9,357
Past due	3,103	2,991
Total gross tax receivable	**13,594**	**12,348**
% past due	22.8%	24.2%
Impairment of Tax Receivables		
Opening balance	2,035	3,766
Impairment losses recognised during the year	619	498
Amounts written off as uncollectible	(619)	(2,229)
Closing balance	**2,035**	**2,035**
Tax Receivable Net of Impairment		
Current	11,246	9,302
Past due	313	1,011
Total tax receivable net of impairment	**11,559**	**10,313**
% past due	2.7%	9.8%
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	813	707
Between six months and one year	331	447
Between one year and two years	710	561
Greater than two years	1,249	1,276
Total tax receivables past due (Gross)	**3,103**	**2,991**

Note 13: Marketable Securities, Deposits and Derivatives in Gain

2018 Forecast Budget 2017 $m	2018 Forecast Budget 2018 $m		Actual 30 June 2018 $m	Actual 30 June 2017 $m
		By type		
36,138	40,619	Marketable securities	40,532	39,558
3,257	4,197	Long term deposits	5,379	4,730
4,313	3,529	Derivatives in gain	3,153	4,381
1,806	1,891	IMF financial assets	2,053	1,837
45,514	**50,236**	**Total marketable securities, deposits and derivatives in gain**	**51,117**	**50,506**
		Expected Realisation		
27,442	29,317	Expected to be realised within one year	32,195	29,080
18,072	20,919	Expected to be held for more than one year	18,922	21,426
45,514	**50,236**	**Total marketable securities, deposits and derivatives in gain**	**51,117**	**50,506**

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. Long-term deposits are instruments with maturities greater than three months that are not traded in an active market.

Marketable securities and derivatives in gain are reported at their fair value. Fair value is either based on quoted market price or the use of a valuation model if there is no active market. The valuation models used generally calculate the expected cash flows under the terms of each specific contract and then discount these values back to present value.

Long-term deposits are measured at amortised cost. Their carrying amount provides a reasonable approximation of their fair value.

Further information is provided on these financial assets in note 26.

Note 14: Share Investments

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		Expected Realisation		
18,092	24,007	Expected to be realised within one year	24,109	19,555
12,048	12,433	Expected to be held for more than one year	12,147	11,145
30,140	**36,440**	**Total share investments**	**36,256**	**30,700**

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

Further information is provided on these financial assets in note 26.

Note 15: Advances

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		By type		
18,902	18,402	Kiwibank loans and advances	18,281	17,795
9,210	9,317	Student loans	9,301	9,197
1,693	1,266	Other advances	1,840	1,591
29,805	**28,985**	**Total advances**	**29,422**	**28,583**

Further information on the management of risks associated with these financial assets is provided in note 26.

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		Kiwibank Loans and Advances		
		By maturity		
1,323	1,288	Expected to be repaid within one year	1,268	1,319
17,579	17,114	Expected to be outstanding for more than one year	17,013	16,476
18,902	**18,402**	**Total Kiwibank loans and advances**	**18,281**	**17,795**
		Impairment of Kiwibank Loans and Advances		
		Opening balance	40	53
		Impairment losses recognised	8	10
		Amounts written off as uncollectible	(5)	(7)
		Impairment losses reversed	(7)	(16)
		Closing balance	**36**	**40**
		Collective impairment allowance	31	34
		Individual impairment allowance	5	6
		Total impairment of Kiwibank loans and advances	**36**	**40**
		Ageing of Kiwibank Loans and Advances Past Due But Not Impaired		
		Less than six months	126	101
		Between six months and one year	12	7
		Total Kiwibank loans and advances past due but not impaired	**138**	**108**

Note 15: Advances (continued)

Kiwibank loans and advances are measured at amortised cost. The fair value of Kiwibank loans and advances is $18,350 million (2017: $17,824 million). This fair value 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 loans and advances 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 loans and advances are primarily in the form of properties. The fair value of the collateral provided is sufficient to ensure that the entire amount owing over the life of the mortgage will be recovered and there is reasonable assurance that collection efforts will result in payment of the amounts owed in a timely manner.

2018 Forecast Budget 2017 $m	2018 Forecast Budget 2018 $m		Note	Actual 30 June 2018 $m	Actual 30 June 2017 $m
		Student Loans			
15,963	15,774	Nominal value		15,869	15,735
(6,753)	(6,457)	Write-down on initial recognition and impairment		(6,568)	(6,538)
9,210	**9,317**	**Total student loans**		**9,301**	**9,197**
		Gross carrying value		10,989	10,991
		Impairment of student loans		(1,688)	(1,794)
		Total student loans		**9,301**	**9,197**
		By maturity			
		Expected to be repaid within one year		1,333	1,273
		Expected to be outstanding for more than one year		7,968	7,924
		Total student loans		**9,301**	**9,197**
		Movement During the Year			
		Opening balance		9,197	8,982
		Net new lending (excluding fees)		1,300	1,475
		New lending - establishment fee		36	10
		Initial write-down to fair value		(594)	(662)
		Repayments made during the year		(1,348)	(1,272)
		Interest unwind	5	604	602
		Movement in impairment during the year		106	62
		Closing balance student loans		**9,301**	**9,197**
		Impairment of Student Loans			
		Opening balance		1,794	1,856
		Impairment losses recognised during the year		(56)	(30)
		Amounts written off as uncollectible		(50)	(32)
		Closing balance		**1,688**	**1,794**

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

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

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

Note 15: Advances (continued)

The Student loan valuation model reflects current student loan policy and macroeconomic assumptions. As such, the carrying value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates used to determine the effective interest rate on new borrowers.

	Actual 30 June 2018	30 June 2017
Significant assumptions behind the carrying value are:		
Effective interest rate - weighted average	6.8%	6.8%
Interest rate applied to loans for overseas borrowers	3.7%-5.5%	3.9%-5.5%
Consumer Price Index	1.0%-2.0%	0.2%-2.0%
Future salary inflation	2.9%-3.3%	1.5%-3.0%

In contrast to the amortised cost approach described above, fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length as at 30 June 2018. It is determined by discounting the cash flows at an appropriate rate.

	Actual 30 June 2018 $m	30 June 2017 $m
Fair value of the student loan portfolio	9,929	9,812
Impact on fair value of a 1% increase in discount rate	(520)	(535)
Impact on fair value of a 1% decrease in discount rate	579	601

The fair value differs from the carrying value by $628 million 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. In contrast, the fair value is calculated on a discount rates that are current at 30 June 2018. At that date the fair value was calculated on a discount rate (including expenses) of 5.6% (2017: 5.7%) whereas a weighted average effective interest rate of 6.8% (2017: 6.8%) was used for the carrying value.

The Crown has resolved to early adopt PBE IFRS-9: *Financial Instruments* from 1 July 2018. This new accounting standard will have a material impact on the value of the Student Loan book due to a change in its measurement basis. Refer to Note 1 for further discussion of the expected impact of the move to this standard.

Through 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 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. This can be found at: http://www.educationcounts.govt.nz/publications/series/student_loan_scheme_annual_reports

Note 16: Property, Plant and Equipment

For the year ended 30 June 2018	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Aircraft (excluding military) $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2017	160,631	49,640	36,491	23,829	15,875	5,666	4,112	4,042	3,677	2,021	15,278
Additions	8,912	708	2,832	2,232	315	216	669	344	38	398	1,160
Additions thru business combinations		-	54	-	-	-	-	-	-	-	58
Disposals	(1,864)	(167)	(229)	(11)	(1)	(31)	(26)	(13)	(3)	-	(1,383)
Revaluations	7,972	2,491	(47)	5,651	(81)	-	(98)	24	32	-	-
Transfers from/(to) other asset classes	93	134	72	-	-	-	(28)	-	-	-	(85)
Other	(92)	(113)	(10)	1	16	(1)	57	(24)	23	(1)	(40)
Total gross carrying amount	**175,652**	**52,693**	**39,109**	**31,702**	**16,124**	**5,850**	**4,686**	**4,373**	**3,767**	**2,418**	**14,930**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2017	16,081	-	1,836	-	9	1,586	-	923	580	1,082	10,065
Eliminated on disposal	(1,490)	-	(113)	-	-	(28)	(2)	(33)	(3)	-	(1,311)
Eliminated on transfer to other asset classes	(71)	-	(25)	-	-	-	(28)	-	-	-	(18)
Eliminated on revaluation	(2,255)	-	(1,347)	(383)	(267)	-	(286)	-	24	-	4
Impairment losses charged to operating balance	103	-	-	-	-	-	-	-	-	112	(9)
Depreciation expense	4,275	-	1,587	383	505	195	316	304	26	35	924
Other	(9)	-	(8)	-	(1)	-	-	(5)	2	1	2
Total accumulated depreciation and impairment	16,634	**-**	**1,930**	**-**	**246**	**1,753**	**-**	**1,189**	**629**	**1,230**	**9,657**
Carrying value as at 30 June 2018	**159,018**	**52,693**	**37,179**	**31,702**	**15,878**	**4,097**	**4,686**	**3,184**	**3,138**	**1,188**	**5,273**
By holding											
Leasehold	3,318	-	229	-	2	-	3,060	-	-	-	27
Public Private Partnerships	2,152	224	1,073	855	-	-	-	-	-	-	-
Freehold (excluding PPP)	153,548	52,469	35,877	30,847	15,876	4,097	1,626	3,184	3,138	1,188	5,246
Carrying value as at 30 June 2018	**159,018**	**52,693**	**37,179**	**31,702**	**15,878**	**4,097**	**4,686**	**3,184**	**3,138**	**1,188**	**5,273**

The total amount of property, plant and equipment under construction is $2,960 million (2017: $2,247 million).

Note 16: Property, Plant and Equipment (continued)

For the year ended 30 June 2017	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Aircraft (excluding military) $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2016	**149,806**	44,959	33,423	22,347	15,799	5,488	3,860	3,740	3,570	1,735	14,885
Additions	**7,781**	953	2,203	1,553	132	215	757	326	24	295	1,323
Disposals	**(1,533)**	(250)	(231)	(30)	(1)	(31)	(40)	(24)	(3)	-	(923)
Net revaluations	**5,260**	4,462	1,109	(41)	51	-	(407)	-	86	(7)	7
Transfers from/(to) other asset classes	**(676)**	(441)	(201)	-	-	-	(39)	-	-	-	5
Other	**(7)**	(43)	188	-	(106)	(6)	(19)	-	-	(2)	(19)
Total gross carrying amount	**160,631**	**49,640**	**36,491**	**23,829**	**15,875**	**5,666**	**4,112**	**4,042**	**3,677**	**2,021**	**15,278**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2016	**15,307**	-	1,933	-	80	1,415	-	670	535	776	9,898
Eliminated on disposal	**(859)**	-	(73)	-	-	(14)	(9)	(9)	(3)	-	(751)
Eliminated on transfer to other asset classes	**(90)**	-	(96)	-	-	-	(30)	-	-	-	36
Eliminated on revaluation	**(2,504)**	-	(1,374)	(366)	(502)	-	(270)	-	22	-	(14)
	-										
Impairment losses charged to operating balance	**325**	-	-	-	12	-	-	-	-	287	26
Depreciation expense	**4,073**	-	1,472	366	494	185	310	293	26	32	895
Other	**(171)**	-	(26)	-	(75)	-	(1)	(31)	-	(13)	(25)
Total accumulated depreciation and impairment	**16,081**	**-**	**1,836**	**-**	**9**	**1,586**	**-**	**923**	**580**	**1,082**	**10,065**
Carrying value as at 30 June 2017	**144,550**	**49,640**	**34,655**	**23,829**	**15,866**	**4,080**	**4,112**	**3,119**	**3,097**	**939**	**5,213**
By holding											
Leasehold	**3,078**	18	264	-	2	-	2,761	-	-	-	33
Public Private Partnerships	**1,636**	253	874	509	-	-	-	-	-	-	-
Freehold (excluding PPP)	**139,836**	49,369	33,517	23,320	15,864	4,080	1,351	3,119	3,097	939	5,180
Carrying value as at 30 June 2017	**144,550**	**49,640**	**34,655**	**23,829**	**15,866**	**4,080**	**4,112**	**3,119**	**3,097**	**939**	**5,213**

Note 16: Property, Plant and Equipment (continued)

Under Section 55 of the Public Finance Act 1989, borrowing by the Crown is a charge on the revenue of the Crown equally and rateably. Therefore, no property, plant and equipment owned by the Crown has been pledged as security for liabilities. Government-owned property, plant and equipment is, however, subject to a significant number of legislative and policy restrictions with respect to its use and disposal. Property, plant and equipment owned by State-owned Enterprises and mixed ownership companies has been pledged to secure borrowings and finance lease obligations of $3,761 million (2017: $3,348 million).

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

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

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 is effectively realised, and is transferred to taxpayer funds.

	Actual	
Property, plant and equipment revaluation reserve	**30 June 2018 $m**	**30 June 2017 $m**
Opening revaluation reserve	84,164	75,626
Net revaluations	10,668	8,923
Minority interest share of revaluation reserve	(70)	(178)
Transfers from/(to) taxpayer funds	(12)	(207)
Closing revaluation reserve	**94,750**	**84,164**
Class of Asset		
Land	39,366	36,860
Buildings	23,824	22,051
State highways	18,469	12,436
Electricity generation assets	10,774	10,651
Specified cultural and heritage assets	1,520	1,507
Specialist military equipment	448	335
Rail network	11	13
Other plant and equipment	338	311
Closing revaluation reserve	**94,750**	**84,164**

Net revaluations in the note above exclude movements attributable to minority interests and includes the shares of associates revaluation of physical assets. It will therefore differ from the movements on pages 78 and 79.

The remainder of this note provides detailed analysis and information about Property, Plant and Equipment.

Land and Buildings — *Page 81*
State Highways — *Page 83*
Electricity Generation Assets — *Page 85*
Specified Cultural and Heritage Assets — *Page 87*
Rail Network — *Page 88*
Public Private Partnerships — *Page 90*
Accounting Policies — *Page 91*

Note 16: Property, Plant and Equipment (continued)

Land and Buildings

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

	Actual		
30 June 2018	**Land $m**	**Buildings $m**	**Total $m**
Housing stock	18,301	10,196	28,497
School property	5,709	13,083	18,792
State highway corridor land	12,351	7	12,358
Conservation estate	6,063	63	6,126
Hospitals	1,202	5,493	6,695
Rail network corridor land	3,522	-	3,522
Prisons and Department of Corrections	178	2,288	2,466
Defence Force land and buildings	982	1,735	2,717
Landcorp farmland and buildings	1,117	152	1,269
Ministry of Justice land and buildings	239	897	1,136
Police stations	241	351	592
Fire Stations	296	362	658
Other	2,492	2,552	5,044
Total land and buildings	52,693	37,179	89,872

	Actual		
30 June 2017	**Land $m**	**Buildings $m**	**Total $m**
Housing stock	17,845	8,910	26,755
School property	5,683	12,413	18,096
State highway corridor land	10,892	9	10,901
Conservation estate	5,718	64	5,782
Hospitals	1,091	4,716	5,807
Rail network corridor land	3,520	-	3,520
Prisons and Department of Corrections	166	1,960	2,126
Defence Force land and buildings	983	1,728	2,711
Landcorp farmland and buildings	1,091	148	1,239
Ministry of Justice land and buildings	204	782	986
Police stations	151	475	626
Fire Stations	220	319	539
Other	2,076	3,131	5,207
Total land and buildings	**49,640**	**34,655**	**84,295**

Note 16: Property, Plant and Equipment (continued)

Valuation Information

Description	Valuer/Reviewer	Approach	Timing
Housing stock	Quotable Value NZ Limited	Valuations based on market evidence using sales comparison data.	Annual valuation with the latest completed in the 30 June 2018 financial year.
School property	Quotable Value NZ Limited or experienced staff (reviewed by Quotable Value Limited)	Valuations based on market evidence where possible, or optimised depreciated replacement cost (ODRC).	Annual valuation with the latest completed as at 30 June 2018.
State highway corridor land and held properties	Darroch Ltd, a registered property valuation company, peer reviewed by WSP Opus with NZTA.	Valued using opportunity cost based on adjacent use as an approximation to fair value. The valuation for held properties was determined by reference to quoted prices in an active or liquid market unless it is a specialised asset, where the optimised depreciated replacement cost was used.	A full valuation is completed on a rolling regional basis, with each region fully valued at least once every 3 – 5 years. The latest valuation and indexation was completed as at 30 June 2018.
Conservation estate (national parks, forest parks, conservation areas, reserves)	CoreLogic rateable valuations reviewed by Logan Stone Limited	Valued based on current year rateable valuations from CoreLogic. Land not matched to a rateable valuation was assessed using a calculated average per hectare rate. Land that is not subject to a full valuation in the current year is subject to a valuation update through the use of price indices from CoreLogic.	Annual valuation with the latest completed as at 30 June 2018.
Crown historic buildings	Inspected and valued by Logan Stone Limited	Valued based on the building replacement cost.	Annual valuation with the latest completed as at 30 June 2018.
Hospitals	Each District Health Board uses an independent valuer	Land values were based on market evidence while buildings were valued at ODRC.	Each DHB revalues land and buildings on a three to five year cycle with varying valuation dates.
New Zealand Railways Corporation rail corridor land	Jones Lang LaSalle Limited (JLL)	Land associated with the rail corridor was valued using an opportunity cost based on adjacent use, as an approximation to fair value.	Valuation completed with sufficient regularity to ensure that the carrying amount does not differ materially from fair value with the latest full valuation completed as at 30 June 2017.
NZ Defence Force Land and Buildings	WSP Opus	Valued using market based approaches for buildings outside defence areas and land. An index/ODRC method has been used for buildings inside defence areas.	Valuations completed at least once every five years with the latest full independent land and buildings valuation completed as at 30 June 2017.

Note 16: Property, Plant and Equipment (continued)

Carrying value of other asset classes subject to revaluation

State Highways (excluding land)

	Actual 30 June 2018 $m	30 June 2017 $m
State highways	31,702	23,829

Valuation information

Description	Valuer/Reviewer	Approach	Timing
Roads, bridges, culverts, tunnels, underpasses including the formation works, road structure, drainage works and traffic facilities.	WSP Opus	State Highways are valued using the ODRC of the existing asset database.	A full valuation is completed annually where the majority of assets are indexed. The latest valuation was completed as at 30 June 2018.

State highways are recorded on an optimised depreciated replacement cost (ODRC) basis representing the cost of replacing the network asset in its current condition. The valuation reflects the estimated present cost of constructing the existing asset by the most appropriate method of construction, reduced by allowances for the age and condition of the asset (depreciation). The estimated current cost is expected to change over time.

WSP Opus, an independent valuer, determined the valuation of the state highway as at 30 June 2018 by assigning replacement costs to the components of the state highway reported in the Road Assessment and Maintenance Management (RAMM) database and other databases as at 30 June 2017. The net capital expenditure for the year to 30 June 2018 was added to this data. The costs assigned are adjusted depending on the region and the type of terrain. The replacement cost is also adjusted for depreciation to reflect the current age and condition of the physical components. The major components of the state highway network and the optimised depreciated replacement cost of those components are shown in the table below:

State Highway Component	2018 $m	2017 $m
Formation	11,497	9,104
Pavement (structure)	6,099	4,236
Pavement (surface)	878	742
Bridges	7,431	5,405
Drainage	1,564	903
Traffic Facilities	1,383	1,330
Culverts and subways	762	491
Other structures	2,088	1,618
Total	**31,702**	**23,829**

Note 16: Property, Plant and Equipment (continued)

Due to the unique nature of the state highway network, the value of the assets cannot be measured with precision. Significant estimates and assumptions have been applied to the valuation, which include assumptions on: quantities used in the construction of state highway components, the unit cost to apply and the life of the assets. Changes to these underlying estimates and assumptions can cause a material movement in the valuation and are reviewed on a periodic basis. The main assumptions affecting the state highway valuation are:

	2018	2017
Asset Lives		
Formation	Permanent	Permanent
Pavement structure – subbase	Permanent	Permanent
Pavement structure – base course	50 years	50 years
Pavement surface	9 years	9 years
Bridges	90-100 years	90-100 years
Overhead Factors		
Professional Fees	15%	15%
Preliminary & general costs	34%	10-15%
Formation		
$ per square metre cost in flat terrain	$24-$43	$24-$42
$ per square metre cost in rolling terrain	$40-$60	$39-$58
$ per square metre cost in mountainous terrain	$65-$92	$64-$89
Pavement		
Asphalt (average $/m2)	$34.70	$42.00
Chipseal (average $/m2)	$7.50	$6.80
Bridges		
Routine (single span) ($/m2)	$3,961	$2,897
Routine (multi span) ($/m2)	$3,237	$2,367
Motorway ramps ($/m2)	$4,686	$3,426

The range of costs in the above table reflect regional variation and the differing costs of construction depending on terrain.

In addition, assumptions are made about the completeness of the RAMM database. These assumptions are used in determining additional items to be added so the complete network is valued. RAMM also contains assumptions to ensure appropriate allocation of all assets by region and terrain type, and on matters such as base course depth, subbase depth, shoulder formation, base course and retaining walls.

The following sensitivity analysis represents possible impacts on the state highway network valuation based on changes to estimates. There is a risk the valuation is understated for overhead factors, particularly for external professional fees (which is a focus for the 2018/19 improvement plan) and therefore, the sensitivity table reflects this:

	Change in valuation ($m)
Increase in external professional fees by 10%	2,688
Increase in preliminary & general costs from an average of 34% to 38%	788
Increase or decrease in formation unit costs by 10%	1,064/(1,064)
Increase or decrease in unit costs of bridges, culverts, surface, pavements, railings and barriers by 10%	1,522/(1,522)

WSP Opus has performed simulation analysis on the valuation to quantify the range of valuation outcomes that could occur as a result of changes in the different valuation inputs.

WSP Opus has concluded that the overall valuation is between -7.5% to +10% of the current value (-$2.3 billion to +$3.1 billion) excluding the impact of brownfield costs. (Refer to Note 2 for additional discussion on brownfield costs).

Note 16: Property, Plant and Equipment (continued)

Electricity generation assets

	Actual 30 June 2018 $m	30 June 2017 $m
Meridian Energy	7,845	7,849
Mercury NZ	5,216	5,241
Genesis Energy	2,980	2,938
Inter segment eliminations	(163)	(162)
Total electricity generation assets	**15,878**	**15,866**

Valuation and sensitivity information

Description	Valuer/Reviewer	Approach	Timing
Meridian Energy: Hydro stations and wind farms	PwC, Independent valuer	Based on an income valuation approach based primarily on the capitalisation of earnings with additional consideration of the discounted cash flows to establish a valuation range on which the Board's ultimate valuation decision is based.	Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values as at 30 June 2018.
Mercury NZ Limited: Hydro and Geothermal stations	PwC, Independent valuer	Based on net present value of future earnings of the assets on an existing use basis excluding disposal and restoration costs.	Annual valuation with the latest completed as at 30 June 2018.
Genesis Energy: Thermal and Hydro stations and Wind farms	Internal valuation	Based on the present value of estimated future cash flows of the assets.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2018.

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

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

Meridian Energy

Key input		Sensitivity range	Valuation Impact on fair value of generation assets
NZ Generation volumes	13,490 GWh p.a to 15,430 GWh p.a	+/- 250 GWh	$135 million / ($135) million
Operating expenditure	$285 million p.a. (in real terms)	+/- $10 million p.a.	($138) million / $138 million
EBITDAF earnings multiple	12.6 x EBITDAF	+/- 0.5x	$359 million / ($359) million

Note 16: Property, Plant and Equipment (continued)

Genesis Energy

Key input		Sensitivity range	Valuation Impact on fair value of generation assets
Wholesale electricity price path	$75/MWh to $103/MWh by 2027 (in nominal terms)	+/- 10%	$537 million / ($497) million
Generation volume	6,363 GWh to 7,035 GWh	+/- 10%	$376 million / ($376) million
Discount rate	Pre-tax equivalent discount rate of 10.4%	+/- 1%.	$541 million / ($400) million

Mercury NZ

Key input		Sensitivity range	Valuation Impact on fair value of generation assets
Future wholesale electricity price path	$63/MWh to $105/MWh (in real terms)	+/- 10%	$783 million / ($790) million
Discount rate	Post-tax discount rate between 7.5% to 7.9%	+/- 0.5%	$(496) million / $592 million
Operational expenditure	$160 million p.a.	+/- 10%	($231) million / $230 million

Note 16: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

	Actual 30 June 2018 $m	30 June 2017 $m
National Library	1,056	1,053
Te Papa	947	948
National Archives	625	614
Conservation	449	446
Other	61	36
Total specified cultural and heritage assets	**3,138**	**3,097**

Specified cultural and heritage assets

Description	Valuer/Reviewer	Approach	Timing
National Library collections	Ashley and Associates	The collection was divided into categories by format to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature.	Valuations completed cyclically with all collections valued at least once every three years with the latest full valuation completed as at 30 June 2017.
Te Papa collections	Art, Library, History, Mataraunga Māori, Pacific and International and Photography Collections: Art & Object and Dunbar Sloane Philatelic: Mowbray Collectables Natural History Collection: Dunbar Sloane & internal experts	Art, Library, History, Mataraunga Māori, Philatelic, Pacific and International and Photography Collections are valued based on market value by independent valuers. The Natural History Collection is valued at replacement cost value and based on market value by independent valuers where available.	Valuations completed cyclically with all collections valued at least once every three years with the latest valuations completed as at 30 June 2018.
National Archives	Dunbar Sloane	The collection was divided into categories by format and age to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature. Documents of exceptional value (including Treaty of Waitangi) are valued independently based on overseas market research.	Valuations completed cyclically with all collections valued at least once every three years with the latest full valuation completed as at 30 June 2017.
Conservation estate assets including visitor buildings, tracks, roads, fences and infrastructure	Internal valuations reviewed by Logan Stone Limited	Revaluations use the movement in the appropriate capital goods index as supplied by Statistics New Zealand to estimate the change in asset values.	Assets are revalued at least once every five years. Visitor buildings and track assets were valued at fair value effective as at 30 June 2018.

Note 16: Property, Plant and Equipment (continued)

Rail network

Recoverable amount $m	ODRC $m	30 June 2017 Carrying value $m		Recoverable amount $m	ODRC $m	30 June 2018 Carrying value $m
96	4,486	96	Network required for freight	186	5,331	186
9	724	724	Network not required for freight (including metro)	20	871	871
105	**5,210**	**820**	**Total rail infrastructure**	**206**	**6,202**	1,057
		50	Buildings			41
		69	Capital work in progress			90
		939	**Rail network**			**1,188**

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

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

Prior to the restructuring of KiwiRail as a profit-oriented entity, the total rail network infrastructure was measured on an optimised depreciated replacement cost basis reflecting the previous focus on it as a non-cash generating asset. If the value of the rail network was still measured using that approach, then a notional depreciation amount of $292 million (2017: $210 million) could be calculated, representing an estimate of the amount of “wear-and-tear” or consumption of the network asset over the year. This estimated “wear-and-tear” compares to the total maintenance and renewal expenditure of $161 million (2017: $258 million) on the rail network during the year.

Since the restructuring of KiwiRail as a profit-oriented entity, there have been challenges in making investment decisions, marrying the duality of commercial “for profit” activities that align with an SOE’s commercial mandate with other “public benefit” activities that deliver social benefits rather than commercial returns, and integrating relatively short-term funding commitments with prudent investment decisions for long-life assets such as rail infrastructure. The Government has therefore initiated a review which includes determining the appropriate structure, capital requirements and funding mechanisms of the KiwiRail Group in relation to the purpose of rail in a multi-modal transport system, including the outcomes and objectives for rail that the government seeks. Decisions from this review, expected in early 2019, are likely to affect the mix of assets and operations, the extent of the rail network, and which of the entities within the Crown might own those assets and/or perform those operations. These decisions could affect how much of the rail network is valued at ODRC (if fully valued at ODRC the rail infrastructure would be valued at $6,202 million (2017: $5,210 million) and how much is valued at recoverable amount if fully valued at recoverable amount the rail infrastructure would be valued at $206 million (2017: $105 million)).

Note 16: Property, Plant and Equipment (continued)

Rail network

Description	Valuer/Reviewer	Approach	Timing
Buildings, bridges, tunnels, tracks, level crossings signals and electrification. All these assets are held on freehold basis.	Buildings – Jones Lang LaSalle Limited Other Rail Network Assets – Ernst & Young	Non-specialised building assets not on the rail corridor were valued based on market evidence using comparable sales. Specialised building assets and buildings on rail corridor land were valued using ODRC. Railway infrastructure used for freight services (freight only and dual use lines required for freight operations) has been valued using the recoverable amount, being scrap value less costs to sell. Railway infrastructure not required for freight operations and used for metro passenger services has been valued using ODRC reflecting the public benefit nature of these assets.	Valuation completed with sufficient regularity to ensure that the carrying amount does not differ materially from fair value with the latest full valuation completed as at 30 June 2017 for buildings and 30 June 2018 for other rail network assets.

Other valuation information

Specialist military equipment

Description	Valuer/Reviewer	Approach	Timing
Specialist military equipment	Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by the Australian Defence Force.	Valued using an ODRC method.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2018.

Aircraft

Description	Valuer/Reviewer	Approach	Timing
Aircraft and spare engines and flight simulators	The Aircraft Value Analysis Company	An external valuation is obtained to ascertain indicative market values of each aircraft on a stand-alone basis.	Annual valuation with the latest completed as at 30 June 2018.

Note 16: Property, Plant and Equipment (continued)

Public Private Partnerships

A public private partnership (also known as a service concession arrangement) is an arrangement between the Government and a private sector partner. The Crown's obligation to pay for these assets is included in other borrowings.

	Actual 30 June 2018 $m	30 June 2017 $m
Transmission Gully	603	448
Education Assets	503	384
Auckland South Corrections Facility	310	325
Auckland Prison	359	295
Puhoi to Warkworth State Highway	377	184
Total public private partnerships	**2,152**	**1,636**
Carrying value of assets by source		
Provided by private sector partner	1,895	1,350
Existing government assets	257	286
Total public private partnerships	**2,152**	**1,636**

Movements in carrying value for Public Private Partnerships

Gross carrying amount	Actual 30 June 2018 $m	30 June 2017 $m
Opening balance 1 July	1,643	977
Assets provided by private sector partner(s)	545	505
Existing Government assets	15	124
Net revaluations	(30)	35
Other	1	2
Total Gross Carrying Amount	**2,174**	**1,643**
Accumulated Depreciation and Impairment		
Opening balance 1 July	7	14
Eliminated on revaluation	(9)	(22)
Depreciation expense	24	15
Total accumulated depreciation	22	**7**
Carrying value as at 30 June	**2,152**	**1,636**

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

Details on individual PPP's can be found in the annual reports of individual agencies (Ministry of Education, New Zealand Transport Agency and the Department of Corrections).

Note 16: Property, Plant and Equipment (continued)

Subsequent to initial recognition, classes of Property, Plant and Equipment (PPE) are accounted for as set out below.

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

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

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

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

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

When an item of PPE is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

Class of PPE	**Accounting policy**
Land and buildings	Land and buildings are recorded at fair value and, for buildings, less depreciation accumulated since the assets were last revalued. Land associated with the rail network and state highways is valued using an estimate based on adjacent use, as an approximation to fair value. Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where applicable. Otherwise, valuations conducted in accordance with the Rating Valuation Act 1998, may be used if they have been confirmed as appropriate by an independent valuer. When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out.
Specialist military equipment	Specialist military equipment is recorded on an optimised depreciated replacement cost basis less depreciation accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by an independent valuer.
State highways	State highways are recorded on an optimised depreciated replacement cost basis representing the cost of replacing the network asset in its current condition.

Note 16: Property, Plant and Equipment (continued)

Class of PPE	Accounting policy
Rail network	Rail infrastructure used for freight services (freight only and dual use lines required for freight operations) are recorded at fair value less depreciation accumulated since the assets were last revalued. Rail infrastructure not required for freight operations and used for metro services is recorded on an optimised depreciated replacement cost basis less depreciation accumulated since the assets were last revalued.
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation accumulated since the assets were last revalued.
Electricity distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation	Electricity generation assets are recorded at fair value less depreciation accumulated since the assets were last revalued.
Specified cultural and heritage assets	Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value less subsequent impairment losses. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation.
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.

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

Class of PPE	Estimated useful lives
Buildings	25 to 150 years
Specialist military equipment (SME)	5 to 55 years
Rail Network:	
Track and ballast	40 to 50 years
Tunnels and bridges	75 to 200 years
Overhead traction and signalling	15 to 80 years
Aircraft (excluding SME)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 100 years
Other plant and equipment	3 to 30 years

Note 17: Equity Accounted Investments

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
12,171	12,128	Tertiary Education Institutions	12,505	11,972
1,423	1,599	Kaingaroa Timberlands Partnership	1,885	1,593
301	326	City Rail Link Limited	307	-
723	755	Other	719	645
14,618	**14,808**	**Total equity accounted investments**	**15,416**	**14,210**

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

The Treasury's view is that because the Government cannot determine the operating and financing policies of tertiary education institutions, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates. City Rail Link and Kaingaroa Timberlands Partnerships are joint operations or ventures that the Government jointly controls with its joint venture partners.

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.

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

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		Operating Results		
2,378	2,583	Revenue from Crown	2,461	2,349
2,886	2,654	Other revenue	2,714	2,844
(5,155)	(5,146)	Expenses	(5,226)	(4,955)
109	**91**	**Net surplus**	**(51)**	**238**
		Assets		
1,759	1,625	Financial assets	2,039	1,833
11,894	11,522	Property, plant and equipment	11,675	11,044
1,137	1,313	Other assets	1,436	1,324
14,790	**14,460**	**Total assets**	**15,150**	**14,201**
		Liabilities		
709	572	Borrowings	399	449
1,910	1,760	Other liabilities	2,246	1,780
2,619	**2,332**	**Total liabilities**	**2,645**	**2,229**
12,171	**12,128**	**Net worth**	**12,505**	**11,972**

Kaingaroa Timberlands Partnership

The New Zealand Superannuation Funds has a 42% ownership interest (2017: 42%) in Kaingaroa Timberlands Partnership (KTP). For the year ended 30 June 2018, KTP recognised revenue of $555 million (2017: $457 million), profit of $1,033 million (2017: $688 million), assets of $4,701 million (2017: $4,055 million), liabilities of $33 million (2017: $30 million) and equity of $4,668 million (2017: $4,026 million).

Note 17: Equity Accounted Investments (continued)

City Rail Link Limited

City Rail Link Limited (CRLL) is a jointly controlled Crown entity, co-funded by the Crown and Auckland Council, for the purpose of designing and constructing of the Auckland City Rail Link (an underground rail line between the city centre and the existing western line). The expected costs of the project are $3.4 billion, which will be confirmed once all the contracts are finalised. The maximum funding limits for the project agreed by the Sponsors totals $3.6 billion. Therefore, the Government's maximum share of costs is $1.8 billion.

For the year ended 30 June 2018, CRLL recognised revenue of $3 million (2017: $Nil) and a deficit of $8 million (2017: $Nil), assets of $625 million (2017: $Nil) liabilities of $11 million (2017: $Nil) and equity of $614 million (2017: $Nil).

New Zealand Local Government Funding Agency (NZLGFA) (included in other)

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

For the year ended 30 June 2018, NZLGFA recognised revenue of $343 million (2017: $321 million) and a surplus of $12 million (2017: $11 million). NZLGFA's assets and liabilities were $8,835 million (2017: $8,478 million) and $8,771 million (2017: $8,424 million) respectively. The Crown's share of the net assets is $13 million (2017: $11 million). The Crown is not a guarantor of the NZLGFA and has no share of any contingent liabilities of the NZLGFA.

Note 18: Payables

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	Actual 30 June 2017 $m
		By type		
7,905	8,679	Accounts payable	9,221	10,517
4,574	4,328	Taxes repayable	5,201	4,277
12,479	**13,007**	**Total payables**	**14,422**	**14,794**
		By maturity		
11,932	12,454	Expected to be settled within one year	13,721	14,065
547	553	Expected to be outstanding for more than one year	701	729
12,479	**13,007**	**Total payables**	**14,422**	**14,794**

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 19: Borrowings

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
		By type		
59,591	63,187	Government bonds	62,393	64,349
15,357	17,262	Kiwibank customer deposits	16,160	15,960
7,183	7,063	Settlement deposits with Reserve Bank	7,603	6,471
2,800	3,206	Derivatives in loss	5,067	3,113
4,096	3,997	Treasury bills	4,114	4,071
2,559	2,524	Finance lease liabilities	1,318	1,412
205	183	Government retail stock	182	190
19,709	18,556	Other borrowings	18,815	16,240
111,500	**115,978**	**Total borrowings**	**115,652**	**111,806**
		By maturity		
36,445	36,547	Expected to be settled within one year	47,472	37,370
75,055	79,431	Expected to be outstanding for more than one year	68,180	74,436
111,500	**115,978**	**Total borrowings**	**115,652**	**111,806**
		By guarantee		
78,805	83,425	Sovereign-guaranteed debt	83,230	81,395
32,695	32,553	Non-sovereign debt	32,422	30,411
111,500	**115,978**	**Total borrowings**	**115,652**	**111,806**

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incident to 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.

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.

Government Bonds

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

The fair value of Government bonds measured at amortised cost is $67,289 million (2017: $68,611 million). This valuation is based on observable market prices. The valuation of Government bonds reported at fair value is also based on observable market prices.

New Zealand Government bonds are rated Aaa by Moody’s and AA+ by S&P and Fitch. The rating outlook is stable with Moody’s, S&P and Fitch.

Note 19: Borrowings (continued)

Kiwibank customer deposits

Kiwibank customer deposits are measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses are recognised in the Statement of Financial Performance as is any gain or loss when the liability is derecognised.

The fair value of Kiwibank customer deposits measured at amortised cost is $16,172 million (2017: $15,970 million). For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

Kiwibank customer deposits exclude deposits held by other government reporting entities and will therefore differ from the total customer deposits reported by Kiwibank.

Settlement deposits with Reserve Bank

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

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

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

Treasury bills

Treasury bills are reported at amortised cost. As these are short-term sovereign-issued instruments, the carrying value is not materially affected by changes in Sovereign credit risk and the carrying value approximates the amount payable at maturity.

Other borrowings

	Actual	
	30 June 2018 $m	**30 June 2017 $m**
Other borrowings measured at amortised cost	13,655	11,777
Other borrowings measured at fair value	5,160	4,463
Total other borrowings	**18,815**	**16,240**

	Actual	
	30 June 2018 $m	**30 June 2017 $m**
Other borrowings measured at fair value		
Carrying value	5,160	4,463
Amount payable on maturity	5,016	4,350
Fair value impact from changes in credit risk for the year	(19)	(73)
Cumulative fair value impact from changes in credit risk	95	115

Other borrowings are measured at fair value. The movements in fair value are reported in the statement of financial performance. When they are held for trading or they are managed, their performance is evaluated on a fair value basis. All other borrowings are reported at amortised cost.

Note 19: Borrowings (continued)

Other borrowings includes $3,090 million (2017: $2,636 million) of sovereign-guaranteed debt administered by the Reserve Bank and the Treasury.

The fair value of other borrowings measured at amortised cost is $12,924 million (2017: $11,556 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets was determined by reference to quoted market prices. Where such prices are not available, use is made of estimated discounted cash flow models with reference to market interest rates.

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

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

Note 20: Retirement Plan Liabilities

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	30 June 2017 $m
9,916	10,577	Government Superannuation Fund (GSF)	10,988	11,004
1	2	Other funds	3	2
9,917	**10,579**	**Total retirement plan liabilities**	**10,991**	**11,006**

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

The GSF obligation has been calculated by GSF's actuary as at 30 June 2018. 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 2018 $m	30 June 2017 $m
Net GSF Obligation		
Present value of defined benefit obligation	15,558	15,272
Fair value of plan assets	(4,570)	(4,268)
Present value of unfunded defined benefit obligation	**10,988**	**11,004**
Present value of defined benefit obligation		
Opening defined benefit obligation	15,272	16,406
Expected current service cost	65	75
Expected unwind of discount rate	293	340
Actuarial losses/(gains)	810	(675)
Benefits paid	(882)	(874)
Closing defined benefit obligation	**15,558**	**15,272**
Fair value of plan assets		
Opening fair value of plan assets	4,268	3,965
Expected return on plan assets	209	194
Actuarial gains/(losses)	257	289
Funding of benefits paid by Government	719	690
Contributions from other entities	17	18
Contributions from members	26	27
Benefits paid	(882)	(874)
Other	(44)	(41)
Closing fair value of plan assets	**4,570**	**4,268**

Note 20: Retirement Plan Liabilities (continued)

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

2018 Forecast Budget 2017 $m	2018 Forecast Budget 2018 $m		Actual 30 June 2018 $m	Actual 30 June 2017 $m
		Personnel Expenses		
		Expected current service cost	65	75
		Expected unwind of discount rate on GSF obligation	293	340
		Expected return on plan assets	(209)	(194)
		Contributions from members and funding employers	(43)	(45)
		Other expenses	44	41
		Past service cost	-	-
220	**150**	**Total included in personnel expenses**	**150**	**217**
		Net (Gains)/Losses on Non-Financial Instruments		
-	149	Actuarial (gain)/loss recognised in the year	553	(964)
220	**299**	**Total GSF expense**	**703**	**(747)**

The Government expects to make a contribution of $727 million (2017: $741 million in the year ending 30 June 2018) to GSF in the year ending 30 June 2019. In addition to its obligations to past and present employees, because GSF is liable for income tax, the Crown will be required to make additional contributions equivalent to the tax on future investment income.

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

	Actual 30 June 2018 %	Actual 30 June 2017 %
Summary of assumptions		
For following year		
Discount rate	1.8%	2.0%
Expected return on plan assets	5.0%	5.0%
Expected rate of salary increases	2.5%	2.5%
Expected rate of inflation	1.7%	1.7%
Beyond next year		
Discount rates between 2 and 21 years	1.9% to 4.0%	2.4% to 4.6%
Discount rates between 22 and 29 years	4.0% to 4.4%	4.6% to 4.7%
Discount rates between 30 and 36 years	4.4% to 4.7%	4.7% to 4.8%
Discount rate from 37 years onwards	4.8%	4.8%
Expected return on plan assets	5.0%	5.0%
Expected rate of salary increases	2.5%	2.5%
Expected rate of inflation from years 2 to 19	1.7%	1.7%

Assumed inflation increases of 1.7% each year to year 19, then gradually increases, reaching 2.0% in year 37.

The defined benefit obligation increased in the year to 30 June 2018 by $286 million, mainly due to a decrease in the short and medium term discount rates over the last year.

The discount rate used to present value the pension cash flows associated with this obligation has a risk-free rate based on the market yield curve of New Zealand Government Bonds. Given the short-term nature of market data on Government Bonds in New Zealand, we also assume a single long-term equilibrium risk-free interest rate of 4.75% based on macroeconomic extrapolation. Discount rates are then smoothed over a minimum of 10 years from the end of the market yield curve to that long-term rate.

Note 20: Retirement Plan (continued)

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

	Actual 30 June 2018 $m	30 June 2017 $m
Equity instruments	3,023	2,638
Other debt instruments	599	517
Cash and short term investments	313	220
Property	3	6
Other	632	887
Fair value of plan assets	**4,570**	**4,268**

The expected rate of return on the plan assets of 5.0% (2017: 5.0%) has been calculated by taking the expected long-term returns from each asset class, reduced by tax (using the current rates of tax).

The actual return on plan assets for the year ended 30 June 2018 was 11.1%, or $466 million (2017: 12.7% or $490 million).

Sensitivity Analysis

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

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

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

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

	Impact on net GSF obligation Change	Actual 30 June 2018 $m	30 June 2017 $m
Sensitivity of assumptions			
Discount rate (present value of the obligation)	+ 1%	(1,601)	(1,561)
	- 1%	1,935	1,886
Share price (fair value of equity instruments)	+ 10%	(302)	(264)
	- 10%	302	264
Expected rate of inflation	+ 1%	1,785	1,738
	- 1%	(1,516)	(1,476)

Note 20: Retirement Plan (continued)

Historical Analysis

Actuarial 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:

	30 June 2018 $m	30 June 2017 $m	Actual 30 June 2016 $m	30 June 2015 $m	30 June 2014 $m
Present value of defined benefit obligation	15,558	15,272	16,406	14,932	14,560
Fair value of plan assets	(4,570)	(4,268)	(3,965)	(4,087)	(3,674)
Present value of unfunded defined benefit obligation	**10,988**	**11,004**	**12,441**	**10,845**	**10,886**
Experience adjustment - increase/(decrease) in plan assets	257	289	(182)	325	212
Less experience adjustment - increase/(decrease) in plan liabilities	(16)	(90)	184	157	68
Total experience adjustments - (losses)/gains	273	379	(366)	168	144
Changes in actuarial assumptions	(826)	585	(1,662)	(490)	433
Actuarial (losses)/gains recognised in the year	**(553)**	**964**	**(2,028)**	**(322)**	**577**

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $15,558 million (2017: $15,272 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 2018. These estimated cash flows include the effects of assumed future inflation.

	30 June 2018 $m	30 June 2017 $m
No later than 1 year	923	918
Later than 1 year and no later than 2 years	918	911
Later than 2 years and no later than 5 years	2,759	2,753
Later than 5 years and no later than 10 years	4,496	4,525
Later than 10 years and no later than 15 years	4,145	4,218
Later than 15 years and no later than 20 years	3,554	3,671
Later than 20 years and no later than 25 years	2,804	2,942
Later than 25 years and no later than 30 years	2,039	2,181
Later than 30 years and no later than 35 years	1,351	1,481
Later than 35 years and no later than 40 years	803	903
Later than 40 years and no later than 45 years	419	485
Later than 45 years and no later than 50 years	184	221
Later than 50 years	80	104
Undiscounted defined benefit obligation	**24,475**	**25,313**

Note 21: Provisions

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	Actual 30 June 2017 $m
		By type		
3,551	3,508	Provision for employee entitlements	3,677	3,582
2,023	2,620	Provision for Emission Trading Scheme credits	2,541	2,028
816	806	Provision for National Provident Fund guarantee	835	856
-	-	Aircraft Lease Return Costs	265	266
1,811	1,971	Other provisions	1,819	1,809
8,201	**8,905**	**Total provisions**	**9,137**	**8,541**
		By longevity		
3,844	3,939	Expected to be settled within one year	3,994	3,932
4,357	4,966	Expected to be outstanding for more than one year	5,143	4,609
8,201	**8,905**	**Total provisions**	**9,137**	**8,541**

For the year ended 30 June 2018	Employee entitlements $m	ETS $m	NPF guarantee $m	Aircraft lease return costs $m
Opening Provision	3,582	2,028	856	266
Additional Provision	1,927	720	-	86
Provision Utilised	(1,533)	(669)	(69)	(86)
Reversal of previous provision	(150)	-	(57)	(11)
(Gains) / Losses on NZ Units	-	462	-	-
Other Movements	(149)	-	105	10
Closing Provision	**3,677**	**2,541**	**835**	**265**

For the year ended 30 June 2017	Employee entitlements $m	ETS $m	NPF guarantee $m	Aircraft lease return costs $m
Opening Provision	3,604	2,250	918	295
Additional Provision	1,835	295	-	89
Provision Utilised	(1,706)	(444)	(61)	(96)
Reversal of previous provision	(176)	-	(111)	(17)
(Gains) / Losses on NZ Units	-	(73)	-	-
Other Movements	25	-	110	(5)
Closing Provision	**3,582**	**2,028**	**856**	**266**

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.

Employee entitlements

The provision for employee entitlements represents annual leave, accrued long service leave, retiring leave, and sick leave entitlements accrued by employees. Probability assumptions about continued future service affecting entitlements accrued as at reporting date have been made using previous employment data. For entitlements that vest over a period exceeding one year discount rates applied rise from 1.78% (2017: 1.97%) next year to 4.75% (2017: 4.75%) in later years.

Note 21: Provisions (continued)

Emissions Trading Scheme
The Emissions Trading Scheme (ETS) was established to encourage a reduction in New Zealand's greenhouse gas emissions. The carbon price used to calculate the ETS provision at 30 June 2018 is $NZ21.10 (2017: $NZ17.20). The ETS provision represents the tradeable NZ units outstanding, that will be accepted by the government as emitters honour the emissions obligations under the ETS. The carbon price used by the Ministry for the Environment is determined by the quoted NZU spot price at the end of the reporting date as published by OM Financial Limited on their website: https://commtrade.co.nz

National Provident Fund guarantee
The Government has guaranteed superannuation schemes managed by the National Provident Fund (NPF). Included in the provision is the NPF's DBP Annuitants Scheme unfunded liability position of $835 million (2017: $856 million), represented by a gross estimated pension obligation of $871 million (2017: $892 million) with net investment assets valued at $36 million (2017: $36 million).

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

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

Note 22: Minority Interests

2018 Forecast			Actual	
Budget 2017 $m	Budget 2018 $m		30 June 2018 $m	30 June 2017 $m
		Net Worth Attributable to Minority Interests		
5,879	5,940	Opening minority interest	5,940	6,155
450	466	Operating balance attributable to minority interests	512	319
(432)	(542)	Transactions with minority interests	(533)	(756)
-	-	Movement in reserves attributable to minority interests	74	227
(21)	54	Other movements	-	(5)
5,876	**5,918**	**Closing minority interest**	**5,993**	**5,940**
		Consisting of interests in:		
		Meridian Energy	2,213	2,326
		Mercury NZ	1,461	1,503
		Air New Zealand	1,294	1,128
		Genesis Energy	912	920
		Other	113	63
		Minority share of Operating Balance		
		Air New Zealand	286	116
		Mercury NZ	104	83
		Meridian Energy	92	90
		Genesis Energy	27	40
		Other	3	(10)
		Operating balance attributable to minority interests	**512**	**319**

Transactions with minority interests include dividend payments and dividend reinvestments. Other minority interests consists of minority interests in New Zealand Superannuation Fund investments and the KiwiBank Group capital notes issued. Crown Infrastructure Partners minority interest in 2017 no longer exists for 30 June 2018.

Note 23: Capital Objectives and Fiscal Policy

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

- reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year
- once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues
- achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future
- managing prudently the fiscal risks facing the Government
- when formulating revenue strategy, having regard to efficiency and fairness, including the predictability and stability of tax rates
- when formulating fiscal strategy, having regard to the interaction between fiscal policy and monetary policy
- when formulating fiscal strategy, having regard to its likely impact on present and future generations, and
- ensuring that the Crown's resources are managed effectively and efficiently.

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

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

Long Term Fiscal Objectives – Fiscal Strategy Report 2018

Debt

Maintain total debt at prudent levels. The Government will reduce the level of net core Crown debt to 20% of GDP within five years of taking office, and maintain it at prudent levels thereafter.

Operating balance

The Government will deliver a sustainable operating surplus across an economic cycle.

Operating expenses

The Government will maintain its expenditure to within the recent historical range of spending as a ratio of GDP. The Government will take a prudent approach to ensure expenditure is phased, controlled, and directed to maximise its benefits, in particular prioritising investments to address the long-term financial and sustainability challenges facing New Zealand.

Operating revenues

The Government will ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.

Net worth

The Government will strengthen net worth consistent with the debt and operating balance objectives.

Note 23: Capital Objectives and Fiscal Policy (continued)

Short Term Fiscal Intentions		
Fiscal Strategy Report 2017	**Fiscal Strategy Report 2018**	**Fiscal Position 2018**[2]
Debt The Government's Intention is to reduce net debt to around 20% of GDP in 2020 and to between 10% and 15% of GDP by 2025. Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 26.3% of GDP in 2020/21. Net core Crown debt (excluding the New Zealand Superannuation Fund (NZSF) and advances) is forecast to be 20.6% of GDP in 2019/20 and 19.3% in 2020/21. It is projected to be 13.3% in 2024/25 and 11.8% in 2025/26.	**Debt** The Government's Intention is to reduce the level of net core Crown debt to 20% of GDP within five years of taking office (subject to any significant shocks to the economy). Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 27.3% of GDP in 2021/22. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 20.6% of GDP in 2019/20, 20.2 % of GDP in 2020/21 and 19.1% in 2021/22. This assumes new capital allowances of $3.8 billion in Budget 2018, $3.7 billion in Budget 2019, $3.4 billion in Budget 2020, and $3.0 billion in Budget 2021.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2018 was 33.0% of GDP (2017: 33.8%). Net core Crown debt (excluding NZS Fund and advances) at 30 June 2018 was 19.9% of GDP (2017: 21.7%).
Operating balance The Government's intention is to maintain rising operating surpluses (before gains and losses) so that net core Crown debt begins to reduce in dollar terms (subject to any significant shocks to the economy). The operating balance (before gains and losses) is forecast to be 0.6% of GDP in 2016/17, rising to 1.0% of GDP in 2017/18 and 2.2% of GDP in 2020/21. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 3.3% of GDP in 2020/21.	**Operating balance** The Government's intention is to deliver operating surpluses (before gains and losses) to ensure net debt falls to 20% of GDP within five years of taking office. The operating balance (before gains and losses) is forecast to be 1.1% of GDP in 2017/18, rising to 1.7% of GDP in 2019/20 and 2.1% of GDP in 2021/22. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 3.3% of GDP in 2021/22.	**Operating balance** The operating balance (before gains and losses) for the year ended 30 June 2018 was a surplus of 1.9% of GDP (2017: 1.5%). The operating surplus for the year ended 30 June 2018 was 2.9% of GDP (2017: 4.5%).

2 GDP for the year ended 30 June 2018 was $289,293 million (2017: $274,267 million revised).

Note 23: Capital Objectives and Fiscal Policy (continued)

Fiscal Strategy Report 2017	Fiscal Strategy Report 2018	Fiscal Position 2018
Expenses The Government's intention is to support fiscal surpluses by restraining the growth in core Crown expenses and reducing these to below 30% of GDP. Core Crown expenses are forecast to fall from 28.8% of GDP in 2016/17 to 27.5% of GDP in 2020/21. Total Crown expenses are forecast to be 35.2% of GDP in 2020/21. This assumes new operating allowances of $1.7 billion per year in *Budget 2018*, growing at 2% per Budget until Budget 2020.	**Expenses** The Government's intention is to ensure expenses are consistent with the operating balance objective. Core Crown expenses are forecast to be 28.1% of GDP in 2017/18 to 28.0% of GDP in 2021/22. Total Crown expenses are forecast to be 36.2% of GDP in 2021/22. This assumes new operating allowances of $2.8 billion per year in *Budget 2018*, and $2.4 billion per year in Budget 2019, 2020 and 2021.	**Expenses** Core Crown expenses for the year ended 30 June 2018 were 27.9% GDP (2017: 27.8%). Total Crown expenses for the year ended 30 June 2018 were 36.0% of GDP (2017: 36.1%).
Revenues The Government's intention is to support fiscal surpluses by growing revenue in dollar terms, although maintaining it at broadly the same proportion of GDP. Total Crown revenues are forecast to be 37.6% of GDP in 2020/21. Core Crown revenues are forecast to be 29.8% of GDP in 2020/21. Core Crown tax revenues are forecast to be 27.7% of GDP in 2020/21.	**Revenues** The Government's intention is to ensure sufficient revenue to meet the operating balance objective. Total Crown revenues are forecast to be 38.4% of GDP in 2021/22. Core Crown revenues are forecast to be 30.4% of GDP in 2021/22. Core Crown tax revenues are forecast to be 28.3% of GDP in 2021/22.	**Revenues** Total Crown revenues for the year ended 30 June 2018 were 38.0% of GDP (2017: 37.7%). Core Crown revenues for the year ended 30 June 2018 were 30.0% of GDP (2017: 29.8%). Core Crown tax revenues for the year ended 30 June 2018 were 27.7% of GDP (2017: 27.6%).
Net worth The Government's intention is to strengthen the Crown's balance sheet as a buffer against future adverse shocks. Total net worth attributable to the Crown is forecast to be 40.9% of GDP in 2020/21. Total Crown net worth is forecast to be 42.7% of GDP in 2020/21.	**Net worth** The Government's intention is to increase net worth consistent with the operating balance objective. Total net worth attributable to the Crown is forecast to be 44.2% of GDP in 2021/22. Total Crown net worth is forecast to be 45.8% of GDP in 2021/22.	**Net worth** Total net worth attributable to the Crown as at 30 June 2018 was 44.8% of GDP (2017: 40.3%). Total Crown net worth as at 30 June 2018 was 46.9% of GDP (2017: 42.5%).

Note 24: Commitments

	Actual 30 June 2018 $m	30 June 2017 $m
Capital Commitments		
State highways[1]	4,410	5,122
Aircraft (excluding military)	1,526	1,637
Specialist military equipment	377	366
Land and buildings	3,016	2,735
Other property, plant and equipment	502	471
Other capital commitments	398	227
Tertiary Education Institutions	752	673
Total capital commitments	**10,981**	**11,231**
Operating Lease Commitments		
Non-cancellable accommodation leases	3,708	3,398
Other non-cancellable leases	2,879	2,468
Tertiary Education Institutions	649	499
Total operating lease commitments	**7,236**	**6,365**
Total commitments	**18,217**	**17,596**
By source		
Core Crown	6,481	5,945
Crown entities	7,980	8,024
State-owned Enterprises	4,526	4,492
Inter-segment eliminations	(770)	(865)
Total commitments	**18,217**	**17,596**
By Term		
Capital Commitments		
One year or less	5,041	4,886
From one year to two years	2,083	2,231
From two to five years	1,337	1,685
Over five years	2,520	2,429
Total capital commitments	**10,981**	**11,231**
Operating Lease Commitments		
One year or less	1,217	1,053
From one year to two years	1,003	942
From two to five years	1,915	1,749
Over five years	3,101	2,621
Total operating lease commitments	**7,236**	**6,365**
Total commitments	**18,217**	**17,596**

1 The 2017 comparative for state highways has been restated from $6.1 billion to $5.1 billion due to non-contractual future outflows being included in commitments.

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

Commitments are classified as:

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

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

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

Note 25: Contingent Liabilities and Contingent Assets

Contingent liabilities are:

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

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

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

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

Contingent liabilities and contingent assets involving amounts of over $20 million are separately disclosed. Any quantifiable contingencies less than $20 million are included in the “other quantifiable” total. Some contingencies of the Crown are not able to be quantified; these unquantifiable contingent liabilities and contingent assets are disclosed as at 30 June 2018 where they are expected to be material but not remote. Where there is an obligation under New Zealand GAAP, amounts have been recognised in the financial statements.

Contingent Liabilities

	Note	Actual 30 June 2018 $m	30 June 2017 $m
Quantifiable Contingent Liabilities			
Uncalled capital	a	8,330	7,638
Guarantees and indemnities	b	224	690
Legal proceedings and disputes	c	332	333
Other quantifiable contingent liabilities	d	514	327
Total quantifiable contingent liabilities		**9,400**	**8,988**
By source			
Core Crown		9,297	8,769
Crown entities		17	16
State-owned Enterprises		86	203
Total quantifiable contingent liabilities		**9,400**	**8,988**

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is more than remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Note 25: Contingent Liabilities and Contingent Assets (continued)

a) Uncalled Capital

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

	Note	Actual 30 June 2018 $m	Actual 30 June 2017 $m
Asian Development Bank	i	3,231	2,941
International Monetary Fund - promissory notes	ii	2,255	2,123
International Bank for Reconstruction and Development	iii	1,643	1,512
International Monetary Fund - arrangements to borrow	iv	634	540
Asian Infrastructure Investment Bank	v	548	504
Other uncalled capital		19	18
Total uncalled capital		**8,330**	**7,638**

i) Asian Development Bank (ADB)

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

ii) IMF Promissory Notes

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

iii) International Bank for Reconstruction and Development (IBRD)

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

iv) IMF arrangements to borrow

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

v) Asian Infrastructure Investment Bank (AIIB)

New Zealand was a founding-regional member of the AIIB. AIIB is a Chinese-initiated multilateral investment bank aimed at addressing the significant gap in infrastructure investment across Asia. The Crown has agreed to make funds available to the AIIB, the occurrence and amounts of which will depend upon uncertain trigger events and AIIB calling the funds.

Southern Response Earthquake Services Ltd

The Crown has agreed to provide an uncalled capital facility of $230 million to Southern Response Earthquake Service Limited (SRES) to support the Christchurch earthquake recovery process. Of this amount $113 million has been called, leaving $117 million as a contingent liability. This capital support will increase core Crown net debt when called.

Note 25: Contingent Liabilities and Contingent Assets (continued)

b) Guarantees and Indemnities

Guarantees are legally binding promises made by the Crown to assume responsibility for a debt, or performance of an obligation of another party, should that party default. Guarantees generally relate to the payment of money but may require the performance of services.

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

	Note	Actual 30 June 2018 $m	30 June 2017 $m
New Zealand Export Credit Office guarantees	i	137	136
Air New Zealand letters of credit and performance bonds	ii	32	32
The Body Laid Bare Exhibition indemnity	iii	-	459
Other guarantees and indemnities		55	63
Total guarantees and indemnities		**224**	**690**

i) New Zealand Export Credit Office guarantees

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

ii) Air New Zealand letters of credit and performance bonds

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

iii) The Body Laid Bare Exhibition indemnity

From March to July 2017, the Auckland Art Gallery Toi o Tāmaki hosted the exhibition The Body Laid Bare: Masterpieces from the Tate Gallery. The exhibition was indemnified under the Government Indemnity of Touring Exhibition Scheme from 7 February 2017 to 28 July 2017 to cover the period of transit and display of these valuable works of art. This indemnity no longer exists at 30 June 2018.

c) Legal proceedings and disputes

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

	Note	Actual 30 June 2018 $m	30 June 2017 $m
Legal tax proceedings	i	146	145
Kiwifruit vine disease Psa-V	ii	94	93
Customs legal dispute	iii	37	78
Ministry of Education - Contractual disputes	iv	24	-
Other legal proceedings and disputes		31	17
Total legal proceedings and disputes		**332**	**333**

i) Legal tax proceedings

When a taxpayer disagrees with an assessment issued following the dispute process, the taxpayer may challenge that decision by filing proceedings with the Taxation Review Authority or the High Court. This contingent liability represents the maximum liability Inland Revenue has in respect of these cases.

Note 25: Contingent Liabilities and Contingent Assets (continued)

ii) Kiwifruit vine disease Psa-V

A post-harvest operator has filed a claim against the Ministry for Primary Industries alleging it is liable for damages they suffered from the kiwifruit vine disease, Psa-V. This plaintiff filed a notice of particulars of loss in September 2016, which quantifies its loss as $93 million. The Ministry defended the claim. On 27 June 2018 the High Court found that the Ministry did not owe a duty of care to Seeka. Strathboss and Seeka filed a cross-appeal on 7 August 2018.

iii) Customs legal dispute

Customs assesses duty payable by taxpayers. Taxpayers may apply for refunds, drawbacks or remission of duty or may challenge the amount of duty assessed. Parties may challenge assessments or refusal of refund applications in the Customs Appeal Authority. The liability is shown as the maximum liability the Crown faces.

iv) Ministry of Education – Contractual disputes

Legal proceedings and disputes represent the amounts claimed by plaintiffs in relation to the performance of the Ministry of Education's statutory role.

d) Other quantifiable contingent liabilities

	Note	Actual 30 June 2018 $m	30 June 2017 $m
Unclaimed monies	i	161	147
Air New Zealand partnership	ii	158	121
Ministry for Primary Industries - Bonamia ostreae	iii	86	-
Land Information New Zealand - Quake outcasts	iv	35	-
Other contingent liabilities		74	59
Total other contingent liabilities		**514**	**327**

i) Unclaimed monies

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

ii) Air New Zealand partnership

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

iii) Ministry for Primary Industries - Bonamia ostreae

Under section 162A of the Biosecurity Act 1993 compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry has been notified compensation will be sought for Bonamia Ostreae. These claims can be quantified but do not meet the tests for recognising a provision.

iv) Land Information New Zealand - Quake outcasts

On 21 August 2018 the Minister for Greater Christchurch Regeneration announced that the Crown would pay former residential red zone owners 100% of the 2007/08 rateable value for uninsured homes. This payment is for those property owners who have not already received a payment for their uninsured improvements. The total cost of these ex gratia payments is estimated at $12 million. In addition, the Crown will purchase privately-owned red zone properties if owners are interested in selling their property. The Crown offer would be on the basis of 100% of the 2007/08 rateable value for land and improvements, regardless of insurance status.

Note 25: Contingent Liabilities and Contingent Assets (continued)

Unquantifiable Contingent Liabilities

This part of the statement provides details of those contingent liabilities of the Crown which are not quantified, excluding those that are considered remote, reported by the following categories: *indemnities, legal disputes and other contingent liabilities.*

Indemnities

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

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

Party indemnified	Instrument of indemnification	Actions indemnified
Air New Zealand Limited	Deed of indemnity issued 24 September 2001	Claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US$1 billion in respect of any one claim.
Contact Energy Limited	The Crown and Contact Energy signed a number of documents to settle in full Contact Energy's outstanding land rights and geothermal asset rights at Wairakei	The documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines.
Genesis Energy	Deed between Genesis and the Crown	The agreement sees the Crown compensate Genesis in the event that Genesis has less gas than it requires for the long-term supply of gas to cover Huntly Power station's minimum needs.
	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to the beds of lakes and rivers subject to operating easements.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referee	Section 50 of the District Courts Act 2016 and Section 4F of the Justices of the Peace Act 1957 Section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Partners	Confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.

Note 25: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	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 Financial Markets Authority (formerly Securities Commission), the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited dated 24 September 2015. The Crown has indemnified Westpac New Zealand Limited: • for all amounts paid by Westpac New Zealand under letters of credit issued on behalf of the Crown, and • against certain cost, damages and losses to third parties resulting from: - unauthorised, forged or fraudulent payment instructions - unauthorised or incorrect direct debit instructions, or - cheques mistakenly drawn in favour of a third party rather than drawn in favour of the Crown.

Note 25: Contingent Liabilities and Contingent Assets (continued)

Legal claims and proceedings

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

i) Accident Compensation Corporation (ACC) litigations

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

ii) Ministry for Primary Industries – Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993 compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry has been notified compensation will be sought for incursions including Mycoplasma bovis, fruit fly, pea weevil, bonamia ostreae and myrtle rust. Due to the complexity and uncertainty of the amount of these claims the amounts are unquantified. To the extent that an obligation can be quantified, provision has been made in these accounts.

iii) Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge certain claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land that has been transferred by the Crown to a State-owned enterprise (SOE) or tertiary institutions, 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. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

iv) Kiwifruit vine disease Psa-V

Approximately 210 growers have filed a claim against the Ministry for Primary Industries alleging it is liable for damages they suffered from the kiwifruit vine disease, Psa-V. The plaintiffs have not quantified their losses, but have publicly claimed it is in the vicinity of $380 million, citing total industry losses of $885 million. The Ministry defended the claim. On 27 June 2018 the High Court found that the Ministry owed a duty of care to Strathboss and claimants; that it breached its duty of care at the import permit stage; and that the breach caused the Psa-V incursion. An appeal was filed by the Crown on 24 July 2018.

v) Canterbury insurance disputes

Southern Response Earthquake Services Limited (SRESL) from time to time receives notification of legal claims and disputes in relation to claim settlements as a commercial outcome of conducting its business.

A representative action proceeding was filed against SRESL on 29 May 2018. The financial statements make no allowance for the outcome of these proceedings, as the range of possible outcomes cannot be reliably quantified at this time. These claims are being defended.

Other unquantified contingent liabilities

i) Criminal Proceeds (Recovery) Act

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

Note 25: Contingent Liabilities and Contingent Assets (continued)

ii) Environmental liabilities

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

In accordance with PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

iii) Remediation of Per- and Poly- Fluoroalkyl Substances Contamination

Local and central government entities are investigating per- and poly-fluoroalkyl substances (PFAS) contamination from the historic use of specialised firefighting foam at sites on, and in the vicinity of, airports, New Zealand Defence Force bases, fuel storage facilities and other sites. Various government agencies have been undertaking a programme to review, investigate and develop a comprehensive approach to manage the impact of PFAS at sites around New Zealand. Once a response is agreed, it is possible the Crown may incur costs for the response to PFAS contamination, however these costs cannot be estimated without the agreed response being finalised, so an unquantified contingent liability has been disclosed.

iv) Treaty of Waitangi claims – settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds $1.0 billion in 1994 present-value terms, the mechanism provides that the Crown is liable to make payments to maintain the real value of Ngāi 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 Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from that included in the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

v) Holidays Act and other relevant legislation

A number of entities have commenced a review of payroll calculations over the past six years in order to ensure compliance with the Holidays Act 2003 and other relevant legislation. Where possible, a provision has been made in these financial statements for obligations arising from those reviews. Further work continues to be undertaken by a number of entities including the Ministry of Education, District Health Boards, the Department of Corrections and KiwiRail Holdings Limited. These entities have complexities that are taking longer to resolve. To the extent that an obligation cannot reasonably be quantified at 30 June 2018, there is an unquantified contingency.

Note 25: Contingent Liabilities and Contingent Assets (continued)

Contingent Assets

	Note	Actual 30 June 2018 $m	30 June 2017 $m
Contingent assets			
Tax disputes	i	49	48
Transpower New Zealand Limited	ii	-	40
New Zealand Defence Force Insurance Recoveries	iii	46	-
Other contingent assets		38	14
Total contingent assets		**133**	**102**
By source			
Core Crown		133	58
Crown entities		-	4
State-owned Enterprises		-	40
Total quantifiable contingent assets		**133**	**102**

i) Tax disputes

A contingent asset is recognised when the Inland Revenue has advised a taxpayer of a proposed adjustment to their tax assessment. The taxpayer has the right to dispute this adjustment and a disputes resolution process can be entered into. The contingent asset is based on the likely cash collectable from the disputes process based on experience and similar prior cases, net of losses carried forward.

ii) Transpower New Zealand Limited

Transpower operates its revenue setting methodology within an economic value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. Under Commerce Commission regulations, Transpower is required to pass onto or claim from customers over time the economic value of the gains or losses. Transpower's contingent asset included the provisional balance from the EV accounts at 30 June 2017.

iii) New Zealand Defence Force Earthquake Insurance Recoveries

There are quantifiable contingent assets in relation to claims with NZDF insurers for material damage, business interruption and rental savings of $46 million as at 30 June 2018.

As at 30 June 2018, there are unquantifiable contingent assets in relation to claims with NZDF insurers for business interruption and loss of the fixtures and fittings in Defence House following the 2016 Kaikōura/Hurunui Earthquakes. A further contingent asset relates to a claim with the Defence House landlord for historical contributions to the landlord for build costs.

Unquantifiable Contingent Assets

Social Housing – Crown Residual Interest (CRI)

The Crown has the contractual right to receive the return of the Crown Residual Interest (CRI) in relation to social housing properties released from capacity contracts with registered Community Housing Providers via a cash payment. The CRI is an asset created to provide protection to the Crown in the event that a property is no longer needed for social housing.

Note 26: Financial Instruments

The Government has devolved responsibility for the financial management of its financial portfolios to its sub-entities such as the Treasury, Reserve Bank, New Zealand Superannuation Fund, Inland Revenue, Kiwi Group Holdings Limited 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:

- Funding purposes. Primarily financial assets and liabilities are held to finance the Government's borrowing requirements and provide funds to Government entities. Examples include Government bonds and Treasury bills. Financing activity exposes the Government to financial risks from interest rates and global demand for New Zealand Government bonds.
- Social policy purposes. Primarily held to achieve social policy objectives. A large portion of the financial instruments for social policy purposes relates to student loans to support tertiary education policy. The associated risk for the Student Loan portfolio is that borrowers will default on their obligation.
- Investment purposes. Primarily held for the purpose of generating returns to assist in funding long-term obligations. The main investment portfolios are managed by ACC and the NZ Superannuation Fund. Associated risks include performance of the New Zealand and global markets.
- Central bank purposes. Primarily held for the Reserve Bank's foreign reserve management and market operations. The main financial risks to which the Reserve Bank is exposed includes foreign exchange risks, liquidity risks and financial stability risks.
- Commercial purposes. Primarily held by entities that operate on a commercial basis, who will hold financial instruments arising from their normal business activity. The main examples are State-owned Enterprises (including the mixed ownership model companies). Associated risks include interest rates risks, foreign exchange risks and price risks.

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

Reporting to Ministers on these portfolios is done on a portfolio-by-portfolio basis. Detailed risk management policy disclosure of Government reporting entities can be found in an individual entity's Annual Report.

The institutional frameworks and policy objectives of these portfolios are reviewed periodically. Otherwise, reporting on the consolidated financial management and performance of these portfolios is done in the context of the interim and annual Financial Statements of the Government, the forecasts reported in the *Half Year* and *Budget Economic and Fiscal Updates*, and a more in-depth analysis of the Crown's assets in regular Investment Statements.

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

Note 26: Financial Instruments (continued)

Non-derivative financial assets

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

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

Major financial asset type	Designation
Trade and other receivables	All designated as loans and receivables at amortised cost
Student loans	All designated as loans and receivables at amortised cost
Kiwibank loans and advances	All designated as loans and receivables at amortised cost
Other advances	Generally designated as loans and receivables at amortised cost
IMF financial assets	All designated as loans and receivables at amortised cost
Share investments	Generally designated as fair value through the operating balance
Marketable securities	Generally designated as fair value through the operating balance
Long-term deposits	Generally designated as loans and receivables at amortised cost

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

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

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

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

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

Note 26: Financial Instruments (continued)

Non-derivative financial liabilities

Financial liabilities are designated into the following categories: amortised cost, financial liabilities held-for-trading and financial liabilities designated as fair value through the operating balance. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

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

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

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

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

Note 26: Financial Instruments (continued)

Classification of financial assets and financial liabilities

Financial instruments are measured at either fair value or amortised cost. Financial instruments measured at fair value are further classified into three designations; available for sale, held for trading and fair value through the operating balance. Changes in the value of an instrument may be reported in the statement of financial performance or directly in other comprehensive revenue and expense depending on its designation.

Financial assets

	Note	Actual 30 June 2018 $m	30 June 2017 $m
By class			
Cash and cash equivalents		19,340	18,732
Reinsurance, trade and other receivables	12	6,385	4,905
Long-term deposits	13	5,379	4,730
Derivatives in gain	13	3,153	4,381
Marketable securities	13	40,532	39,558
IMF financial assets	13	2,053	1,837
Share investments	14	36,256	30,700
Kiwibank loans and advances	15	18,281	17,795
Student loans	15	9,301	9,197
Other advances	15	1,840	1,591
Total financial assets		**142,520**	**133,426**
By valuation methodology			
Loans and receivables at amortised cost		62,232	58,135
Fair value			
Available for sale		1,240	1,223
Held for trading		3,194	4,446
Fair value through the operating balance		75,854	69,622
Total financial assets at fair value		**80,288**	**75,291**
Total financial assets		**142,520**	**133,426**

As at 30 June 2018, the carrying value of financial assets that had been pledged as collateral was $2,418 million (2017: $888 million). These transactions are conducted under terms that are usual and normal to standard securities borrowing. The amount will fluctuate depending on the market values of derivatives held that are in a loss position at 30 June 2018 and that require collateral to be posted as per the terms. The increase in collateral pledged is largely as a result of securities pledged as collateral by the Reserve Bank and the New Zealand Superannuation Fund. For more information, refer to the individual entity's annual report.

Note 26: Financial Instruments (continued)

Financial liabilities

	Note	Actual 30 June 2018 $m	30 June 2017 $m
By class			
Issued currency		6,375	5,980
Accounts payable	18	9,221	10,517
Borrowings:	19		
Government bonds		62,393	64,349
Kiwibank customer deposits		16,160	15,960
Settlement deposits with Reserve Bank		7,603	6,471
Derivatives in loss		5,067	3,113
Treasury bills		4,114	4,071
Finance lease liabilities		1,318	1,412
Government retail stock		182	190
Other borrowings		18,815	16,240
Total borrowings		**115,652**	**111,806**
Total financial liabilities		**131,248**	**128,303**
By valuation methodology			
Amortised cost (loans and receivables)		121,021	120,727
Fair value			
Held for trading		5,067	3,113
Fair value through the operating balance		5,160	4,463
Total financial liabilities at fair value		**10,227**	**7,576**
Total financial liabilities		**131,248**	**128,303**

Fair Value Measurement

The following hierarchy details the basis for the valuation of financial assets and financial liabilities measured at fair value. This includes financial assets and financial liabilities that are available for sale, held for trading, or fair value through the operating balance. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value may be determined using different methods depending on the type of asset or liability. Fair values are determined according to the following hierarchy:

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

Note 26: Financial Instruments (continued)

Fair Value Financial Instruments by Measurement Hierarchy

	Actual 30 June 2018 $m	Actual 30 June 2017 $m
Financial assets		
Quoted market price	45,782	43,039
Observable market inputs	30,202	28,948
Significant non-observable inputs	4,304	3,304
Total financial assets at fair value	**80,288**	**75,291**
Financial liabilities		
Quoted market price	986	881
Observable market inputs	9,178	6,629
Significant non-observable inputs	63	66
Total financial liabilities at fair value	**10,227**	**7,576**
Net financial instruments at fair value	**70,061**	**67,715**

Significant non-observable inputs

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

	Actual 30 June 2018 $m	Actual 30 June 2017 $m
Financial assets	4,304	3,304
Financial liabilities	63	66
Net financial instruments	**4,241**	**3,238**
Opening balance	3,238	3,315
Total gains/(losses) recognised in the statement of financial performance	138	197
Total gains/(losses) recognised in the statement of comprehensive revenue and expense	47	28
Purchases	1,120	433
Sales	(165)	(104)
Issues	1	1
Settlements	(249)	(671)
Transfers into and out of non-observable inputs	111	39
Closing balance	**4,241**	**3,238**

Note 26: Financial Instruments (continued)

Derivatives

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

	Carrying Value As at 30 June 2018			Carrying Value As at 30 June 2017		
	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m
Foreign exchange	496	2,004	(1,508)	1,677	475	**1,202**
Cross currency swaps	560	862	(302)	864	441	**423**
Interest rate swaps	1,238	1,464	(226)	1,175	1,710	**(535)**
Futures	26	1	25	9	4	**5**
Other derivatives	833	736	97	656	483	**173**
Total derivatives	**3,153**	**5,067**	**(1,914)**	**4,381**	**3,113**	**1,268**

	Notional Value As at 30 June 2018			Notional Value As at 30 June 2017		
	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m
Foreign exchange	22,783	67,175	89,958	64,964	14,803	**79,767**
Cross currency swaps	7,682	11,014	18,696	11,122	5,469	**16,591**
Interest rate swaps	43,147	43,256	86,403	42,183	55,027	**97,210**
Futures	3,258	4,985	8,243	2,037	3,371	**5,408**
Other derivatives	17,806	11,434	29,240	20,400	13,077	**33,477**
Total derivatives	**94,676**	**137,864**	**232,540**	**140,706**	**91,747**	**232,453**

Derivatives liquidity analysis

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.

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

i) whether an economic hedge exists and the effectiveness of that hedge

ii) whether the hedge accounting qualifications could be met, and

iii) the extent to which it would improve the relevance of reported results.

Note 26: Financial Instruments (continued)

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

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

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.

As at 30 June 2018	Total cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Derivatives settled gross						
- inflow	106,584	94,224	1,885	4,530	5,307	638
- outflow	(108,364)	(95,844)	(1,899)	(4,515)	(5,362)	(744)
Total settled gross	(1,780)	(1,620)	(14)	15	(55)	(106)
Derivatives in loss settled net	2,982	965	514	970	454	79

As at 30 June 2017	Total cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Derivatives settled gross						
- inflow	97,085	83,274	3,364	4,495	5,037	915
- outflow	(95,054)	(81,944)	(3,305)	(4,081)	(4,764)	(960)
Total settled gross	2,031	1,330	59	414	273	(45)
Derivatives in loss settled net	2,200	892	437	600	235	36

Interest rate risk

The Government is exposed to interest rate risk as entities in the Government reporting entity borrow and invest funds at both fixed and floating interest rates. This risk is managed at the entity level in accordance with their capital objectives and risk management policies. These objectives and policies include maintaining an appropriate mix between fixed and floating rate borrowings.

Note 26: Financial Instruments (continued)

Foreign currency risk

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

	30 June 2018 $m	30 June 2017 $m
Financial Assets (excluding derivatives)		
New Zealand Dollar	54,571	56,159
United States Dollar	40,960	33,907
Yen	9,863	8,157
Euro	9,103	10,168
Other	24,870	20,654
Total financial assets (excluding derivatives)	**139,367**	**129,045**
Financial Liabilities (excluding derivatives)		
New Zealand Dollar	115,386	112,773
United States Dollar	6,407	8,057
Yen	978	817
Euro	819	980
Other	2,591	2,563
Total financial liabilities (excluding derivatives)	**126,181**	**125,190**
Derivatives in gain/(loss)		
New Zealand Dollar	57,299	48,553
United States Dollar	(30,166)	(21,136)
Yen	(9,332)	(7,652)
Euro	(9,590)	(10,649)
Other	(10,125)	(7,848)
Total derivatives	**(1,914)**	**1,268**
Net Financial Assets/(Liabilities)		
New Zealand Dollar	(3,516)	(8,061)
United States Dollar	4,387	4,714
Yen	(447)	(312)
Euro	(1,306)	(1,461)
Other	12,154	10,243
Net Financial Assets/(Liabilities)	**11,272**	**5,123**

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

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

Note 26: Financial Instruments (continued)

Credit risk

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

Of the financial assets held by the Government at 30 June 2018, the fair value of collateral held that could be sold or repurchased was $20,415 million (2017: $17,194 million). The majority of this relates to Kiwibank Limited, who can enforce their collateral in satisfying the debt in the event of the borrower failing to meet their contractual obligations.

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

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

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

As at 30 June 2018	Total $m	AAA $m	AA $m	A $m	Other $m	Non-rated $m
Cash and cash equivalents	**19,340**	4,936	6,312	7,966	79	47
Trade and other receivables	**6,385**	-	55	186	-	6,144
Long-term deposits	**5,379**	-	4,490	963	167	(241)
Derivatives in gain	**3,153**	-	1,242	1,758	48	105
Marketable securities	**40,532**	13,861	15,091	3,522	2,591	5,467
IMF financial assets	**2,053**	-	-	-	2,053	-
Share investments	**36,256**	716	3,689	8,580	8,123	15,148
Kiwibank loans and advances	**18,281**	-	-	-	-	18,281
Student loans	**9,301**	-	-	-	-	9,301
Other advances	**1,840**	-	129	93	321	1,297
Total credit exposure by credit rating	**142,520**	**19,513**	**31,008**	**23,068**	**13,382**	**55,549**

As at 30 June 2017	Total $m	AAA $m	AA $m	A $m	Other $m	Non-rated $m
Cash and cash equivalents	**18,732**	3,975	7,315	7,244	57	141
Trade and other receivables	**4,905**	-	70	152	-	4,683
Long-term deposits	**4,730**	-	3,733	847	124	26
Derivatives in gain	**4,381**	-	1,884	2,351	75	71
Marketable securities	**39,558**	13,261	13,341	4,593	3,137	5,226
IMF financial assets	**1,837**	-	-	-	1,837	-
Share investments	**30,700**	556	2,896	7,263	7,035	12,950
Kiwibank loans and advances	**17,795**	-	-	-	-	17,795
Student loans	**9,197**	-	-	-	-	9,197
Other advances	**1,591**	-	198	122	235	1,036
Total credit exposure by credit rating	**133,426**	**17,792**	**29,437**	**22,572**	**12,500**	**51,125**

Note 26: Financial Instruments (continued)

	30 June 2018 $m	30 June 2017 $m
Financial Assets		
Concentration of credit exposure by geographical area		
New Zealand	55,397	53,352
USA	26,759	25,581
Europe	21,511	20,486
Japan	9,818	8,128
Australia	12,616	10,505
Other	16,419	15,374
Total financial assets	**142,520**	**133,426**
Concentration of credit exposure by industry		
Individuals	27,727	27,181
Sovereign issuers	26,996	25,758
New Zealand banking	11,100	12,643
Foreign banking	14,847	13,280
Supranational	7,507	8,070
Other	54,343	46,494
Total financial assets	**142,520**	**133,426**

At 30 June 2018, 15.1% (2017: 15.1%) of student loan borrowers were overseas. As the total advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk.

Liquidity risk

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

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

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

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

Financial Liabilities (excluding derivatives)	30 June 2018 $m	30 June 2017 $m
Less than 1 year	61,828	55,942
1-2 years	13,093	17,488
2-5 years	30,727	29,914
5-10 years	22,048	28,059
More than 10 years	19,428	14,868
Total contractual cash flows	**147,124**	**146,271**
Total carrying value	**126,181**	**125,190**

Note 26: Financial Instruments (continued)

The Government holds loan commitments of $3,158 million (2017: $3,378 million) which primarily all have contractual cash flows of less than two years.

In addition to the above financial liabilities, the Crown has entered into various financial guarantees and indemnities totalling $224 million (2017: $702 million) which expose the Crown to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 25. For all these guarantees, the earliest period which the Crown would be required to pay if the guarantees are called upon is less than one year.

The Government has access to financing facilities, of which the total unused amount at 30 June 2018 was $885 million (2017: $959 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

Sensitivity analysis

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

	Impact on operating balance		Impact on net worth	
	2018 $m	2017 $m	2018 $m	2017 $m
Increase in NZ interest rates 1% (100 basis points)	(1,550)	(946)	(1,561)	(927)
Decrease in NZ interest rate 1% (100 basis points)	1,697	1,122	1,703	1,107
NZ dollar exchange rate strengthens by 10%	(846)	(793)	(873)	(828)
NZ dollar exchange rate weakens by 10%	983	922	1,014	962
Share prices strengthen by 10%	3,580	3,044	3,580	3,044
Share prices weaken by 10%	(3,580)	(3,044)	(3,580)	(3,044)

Interest rate sensitivity

The effect on the operating balance is primarily from changes in interest revenue and interest expense on floating rate instruments and changes in the value of instruments measured at fair value through profit and loss. The Government does not have material exposure to foreign interest rates.

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

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

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

Note 26: Financial Instruments (continued)

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

The Government's sensitivity to interest rates has increased since last year. Interest rate sensitivity on financial instruments have a minor impact compared with other longer-dated obligations such as ACC outstanding claims liability and the GSF defined benefit obligations (refer note 11 and note 20 for sensitivity information for these long-term liabilities).

Foreign currency sensitivity

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

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

Equity market sensitivity

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

The sensitivity analysis above has been determined based on the exposure of the NZS Fund and ACC to share price risks at the reporting date. These portfolios combined make up 99% of the Government's total share investments (2017: 99%).

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

Note 27: Related Parties

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

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

There are no other related parties as no other parties control the Government, and no other parties are controlled by the Government, other than those that are consolidated into the Financial Statements of the Government.

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

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

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

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

Other transactions with these related parties can include the employment of Ministers' spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and State-owned Enterprises, receipt of grants from, or the purchase or sale of goods and services to, a Government entity by Ministers, their spouses, children and dependants, or private-sector entities they own or jointly control. Such related party transactions will be disclosed if they have taken place within the Minister's portfolio or if they involve lending or guaranteeing Ministers.

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

Note 28: Events Subsequent to Balance Date

Boeing P-8A Poseidon Aircraft

After balance date, Cabinet approved the purchase of four Boeing P-8A Poseidon maritime patrol aircraft from the United States Government. The new P-8As, training systems, infrastructure and introduction into service costs will total $2.346 billion. The purchase is not included in the Statement of Commitments because the approval was given after balance date.

Nurses Pay Offer

On 7 August 2018, nurses accepted a pay offer from the Government (excluding pay equity) of $0.5 billion between 4 June 2018 and 31 July 2020, with an ongoing cost of $0.2 billion per year thereafter.

Waikeria Prison

On 17 September 2018, a Public Private Partnership contract was signed with Cornerstone Infrastructure Partners LP to develop a facility at Waikeria Prison. The facility can accommodate 500 prisoners with the capability to provide mental health treatment for a further 100 offenders. The agreement is not included in the Statement of Commitments as it was entered into after balance date.

Other than those noted above, there have been no material events subsequent to balance date.

Statement of Unappropriated Expenditure

for the year ended 30 June 2018

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

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

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

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

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

The following table describes the various types of unappropriated expenditure that can typically occur during the year. Categories (A) to (C) represent unappropriated expenses with authority, whilst categories (D) to (F) represent unappropriated expenditure without authority. All unappropriated expenditure is confirmed or validated through an Appropriation Act in the following year.

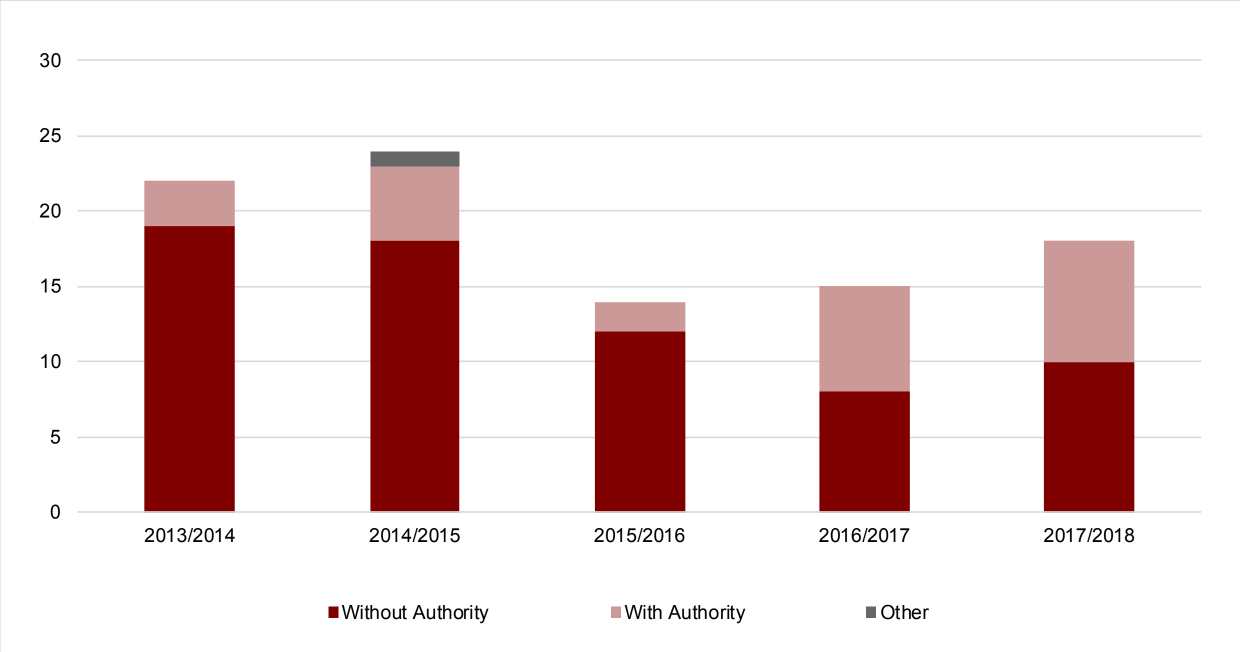
<table>
<tr><th>Category of unappropriated expenditure</th><th>Reporting requirements to Parliament under the Act</th></tr>
<tr><td>(A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989</td><td>Where the amount in excess (but within the scope) of an existing appropriation was within $10,000 or 2% of the appropriation, Section 26B of the Act authorises the Minister of Finance to approve these items. Such items must also be confirmed by Parliament in the Appropriation Act for the year.</td></tr>
<tr><td>(B) With Cabinet authority to use imprest supply but in excess of appropriation prior to the end of the financial year</td><td rowspan="5">Where the unappropriated items exceed the limits available for approval under Section 26B, they fall into one of five categories of unappropriated expenditure.

All such instances are unlawful unless validated by Parliament through an Appropriation Act (Section 26C of the Act).

The validating legislation will be accompanied by a report to the House of Representatives that sets out each unappropriated item together with an explanation made by the Minister responsible for the appropriation.</td></tr>
<tr><td>(C) With Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year</td></tr>
<tr><td>(D) In excess of appropriation and without prior Cabinet authority to use imprest supply</td></tr>
<tr><td>(E) Outside scope of an appropriation and without prior Cabinet authority to use imprest supply</td></tr>
<tr><td>(F) Without appropriation and without prior Cabinet authority to use imprest supply</td></tr>
</table>

Statement of Unappropriated Expenditure (continued)

The following graphs show the number of unappropriated items by category of unappropriated expenditure over the last five years as well as the amount of unappropriated expenditure.



In 2018, there were a total of 825 appropriations (2017: 806). In the 2018 financial year there were 18 instances of expenditure (2017:15) that either exceeded the amount appropriated or did not have an appropriation.

30 June 2018 Number	30 June 2017 Number	Unappropriated Expenditure by Category		30 June 2018 $m	30 June 2017 $m
		By category			
3	6	Approved by the Minister of Finance	A	16	4
4	-	Cabinet authority to use imprest supply but in excess of appropriation	B	11	-
1	1	Cabinet authority to use imprest supply but without appropriation	C	23	30
5	4	Without Cabinet authority and in excess of appropriation	D	6	12
2	2	Without Cabinet authority and outside scope	E	46	5
3	2	Without Cabinet authority and without appropriation	F	17	73
18	**15**	**Total unappropriated expenditure**		**119**	**124**

Statement of Unappropriated Expenditure (continued)

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

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

Ministry of Health *Vote Health*	*Non-Departmental Output Expense* National Disability Support Services	1,242,680	12,850

The Ministry of Health has incurred costs that were higher than forecast mainly due to additional equipment claims, additional residential care services costs and growing demand for individualised funding services.

Ministry of Justice *Vote Justice*	*Non-Departmental Output Expenses* Electoral Services	57,749	898

The Northcote by-election was announced subsequent to the Budget and Supplementary Estimates process. As a result, the by-election additional funding was required for the *Electoral Services* appropriation.

Ministry of Social Development *Vote Social Development*	*Non-Departmental Capital Expenditure* Recoverable Assistance	204,931	2,326

The Ministry of Social Development incurs demand driven costs within the *Recoverable Assistance* appropriation. Although the forecast at *Budget 2018* was for an increase in the number of recoverable assistance payments, the amounts granted in April and May 2018 were higher than expected and larger in than the same period in 2017. Total expenditure at 30 June 2018 exceeded the appropriation by $2.326 million.

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

Ministry of Business, Innovation and Employment *Vote Business Science and Innovation*	*Non-Departmental Output Expenses* Communications: Emergency Telecommunications Services	3,108	1,200

Subsequent to the Budget and Supplementary Estimates process, the Ministry of Business, Innovation and Employment received Cabinet approval of $1.200 million for the *Communications: Emergency Telecommunications Services* appropriation under Imprest Supply. This increased the total amount for this appropriation to $4.308 million. Any expenditure above the Supplementary Estimates authority of $3.108 million is unappropriated and will need to be confirmed in the Appropriation (2017/18 Confirmation and Validation) Act. The total amount spent against this appropriation at 30 June 2018 was $4.374 million, resulting in two types of unappropriated expenditure: $1.200 million with Cabinet authority to use Imprest Supply and a further $0.066 million without Cabinet authority (see section D of this statement).

Statement of Unappropriated Expenditure (continued)

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

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

Ministry for Primary Industries *Vote Primary Industries and Food Safety*	*Multi-Category Appropriation* Biosecurity: Border and Domestic Risk Management	275,294	2,637
	Non-Departmental Other Expenses Compensation and Ex-Gratia Payments following a Biosecurity Event	75,000	6,109

In response to the outbreak of Mycoplasma Bovis, Cabinet agreed to fund from Imprest Supply two appropriations within Vote Primary Industries and Food Safety, to enable the depopulation of infected properties. This occurred after the Budget and Supplementary Estimates process and did not receive Parliament's authorisation before the financial year end.

For the *Biosecurity: Border and Domestic Risk Management* multi-category appropriation an additional $8.000 million was approved by Cabinet of which $2.637 million was incurred.

For the *Compensation and Ex-Gratia Payments following a Biosecurity Event* appropriation an additional $100.000 million was approved by Cabinet of which $6.109 million was incurred to enable the depopulation of further infected properties.

Ministry of Transport *Vote Transport*	*Non-Departmental Capital Expenditure* Joint Venture Airports	500	597

The Ministry of Transport administers the appropriation *Joint Venture Airports* and is responsible for the Crown's share of costs incurred by joint venture airports. A number of claims for costs dating back over a number of years were made to the Ministry of Transport in the 2017/18 year. Cabinet has given approval for costs of up to $0.700 million to be met from Imprest Supply. The amount of these claims has resulted in the appropriation exceeding the authority published in the Supplementary Estimates by $0.597 million.

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

Ministry of Health *Vote Health*	Mental Health and Addictions Support Workers Pay Equity Claim		23,449

The settlement of the Mental Health and Addictions Support Workers Pay Equity Claim was agreed after finalisation of the 2017/18 Supplementary Estimates. The 2017/18 expenditure of $23.449 million could not be met from any existing 2017/18 appropriation and was therefore incurred without appropriation. This expenditure was identified as a possibility at *Budget 2018* and Cabinet agreed that any expenditure associated with the settlement in 2017/18 would be met from Imprest Supply.

Statement of Unappropriated Expenditure (continued)

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

(D) Expenses and capital expenditure incurred in excess of appropriation and without prior Cabinet authority to use imprest supply

Department of the Prime Minister and Cabinet *Vote Prime Minister and Cabinet*	*Non-Departmental Other Expenses* Rehabilitation of Kaikōura Harbour	720	1,145

In-principle approval was given to transfer the 2016/17 underspend in the *Rehabilitation of Kaikōura Harbour* appropriation to 2017/18 to manage uncertainties around the timing of expenditure for the rehabilitation of the Kaikōura Harbour. Joint Ministers approval for this transfer was given in November 2017, which was after expenditure had been incurred.

Ministry of Business, Innovation and Employment *Vote Business Science and Innovation*	*Non-Departmental Other Expenses* Communications: Telecommunications Development Levy Funded Procurement - Non-Urban Infrastructure	312	16

A contract between the Ministry of Business, Innovation and Employment and TeamTalk Limited has been in place for the delivery of broadband services to the Chatham Islands under the RBI 1 programme since 2014, and was due to expire on 31 July 2018. An agreement was made to extend the contract to ensure continuity of broadband services. A variation agreement was entered into in May 2018 whereby an increase of funding of $8,200 per month would be made to coincide with TeamTalk's obligation to ensure that the link would meet the higher target capacity effective from May 2018. When agreeing to this variation it was thought that this could be allocated to the *Telecommunications Development Levy Funded Procurement – Infrastructure Investment* multi-year appropriation. It was later confirmed that the expenditure should be allocated to the *Telecommunications Development Levy Funded Procurement - Non-Urban Infrastructure* appropriation. Two payments were made against this appropriation in 2017/18, which together exceeded the spending limit of the appropriation.

Ministry of Business, Innovation and Employment *Vote Business Science and Innovation*	*Non-Departmental Output Expenses* Communications: Emergency Telecommunications Services	3,108	66

Subsequent to the Budget and Supplementary Estimates process, the Ministry of Business, Innovation and Employment received Cabinet approval of $1.200 million for the *Communications: Emergency Telecommunications Services* appropriation under Imprest Supply. This increased the total amount for this appropriation to $4.308 million. Any expenditure above the Supplementary Estimates authority of $3.108 million is unappropriated and will need to be confirmed in the Appropriation (2017/18 Confirmation and Validation) Act. The total amount spent against this appropriation at 30 June 2018 was $4.374 million, resulting in two types of unappropriated expenditure: $1.200 million with Cabinet authority to use Imprest Supply (see section B of this statement) and a further $0.066 million without Cabinet authority.

Ministry of Business, Innovation and Employment *Vote Building and Housing*	*Multi-Category Appropriation* Temporary Accommodation Services	1,249	3,340

The Ministry of Business, Innovation and Employment received confirmation for three in-principle expense transfers from 2016/17 to 2017/18, totalling $1.249 million, all of which were subsequently transferred to the *Temporary Accommodation Services* multi-category appropriation on 28 August 2017. A fourth expense transfer was overlooked and as a result spending against the current year's appropriation exceeded the total authorised amount available. The appropriation was given additional authority on 27 March 2018. The total amount spent in the appropriation until 27 March 2018 was $4.589 million.

Statement of Unappropriated Expenditure (continued)

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

(D) Expenses and capital expenditure incurred in excess of appropriation and without prior Cabinet authority to use imprest supply (continued)

Ministry of Health *Vote Health*	*Departmental Output Expenses* Managing the Purchase of Services	41,973	1,395

The settlement of the Mental Health and Addictions Support Workers Pay Equity Claim and associated costs were agreed after finalisation of the 2017/18 Supplementary Estimates. The implementation costs associated with this that were incurred in the 2017/18 financial year have resulted in the total spend against the *Managing the Purchase of Services* appropriation to exceed the total authority. The total spend against this appropriation was $43.368 million.

Department Vote	*Expense type* Appropriation name	Amount without appropriation $000

(E) Expenses and capital expenditure incurred outside of scope of an appropriation and without prior Cabinet authority to use imprest supply

Department of Internal Affairs *Vote Internal Affairs*	*Non-Departmental Output Expenses* Members of the Executive Travel	571

The scope statement of the appropriation *Members of the Executive – Travel* was amended in 2015 to reflect changes in the legislation governing Ministers' entitlements. This amendment had the unintended consequence of excluding the cost of staff travelling with the Ministers, impacting the 2015/16, 2016/17 and 2017/18 years. The expenditure for 2015/16 and 2016/17 was reported as unappropriated expenditure in the 2016/17 Statement of Unappropriated Expenditure. To avoid ongoing unappropriated expenditure, a new appropriation *Services Supporting the Executive – Travel* was established in November 2017. Until the new appropriation was in place, unappropriated expenditure continued to be incurred in 2017/18 year.

Ministry of Business, Innovation and Employment *Vote Business Science and Innovation*	*Non Departmental Capital Expenditure* Communications: Broadband Investment (Crown Fibre Holdings Capital Costs) 2016-2021	45,000

Crown Fibre Holdings Limited changed its name in September 2017 to Crown Infrastructure Partners Limited. The Ministry of Business, Innovation and Employment made a payment to Crown Infrastructure Partners Limited in December 2017. However, the scope statement for the appropriation referred to Crown Fibre Holdings Limited. Therefore, this payment has been deemed outside of the scope of the appropriation.

(F) Expenses and capital expenditure incurred without appropriation and without prior Cabinet authority to use imprest supply

Ministry of Business, Innovation and Employment *Vote Building and Housing*	*Multi-Category Appropriation* Temporary Accommodation Services	880

MBIE incurred costs against the *Temporary Accommodation Services* multi-category appropriation prior to approval being given for its creation on 28 August 2017.

Statement of Unappropriated Expenditure (continued)

Department **Vote**	***Expense type*** **Appropriation name**	**Amount without appropriation $000**

(F) Expenses and capital expenditure incurred without appropriation and without prior Cabinet authority to use imprest supply (continued)

Department of Internal Affairs		
Vote Internal Affairs	*Non-Departmental Capital Expenditure* Capital Investments – Lake Taupō	1,879

Unappropriated spending against the *Capital Investments – Lake Taupō* appropriation was incurred by the Department of Internal Affairs in the months from July to November 2017 due to the continuing nature of the construction contracts for the redevelopment of Motuoapa Marina, Lake Taupō. The Minister of Finance agreed to an in-principle capital transfer from 2016/17 to 2017/18 up to a maximum of $2.500 million but the final agreed amount of $1.996 million to be transferred was not approved by Joint Ministers until November 2017.

Ministry of Transport		
Vote Transport	Auckland City Rail Link finance costs	14,453

The Ministry of Transport paid a finance charge of $14.453 million to Auckland Council in December 2017 for costs relating to stage 1 enabling works and interim funding for the *Auckland City Rail Link*, to which the Crown and Auckland Council are joint sponsors. This expenditure is within the funding limits approved by Cabinet for the Crown's share of the *Auckland City Rail Link*. However, as finance costs are operating in nature and there is no operating appropriation for *Auckland City Rail Link*, this expenditure was unappropriated.

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2018

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

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

Statement of Trust Money

for the year ended 30 June 2018

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 2018

Department Trust Account	**As at 30 June 2017 $000**	**Contributions** $000	**Distributions** $000	**Revenue** $000	**Expenses** $000	**As at 30 June 2018 $000**
Department of Conservation						
Bonds/Deposits Trust	6,738	213	(112)	186	-	7,025
Conservation Project Trust	1,327	1,695	(600)	23	-	2,445
National Parks Trust	176	43	(40)	3	-	182
Walkways Trust	11	-	-	1	-	12
Wildlife and Reserves Trusts [1]	-	-	-	-	-	-
Department of Corrections						
Prisons Trust	1,716	19,461	(19,183)	-	-	1,994
Crown Law Office						
Legal Claims Trust	54	189	(175)	1	(7)	62
Ministry of Business, Innovation and Employment						
Coal and Minerals Deposits Trust	291	-	-	-	-	291
Criminal Assets Management and Enforcement Regulators Association Trust	16	3	-	-	-	19
Employment Relations Service Trust	456	1,073	(748)	9	(114)	676
Employment Relations Act Security of Costs Trust	4	-	(4)	-	-	-
New Zealand Immigration Service Trust	1,089	143	(314)	14	(236)	696
Official Assignee's Office Trust	24,683	28,742	(15,781)	724	(13,649)	24,719
Patent Co-operation Treaty Fees Trust	107	811	(650)	1	(21)	248
Petroleum Deposits Trust	96	13	(29)	-	-	80
Proceeds of Crime Trust	135,303	37,617	(32,411)	2,333	(6,580)	136,262
Residential Tenancies Bond Trust	509,097	245,211	(208,358)	20,197	(20,197)	545,950
Weathertight Services Financial Assistance Trust	-	7,514	(7,514)	-	-	-
Ministry for Culture and Heritage						
Dictionary of New Zealand Biography Trust	16	-	-	1	(7)	10
New Zealand Historical Atlas Trust	160	-	-	2	-	162
New Zealand History Research Trust	1,412	-	(101)	48	-	1,359
New Zealand Oral History Awards Trust	784	-	(100)	23	-	707
War History Trust	102	-	-	2	(56)	48
National War Memorial Trust	8	-	-	-	-	8
New Zealand Customs Services						
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	89,051	41,086	(77,952)	-	-	52,185
Health Promotion Agency Trust	988	13,457	(13,436)	-	-	1,009
Heavy Engineering Research Association Trust	187	1,777	(1,777)	-	-	187
New Zealand Customs Service IBM MSA Trust [1]	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	482	78,501	(78,870)	-	-	113
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	2	43,245	(43,241)	-	-	6

Statement of Trust Money (continued)

for the year ended 30 June 2018

Department Trust Account	**As at 30 June 2017 $000**	**Contributions** $000	**Distributions** $000	**Revenue** $000	**Expenses** $000	**As at 30 June 2018 $000**
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	6,130	6,280	(9,775)	110	(97)	2,648
Conferences Trust	-	-	-	-	-	-
Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund Board Trust	1,270	217	(217)	24	(83)	1,211
Capital Works Construction Funds Trust [1]	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade						
Afghanistan New Zealand Aid Programme Trust	4	-	-	-	(1)	3
Cook Island Trust	1	1,795	(1,796)	1	-	1
Government Administration Building, Niue Trust	52	-	(19)	1	-	34
New Zealand/France Friendship Trust	45	100	(100)	8	-	53
Niue Primary School Infrastructure Projects Trust [1]	332	-	(334)	2	-	-
Kiribati Green Climate Fund Readiness Support Programme Trust [1]	-	-	-	-	-	-
Niue Development Assistance Trust	4,378	1,852	(150)	93	-	6,173
Ministry of Health						
Medicines Review Objectors Deposit Trust [1]	-	-	-	-	-	-
Inland Revenue Department						
Child Support Agency Trust	32,439	285,507	(279,824)	-	-	38,122
KiwiSaver Returned Transactions Trust	2,992	-	(2,849)	-	-	143
KiwiSaver Employer Trust [1]	-	-	-	-	-	-
Reciprocal Child Support Agreement Trust	499	17,435	(17,398)	-	-	536
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust	1,784	43	-	1,056	(500)	2,383
Interloan Billing System Trust	42	-	-	558	(558)	42
Macklin Bequest Fund Trust	290	-	-	9	-	299
Retention Trust Account [2]	-	-	-	340	-	340
New Zealand 1990 Scholarship Trust [1]	-	-	-	-	-	-
Ministry of Justice						
Courts Law Trust	11,213	12,978	(14,198)	-	-	9,993
Election Candidates Deposit Trust [1]	-	-	-	-	-	-
Employment Court Trust	120	176	(122)	-	-	174
Fines Trust	45,473	171,367	(170,691)	-	-	46,149
Foreign Currency Euro Fund Trust	-	-	-	-	-	-
Foreign Currency United States Dollar Trust	-	-	-	-	-	-
Legal Complaints Review Officer Trust [1]	-	53	(53)	-	-	-
Maori Land Court Trust	48	5	(11)	-	-	42
Supreme Court Trust	187	100	(201)	-	-	86
Victims' Claims Trust	16	187	(56)	-	-	147

Statement of Trust Money (continued)

for the year ended 30 June 2018

Department Trust Account	As at 30 June 2017 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2018 $000
Land Information New Zealand						
Crown Forestry Licences Trust	98	6,272	(5,858)	-	-	512
Deposits Trust [1]	-	-	-	-	-	-
Endowment Rentals Trust	5	5,953	(261)	-	-	5,697
Hunter Gift for the Settlement of Discharged Soldiers Trust	57	-	-	-	-	57
New Zealand Police						
Bequests, Donations and Appeals Trust	5	8	-	-	-	13
Found Money Trust	176	327	(309)	-	-	194
Money in Custody Trust	11,333	15,591	(8,205)	-	-	18,719
Reparation Trust	-	5	(4)	-	-	1
Money forfeited to Crown	553	6,675	(7,138)	-	-	90
Ministry for Primary Industries						
MAF Overfishing Account Trust	6,644	5,176	(8,419)	175	-	3,576
MAF Fish Forfeit Property Trust	1,331	110	(43)	24	-	1,422
Meat Board Levies Trust	8	60,670	(60,497)	5	(12)	174
National Animal Identification Tracing Trust	7	2,402	(2,154)	-	-	255
Seized Timber Trust [1]	-	-	-	-	-	-
Department of the Prime Minister and Cabinet						
Christchurch Cathedral Restoration Trust [2]	-	-	-	1	-	1
Ministry of Social Development						
Australian Dollar Embargoed Arrears Trust	536	5,206	(5,230)	7	-	519
Australian Recovery Debt Trust	-	8	(7)	-	-	1
Maintenance Trust	22	538	(534)	5	-	31
Netherlands Recovery Debt Trust	11	100	(111)	-	-	-
Overseas Debt Recovery Trust [1]	-	-	-	-	-	-
CYF Custody Trust Account	6	-	(6)	-	-	-
WR Wallace Trust	475	-	(513)	38	-	-
Oranga Tamariki, Ministry for Children						
CYF Custody Trust Account	-	6	-	-	-	6
WR Wallace Trust	-	488	(1)	6	-	493
The Treasury						
Genesis Share Offer Trust	1	-	-	-	-	1
Meridian Share Offer Trust	1	-	-	-	(1)	-
Mighty River Share Offer Trust	1	-	-	-	-	1
Trustee Act 1956 Trust	8,479	4,840	(550)	10	-	12,779
Total	**911,420**	**1,133,264**	**(1,099,030)**	**26,041**	**(42,119)**	**929,576**

1 Inoperative trust account
2 New trust account

The opening balance does not agree to prior year accounts as the District Health Boards Deposit Trust which was reported in 2017, is between Government Reporting Entities and therefore is no longer reported. The closing balance was $1.394 million.

Additional Financial Information

Fiscal Indicator Analysis

for the year ended 30 June 2018

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 37 to 130) 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 core Crown 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.

Core Crown net debt represents gross debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2018

2018 Forecast Budget 2017 $m	Budget 2018 $m		Actual 30 June 2018 $m	Actual 30 June 2017 $m
		Core Crown Cash Flows from Operations		
77,133	79,445	Tax receipts	80,079	74,729
892	944	Other sovereign receipts	900	955
630	670	Interest receipts	650	688
3,307	3,194	Sale of goods & services and other receipts	3,127	3,340
(26,512)	(26,404)	Transfer payments and subsidies	(26,253)	(25,293)
(48,424)	(48,985)	Personnel and operating costs	(47,740)	(44,581)
(3,507)	(3,488)	Finance costs	(3,483)	(3,530)
(293)	(186)	Forecast for future new operating spending	-	-
1,000	300	Top-down expense adjustment	-	-
4,226	**5,490**	**Net core Crown operating cash flows**	**7,280**	**6,308**
(3,196)	(3,217)	Net purchase of physical assets	(2,515)	(2,153)
(325)	(127)	Net repayment / (issue) of advances	(92)	111
(2,888)	(3,201)	Net purchase of investments	(2,827)	(1,692)
-	(500)	Contribution to NZS Fund	(500)	-
(446)	(185)	Forecast for future new capital spending	-	-
840	485	Top-down capital adjustment	-	-
(6,015)	**(6,745)**	**Net Core Crown capital cash flows**	**(5,934)**	**(3,734)**
(1,789)	**(1,255)**	**Residual cash surplus / (deficit)**	**1,346**	**2,574**
		Residual cash is (invested) / funded as follows:		
		Debt programme cash flows		
		Market:		
6,874	7,034	Issue of government bonds	7,043	7,847
(11,602)	(7,263)	Repayment of government bonds	(6,828)	(6,080)
200	-	Net issue/(repayment) of short-term borrowing[1]	100	160
(4,528)	**(229)**	**Total market debt cash flows**	**315**	**1,927**
		Non market:		
-	-	Repayment of government bonds	-	(830)
-	-	Net issue/(repayment) of short-term borrowing	-	-
-	**-**	**Total non-market debt cash flows**	**-**	**(830)**
(4,528)	**(229)**	**Total debt programme cash flows**	**315**	**1,097**
		Other borrowing cash flows		
1,034	7,874	Net (repayment)/issue of other New Zealand dollar borrowing	2,190	(2,352)
(971)	(5,333)	Net (repayment)/issue of foreign currency borrowing	(865)	2,425
63	**2,541**	**Total other borrowing cash flows**	**1,325**	**73**
		Investing cash flows		
6,087	(1,370)	Other net sale/(purchase) of marketable securities and deposits	(3,041)	(194)
170	460	Issues of circulating currency	396	265
(3)	(147)	Decrease/(increase) in cash	(341)	(3,815)
6,254	**(1,057)**	**Total investing cash flows**	**(2,986)**	**(3,744)**
1,789	**1,255**	**Residual cash (invested) / funded**	**(1,346)**	**(2,574)**

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

Fiscal Indicator Analysis – Debt

as at 30 June 2018

2018 Forecast Budget 2017 $m	2018 Forecast Budget 2018 $m		Actual 30 June 2018 $m	Actual 30 June 2017 $m
		Gross and net core Crown debt analysis:		
111,500	**115,978**	Total borrowings	**115,652**	**111,806**
39.6%	*39.9%*	*As a percentage of GDP*	*40.0%*	*40.8%*
		Net core Crown debt:		
92,565	97,248	Core Crown borrowings[1]	98,295	94,107
(1,908)	(2,263)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(2,858)	(1,487)
90,657	**94,985**	**Gross sovereign-issued debt[2]**	**95,437**	**92,620**
74,344	85,569	Less core Crown financial assets[3]	88,226	81,015
16,313	**9,416**	**Net core Crown debt (including NZS Fund)[4]**	**7,211**	**11,605**
35,486	39,050	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	38,035	35,861
51,799	**48,466**	**Net core Crown debt (excluding NZS Fund)[4]**	**45,246**	**47,466**
12,312	11,943	Advances	12,249	12,014
64,111	**60,409**	**Net core Crown debt (excluding NZS Fund and advances)[6]**	**57,495**	**59,480**
22.8%	*20.8%*	*As a percentage of GDP*	*19.9%*	*21.7%*
		Gross debt:		
90,657	94,985	Gross sovereign-issued debt[2]	95,437	92,620
(8,179)	(9,118)	Less Reserve Bank settlement cash and bank bills	(8,984)	(7,079)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash[7]	1,600	1,600
84,078	**87,467**	**Gross sovereign-issued debt excluding settlement cash and bank bills**	**88,053**	**87,141**
29.8%	*30.1%*	*As a percentage of GDP*	*30.4%*	*31.8%*

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 Government borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

Information on State-owned Enterprises and Crown Entities

Accounting Policies

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

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

The Crown has equity accounted 100% of the net assets of TEIs on the basis that, in the event of disestablishment of a TEI (which is subject to a resolution of the House of Parliament), 100% of the net assets revert to the Crown in the absence of a decision to transfer the assets to a new or existing institution and, in the meantime, the Crown enjoys the benefits of the provision of a higher education to the public of New Zealand (refer note 17).

Mixed Ownership Companies

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

Company	% minority interest before CFI investment	% minority interest after CFI investment
Air New Zealand	48.09%	45.58%
Genesis Energy	48.71%	46.98%
Meridian Energy	48.98%	46.01%
Mercury NZ	47.45%	44.48%

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 2018:

Crown entities	Balance date	Information reported to
New Zealand Symphony Orchestra	31 December	30 June 2018
School boards of trustees	31 December	31 December 2017
TEIs	31 December	30 June 2018

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

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

	30 June 2018				30 June 2017			
	Revenue (excl gains)	Expenses (excl losses)	Operating balance	Distri-butions	Revenue (excl gains)	Expenses (excl losses)	Operating balance	Distri-butions
	$m	$m	$m	$m	$m	$m	$m	$m
State-owned Enterprises								
Airways Corporation of New Zealand Limited	214	192	27	11	205	182	24	9
AsureQuality Limited	212	201	8	4	180	172	5	5
Landcorp Farming Limited	248	236	38	-	233	227	51	-
New Zealand Post Limited[1]	889	933	13	5	923	910	70	105
KiwiRail Holdings Limited	667	802	(119)	-	725	973	(243)	-
Transpower New Zealand Limited	1,089	842	245	165	1,067	859	272	164
Kordia Group Limited	218	211	6	1	202	202	(1)	8
Kiwi Group Holdings Limited[1]	1,206	1,091	121	11	1,014	1,011	8	1
New Zealand Railways Corporation	-	-	1	-	-	-	2	-
Other State-owned enterprises	174	157	5	4	429	339	6	4
Total State-owned Enterprises	**4,917**	**4,665**	**345**	**201**	**4,978**	**4,875**	**194**	**296**
Air New Zealand Limited	5,526	5,086	628	247	5,153	4,804	251	505
Genesis Energy Limited	2,323	2,237	59	167	1,942	1,884	85	164
Meridian Energy Limited	2,764	2,543	201	486	2,321	2,101	197	477
Mercury NZ Limited	1,780	1,598	233	273	1,555	1,405	183	252
Less minority interests	-	-	(448)	(541)	-	-	(347)	(509)
Total mixed ownership companies	**12,393**	**11,464**	**673**	**632**	**10,971**	**10,194**	**369**	**889**
Intra-segmental eliminations	(438)	(405)	(157)	-	(478)	(426)	42	-
Total SOE segment	**16,872**	**15,724**	**861**	**833**	**15,471**	**14,643**	**605**	**1,185**
Crown Entities								
Accident Compensation Corporation	5,371	5,778	29	-	5,384	5,978	597	-
Crown Infrastructure Partners	33	107	(69)	-	26	95	(68)	2
Crown Research Institutes	755	730	20	-	717	688	28	-
Callaghan Innovation	306	307	-	-	266	267	-	-
District Health Boards	14,745	14,995	(265)	-	13,942	14,055	(114)	-
Earthquake Commission	403	587	(179)	-	83	398	(314)	-
Fire and Emergency New Zealand	593	490	119	-	411	420	(2)	-
Housing New Zealand Corporation	1,353	1,253	80	-	1,327	1,240	110	-
Museum of New Zealand Te Papa	62	70	(9)	-	58	63	(6)	-
New Zealand Lotteries Commission	1,185	901	283	-	1,145	870	275	-
New Zealand Transport Agency	2,650	2,620	(68)	-	2,353	2,348	81	-
Ōtākaro Limited	142	168	(32)	-	121	145	(31)	-
Public Trust	65	64	2	-	62	145	4	-
Schools	7,953	7,871	77	-	7,558	7,428	126	-
Southern Response Earthquake Services	1	(8)	1	-	45	347	(302)	-
Tamaki Regeneration Limited	75	154	(79)	-	76	153	19	-
Tertiary Education Commission	3,094	3,065	28	21	2,950	2,892	56	2
TEIs	-	-	(51)	-	-	-	238	-
Television New Zealand	320	315	6	9	318	317	1	13
Other Crown entities	2,385	2,368	53	-	2,228	2,074	107	3
Total Crown entities	**41,491**	**41,835**	**(54)**	**30**	**39,070**	**39,923**	**805**	**20**
Intra-segmental eliminations	(1,031)	(610)	(420)	-	(727)	(459)	(386)	-
Total Crown entities segment	**40,460**	**41,225**	**(474)**	**30**	**38,343**	**39,464**	**419**	**20**

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

	30 June 2018 Purchase of PPE $m	Total PPE $m	Total assets $m	Borrow-ings $m	Total liabilities $m	Equity $m	30 June 2017 Equity $m
State-owned Enterprises							
Airways Corporation of New Zealand Limited	40	177	231	42	98	133	116
AsureQuality Limited	5	33	123	32	65	58	51
Landcorp Farming Limited	38	1,317	1,861	319	360	1,501	1,465
New Zealand Post Limited[1]	24	148	1,778	304	489	1,289	1,282
KiwiRail Holdings Limited	500	1,736	2,089	270	491	1,598	1,314
Transpower New Zealand Limited	270	4,419	5,464	3,496	4,192	1,272	1,191
Kordia Group Limited	12	63	153	19	61	92	88
Kiwi Group Holdings Limited[1]	27	47	20,816	19,213	19,258	1,558	1,406
New Zealand Railways Corporation	2	3,522	3,522	-	-	3,522	3,523
Other State-owned enterprises	2	18	71	18	35	36	37
Total State-owned Enterprises	**920**	**11,480**	**36,108**	**23,713**	**25,049**	**11,059**	**10,473**
Air New Zealand Limited	669	5,423	8,503	2,734	5,665	2,838	2,449
Genesis Energy Limited	50	3,408	4,208	1,329	2,269	1,939	1,956
Meridian Energy Limited	33	7,941	8,567	1,701	3,758	4,809	5,082
Mercury NZ Limited	94	5,358	6,093	1,404	2,807	3,286	3,307
Total mixed ownership companies	**846**	**22,130**	**27,371**	**7,168**	**14,499**	**12,872**	**12,794**
Intra-segmental eliminations	(1)	(172)	(1,775)	(253)	(403)	(1,372)	(1,260)
Total SOE segment	**1,765**	**33,438**	**61,704**	**30,628**	**39,145**	**22,559**	**22,007**
Crown entities							
Accident Compensation Corporation	7	24	43,229	268	44,584	(1,355)	(1,268)
Crown Infrastructure Partners	-	-	534	-	43	491	437
Crown Research Institutes	88	542	889	17	239	650	614
Callaghan Innovation	11	44	199	-	125	74	60
District Health Boards	343	6,750	8,297	84	2,554	5,727	5,504
Earthquake Commission	2	13	542	-	1,491	(949)	(770)
Fire and Emergency New Zealand	105	925	1,174	62	186	988	795
Housing New Zealand Corporation	958	26,644	27,482	2,762	5,168	22,314	21,595
Museum of New Zealand Te Papa	20	1,386	1,412	-	11	1,401	1,404
New Zealand Lotteries Commission	5	17	138	1	104	34	25
New Zealand Transport Agency	2,090	44,082	44,859	1,531	2,123	42,736	33,948
Ōtākaro Limited	65	243	403	142	251	152	122
Public Trust	1	4	423	362	362	61	51
Schools	244	1,570	3,382	191	960	2,422	2,399
Southern Response Earthquake Services	-	-	346	-	407	(61)	(175)
Tamaki Regeneration Limited	30	1,876	1,952	13	18	1,934	1,959
Tertiary Education Commission	2	6	639	27	502	137	126
TEIs	-	-	12,505	-	-	12,505	11,972
Television New Zealand	4	153	313	-	69	244	226
Other	33	321	1,610	72	488	1,138	993
Total Crown entities	**4,008**	**84,600**	**150,328**	**5,532**	**59,685**	**90,643**	**80,017**
Intra-segmental eliminations	(17)	(300)	(369)	(15)	(194)	(175)	(116)
Total Crown entities segment	**3,991**	**84,300**	**149,959**	**5,517**	**59,491**	**90,468**	**79,901**

Glossary of Terms

Commercial sector

Consists of the assets and liabilities held by companies with commercial objectives, predominantly State-owned Enterprises.

Comparatives (Budget 2017 and Budget 2018)

Comparatives referred to as *Budget 2017* were forecasts published in the *2017 Budget Economic and Fiscal Update* while comparatives referred to as *Budget 2018* were forecasts published in *the 2018 Budget Economic and Fiscal Update*.

Contingent assets

Revenue that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise loans with specific events that trigger repayment and Inland Revenue pending assessments (where there is a proposed adjustment to a tax assessment).

Contingent liabilities

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 49 to 52).

Core Crown expenses

The day-to-day expenditure (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not build physical assets for the core Crown. This is an accrual measure of expenses and includes items such as depreciation on physical assets.

Core Crown revenue

Consists primarily of tax revenue collected by the Government but also includes investment revenue, sales of goods and services and other revenue of the core Crown.

Core Crown net debt

Core Crown net debt represents gross debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

Corporate tax

The sum of net company tax, non-resident withholding tax (NRWT) and foreign-source dividend withholding payments (FDWP).

Domestic bond programme

The amount and timing of government bonds expected to be issued or redeemed.

Excise duties

A tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

Financial assets

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies), or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

Financial liabilities

Any liability that is a contractual obligation to pay cash (government stock, accounts payable), or a right to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

Financial sector

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

Forecast new capital spending

An amount provided in the forecasts to represent the impact on the financial position and cash flows of capital initiatives expected to be introduced over the forecast period.

Forecast new operating spending

An amount included in the forecasts to provide for the operating balance impact of policy initiatives, changes to demographics, and other forecasting changes expected to occur over the forecast period.

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and the Government Superannuation Fund. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the statement of financial performance.

Gross domestic product (GDP)

A measure of the value of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured as the actual dollar value of goods and services at today's prices (nominal GDP), or excluding the effects of price changes over time (real GDP).

Gross debt (or Gross sovereign-issued debt)

Represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission.

Insurance liabilities

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

Inter-segment eliminations

The amounts of transactions between different segments (core Crown, Crown entities and State-owned Enterprises) that are eliminated to determine total Crown results.

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

Net core Crown cash flow from operations

The cash impact of operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of State-owned Enterprises, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

Net worth

Total assets less total liabilities. The change in net worth in any given forecast year is largely driven by the operating balance and property, plant and equipment revaluations.

Net worth attributable to the Crown

Represents the Crown's share of total assets and liabilities and excludes minority interest's share of those assets and liabilities.

Operating balance

Represents OBEGAL plus gains and losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long term liabilities.

Operating balance before gains and losses (OBEGAL)

Represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short term market fluctuations are not included in the calculation.

Optimised Depreciated Replacement Cost

Valuation method which represents the gross replacement cost of the asset, less allowances for physical deterioration (depreciated) and for obsolescence and relevant surplus capacity (optimised).

Public Sector PBE Accounting Standards (PBE standards)

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

Residual cash

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Residual cash is alternatively termed "Cash available/ (shortfall to be funded)".

Residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments (eg, purchase of assets, loans to others).

Settlement cash

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

Social sector

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

Tax revenue

The accrual, rather than the cash ("tax receipts") measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to State-owned Enterprises or Crown entity forecasts.

Total borrowings

Represents the Government's total debt obligations to external parties and can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of State-owned Enterprises and Crown entities that are not explicitly guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus Crown entities and State-owned Enterprises. Also known as the Government Reporting Entities (which are listed on pages 49 to 52).