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New Zealand Government

Financial Statements of the Government of New Zealand

for the year ended 30 June 2020

24 November 2020

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for the year ended 30 June 2020

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Ministerial Statement

The Crown accounts for the year to 30 June (2019/20) reflect the Government's decision to go hard and early to cushion the blow of COVID-19 for business and households while making sure New Zealanders were supported with investments in critical public services like health and education, and investing in infrastructure to future-proof the economy, boost productivity and create jobs.

The 2019/20 accounts also show how New Zealand's economy has been stronger-than-expected during the COVID-19 pandemic, with a lower deficit, higher tax take and lower net debt than forecast by the Treasury at the 2020 Budget.

The world is experiencing a 1-in-100 year economic shock as a result of COVID-19 and New Zealand is well-placed to handle the impacts. Careful management of the Government books meant we went into this global pandemic running Budget surpluses, and with some of the lowest net debt in the world. New Zealand will continue to have a strong balance sheet and low debt compared to other countries, putting us in a strong position to recover and rebuild from COVID-19.

The Crown accounts show the operating balance before gains and losses (OBEGAL) was a deficit of $23.1 billion (7.5% of GDP) in 2019/20. While the deficit was expected due to the impact of COVID-19, it was $5.2 billion better than what the Treasury forecast in *Budget 2020,* due to a stronger-than-expected economy and careful management of Government spending.

Core Crown tax revenue of $85.1 billion was $2.8 billion higher than forecast in the Budget. This reflects the stronger-than-expected economy as New Zealand got on top of COVID-19 quickly and opened up the economy to give the recovery a head start.

Core Crown expenditure was $5.2 billion lower than forecast at $114.0 billion. An increase in expenditure from the previous year was due to COVID-related expenses, including the Wage Subsidy Scheme, which had paid out $12.1 billion to businesses to protect 1.7 million jobs by 30 June 2020. The COVID Response and Recovery Fund (CRRF) was also created during the 2019/20 year. At 30 June, $26.0 billion had been allocated from the CRRF to support the early COVID response.

The Government will continue to monitor spending carefully to ensure value for money as we recover and rebuild from the impacts of COVID-19.

Net core Crown debt was 27.0% of GDP at 30 June, below the 30% forecast in the May Budget. Net debt across advanced economies around the world heading into COVID-19 was above 80% of GDP, with countries like the UK recently crossing 100%.

During the 2019/20 year, the Government borrowed at record low interest rates for long-term infrastructure investments to future-proof the economy, boost productivity and create jobs. Total Crown infrastructure investment was $9.1 billion during the year, $0.5 billion higher than the previous year, and up $3.0 billion from 2017. Core Crown capital investment was $9.4 billion during the year, including $1.5 billion invested into the Super Fund to help cover future retirement costs. The core Crown residual cash deficit was $23.7 billion, compared to a forecast deficit of $32.0 billion at the Budget. This meant the net debt position was less than forecast.

The COVID-19 pandemic will continue to have an ongoing impact on the global and New Zealand economies for a number of years. The 2019/20 Crown accounts show the Government is in a strong position to continue to use the strength of its balance sheet to support businesses and households through this 1-in-100 year shock, and position the economy to recover and rebuild from COVID-19.

Hon Grant Robertson
Minister of Finance

5 November 2020

Statement of Responsibility

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

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

Caralee McLiesh
Secretary to the Treasury

5 November 2020

I accept responsibility for the integrity of these financial statements and that the information they contain complies with the Public Finance Act 1989. The audit of the financial statements has been delayed due to COVID-19.

In my opinion, these financial statements fairly reflect the financial position of the Crown as at 30 June 2020 and its operations for the year ended on that date.

Hon Grant Robertson
Minister of Finance

5 November 2020

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
(before gains and losses)

Deliver a sustainable operating surplus (before gains and losses) across an economic cycle.

2020 FINANCIAL RESULTS

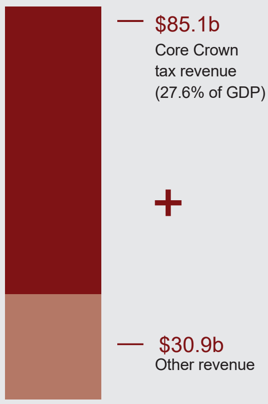
Total Crown

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

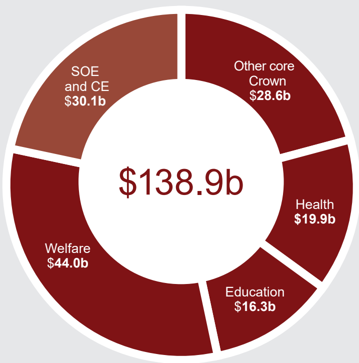
$116.0b TOTAL REVENUE − $138.9b TOTAL EXPENSES = ($23.1b) OBEGAL (excluding minority interests)

- minority interests $0.2b

Revenue

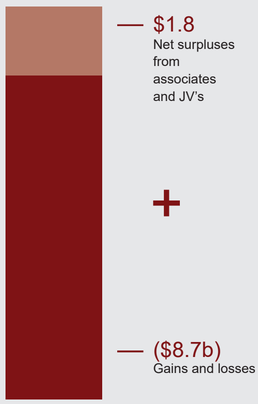


Expenses



■ Core Crown expenses (35.3% of GDP)
■ SOE and Crown Entities

Gains and losses



($30.0b)
Operating balance deficit
(excluding minority interests)

Net worth

=

$143.3b
Opening net worth

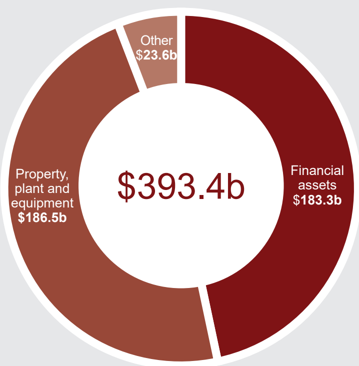
($30.0b)
Operating balance

$3.7b
Revaluations

($1.1b)
Other movements

$115.9b
Closing net worth

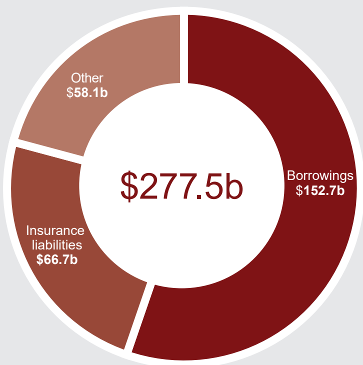
Assets



■ Financial assets
■ Property, plant and equipment
■ Other

−

Liabilities



■ Borrowings
■ Insurance liabilities
■ Other

Numbers may not add due to rounding.

Net worth

Strengthen net worth consistent with the debt and operating balance objectives.

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.

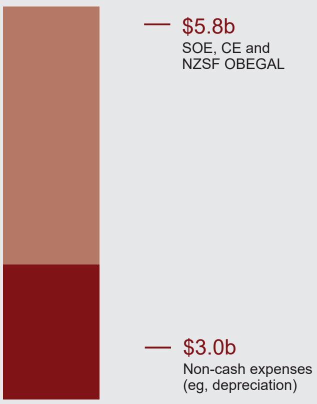
FISCAL STRATEGY

Core Crown

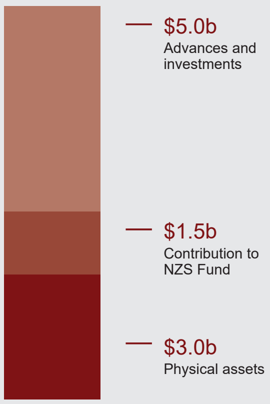
Moving from total Crown accrual measure to core Crown cash measure

Movement in net core Crown debt

+ ($23.1b) OBEGAL + **$8.8b** NON-RESIDUAL CASH ITEMS − **$9.4b** CAPITAL ITEMS = **($23.7b)** RESIDUAL CASH DEFICIT



($14.3b)
Core Crown operating cash flows



Net core Crown debt = Gross sovereign issued debt − Core Crown financial assets

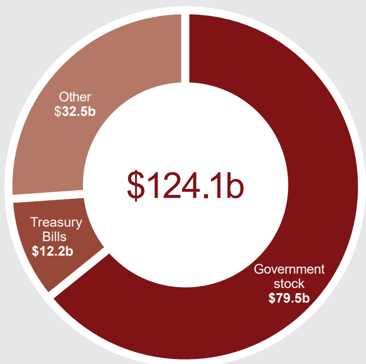
$57.7b
Opening net core Crown debt

($23.7b)
Residual cash

($2.0b)
Other movements

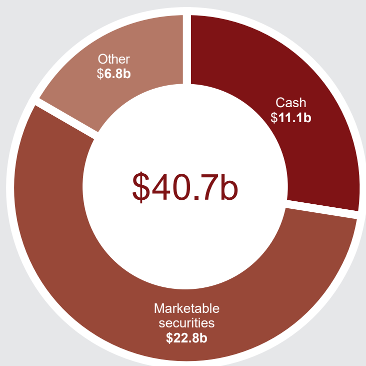
$83.4b
Closing net core Crown debt
27.0% of GDP

Gross sovereign issued debt



- Government stock
- Treasury Bills
- Other

Core Crown financial assets



- Cash
- Marketable securities
- Other

Excluding NZS Fund and advances.

2020 FINANCIAL RESULTS

Fiscal Strategy

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

The main purpose of the Government's fiscal indicators is as a communications device, designed with the objective of improving the quality of information available to inform and analyse how the Government is performing against its fiscal strategy. These indicators can be generally accepted accounting practice (GAAP) measures but can also be derived from the GAAP numbers presented in the financial statements.

Further information on the Government's fiscal strategy can be found in *The Wellbeing Budget* published with the Government's budget on 14 May 2020.

Table 1 **–** Key fiscal indicators

Year ended 30 June $ million	Actual 2016	Actual 2017	Actual 2018	Actual 2019[1]	Actual 2020	Forecast 30 June 2020 Budget 2019[1]	Budget 2020
Core Crown tax revenue[2]	70,445	75,644	80,224	86,468	85,102	89,245	82,330
Core Crown expenses	73,929	76,339	80,576	86,959	108,832	93,344	113,998
Residual cash	(1,322)	2,574	1,346	(710)	(23,692)	(4,191)	(32,031)
Gross debt[3]	86,928	87,141	88,053	84,449	102,257	86,845	99,427
Net core Crown debt[4]	61,880	59,480	57,495	57,736	83,375	64,695	88,935
Total borrowings	113,956	111,806	115,652	110,248	152,717	118,005	164,799
OBEGAL[5]	1,831	4,069	5,534	7,429	(23,057)	1,155	(28,293)
Operating balance[5]	(5,369)	12,317	8,396	389	(30,040)	4,650	(35,491)
Net worth attributable to the Crown	89,366	110,532	129,644	136,949	110,320	131,846	100,093
Total net worth	95,521	116,472	135,637	143,339	115,943	137,680	106,018
% of GDP							
Core Crown tax revenue[2]	27.3%	27.5%	27.4%	28.5%	27.6%	28.2%	28.0%
Core Crown expenses	28.7%	27.8%	27.5%	28.6%	35.3%	29.5%	38.7%
Residual cash	(0.5)%	0.9%	0.5%	(0.2)%	(7.7)%	(1.3)%	(10.9)%
Gross debt[3]	33.7%	31.7%	30.0%	27.8%	33.2%	27.4%	33.8%
Net core Crown debt[4]	24.0%	21.7%	19.6%	19.0%	27.0%	20.4%	30.2%
Total borrowings	44.2%	40.7%	39.5%	36.3%	49.5%	37.2%	56.0%
OBEGAL[5]	0.7%	1.5%	1.9%	2.4%	(7.5)%	0.4%	(9.6)%
Operating balance[5]	(2.1)%	4.5%	2.9%	0.1%	(9.7)%	1.5%	(12.1)%
Net worth attributable to the Crown	34.7%	40.2%	44.2%	45.1%	35.8%	41.6%	34.0%
Total net worth	37.1%	42.4%	46.3%	47.2%	37.6%	43.4%	36.0%

1 The 'Actual 2019' and 'Budget 2019' comparators have been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in the table have not been restated. Refer to note 28 in the financial statements for more details.

2 Core Crown tax revenue is higher than total Crown tax revenue owing to taxes paid by entities consolidated within Government.

3 Gross sovereign-issued debt excluding Reserve Bank of New Zealand (RBNZ) settlement cash and RBNZ bills.

4 Net core Crown debt excluding the New Zealand Superannuation Fund (NZS Fund) and advances.

5 Excluding minority interests.

Fiscal Strategy (continued)

The table below shows the Government's performance against its fiscal strategy with regards to the short-term fiscal intentions.

Table 2 – Progress at 30 June 2020 against the Government's short-term fiscal intentions set at Budget 2020

Fiscal Strategy Report 2020	Fiscal Position 2020[1]
Debt The intention is to allow the level of net core Crown debt to rise in the short term to fight COVID-19, cushion its impact and position New Zealand for recovery. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 30.2% of GDP in 2019/20, 49.8% of GDP in 2021/22 and 53.6 per cent of GDP in 2023/24. Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 74.0% of GDP in 2023/24. This assumes a multi-year capital allowance of $8.4 billion for Budget 2020 and the next three Budgets.	**Debt** Net core Crown debt (excluding NZS Fund and advances) at 30 June 2020 was 27.0% of GDP (2019: 19.0%). Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2020 was 40.3% of GDP (2019: 30.0%).
Operating balance The intention is to run operating deficits in the short term to fight COVID-19, cushion its impact and position New Zealand for recovery. This is enabled by our strong starting position and low net core Crown debt going into this pandemic. The operating balance (before gains and losses) is forecast to be -9.6% of GDP in 2019/20, improving to -1.3% of GDP in 2023/24.	**Operating balance** The operating balance (before gains and losses) for the year ended 30 June 2020 was a deficit of 7.5% of GDP (2019: surplus of 2.4%). The operating balance for the year ended 30 June 2020 was a deficit of 9.7% of GDP (2019: surplus of 0.1%).
Expenses The intention is to ensure expenses are consistent with the operating balance objective. Core Crown expenses are forecast to fall from 38.7% of GDP in 2019/20 to 30.2% of GDP in 2023/24. Total Crown expenses are forecast to be 38.1% of GDP in 2023/24. This assumes new operating allowances of $3.3 billion per year in Budget 2020, $2.4 billion per year in Budget 2021, $2.4 billion per year in Budget 2022 and $2.6 billion per year in Budget 2023.	**Expenses** Core Crown expenses for the year ended 30 June 2020 were 35.3% of GDP (2019: 28.6%). Total Crown expenses for the year ended 30 June 2020 were 45.1% of GDP (2019: 36.7%).
Revenues The intention is to ensure revenue is consistent with the operating balance objective. Total Crown revenues are forecast to be 36.9% of GDP in 2023/24. Core Crown revenues are forecast to be 29.4% of GDP in 2023/24. Core Crown tax revenues are forecast to be 27.3% of GDP in 2023/24.	**Revenues** Total Crown revenues for the year ended 30 June 2020 were 37.6% of GDP (2019: 39.2%). Core Crown revenues for the year ended 30 June 2020 were 29.8% of GDP (2019: 30.8%). Core Crown tax revenues for the year ended 30 June 2020 were 27.6% of GDP (2019: 28.5%).
Net worth The intention is to use the Crown's net worth to fight COVID-19, cushion its impact and position New Zealand for recovery. Significant risks will be transferred onto the Crown's balance sheet through the response period. Total net worth attributable to the Crown is forecast to be 8.9% of GDP in 2023/24. Total Crown net worth is forecast to be 10.3% of GDP in 2023/24.	**Net worth** Total net worth attributable to the Crown as at 30 June 2020 was 35.8% of GDP (2019: 45.1%). Total Crown net worth as at 30 June 2020 was 37.6% of GDP (2019: 47.2%).

1 GDP for the year ended 30 June 2020 was $308,276 million (2019: $303,605 million revised).

Fiscal Indicators

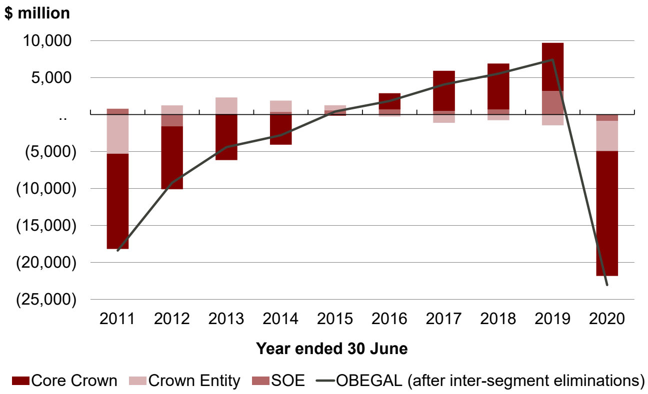
OBEGAL (Operating Balance before Gains and Losses)

The OBEGAL deficit of $23.1 billion for 2019/20 represents a fall of $30.5 billion from the surplus recognised last year. This is largely a reflection of the impacts of the COVID-19 pandemic and the Government's response to it.

A slowdown in the economy has contributed to the decrease in core Crown tax revenue of $1.4 billion in the year to 30 June 2020. In addition, the Government's fiscal response has driven a significant increase in core Crown expenses, which have increased by $21.8 billion from the previous year. When this is combined with the decline in net surplus from State-owned Enterprises (SOEs) and Crown entities, there is a resulting OBEGAL deficit. The movements in revenue and expenses are discussed further on pages 15 – 18.

Figure 1 shows the composition of OBEGAL from the different reporting segments of the Government. The most significant change is in the core Crown segment, which reported an OBEGAL deficit of $16.9 billion, a drop of $23.4 billion from the surplus reported last year. This is largely attributable to the rise in core Crown expenses discussed on pages 17 and 18.

Figure 1 – Components of OBEGAL by segment



Source: The Treasury

The Crown entity segment reported a deficit of $4.1 billion, $2.6 billion more than the previous year's deficit of $1.5 billion. The primary drivers of this increase are higher District Health Board (DHB) health and personnel expenses, increased Accident Compensation Corporation (ACC) insurance expenses and an increase in New Zealand Transport Agency (NZTA) transport operating expenditure. In addition, Earthquake Commission (EQC) reinsurance revenues have reduced as the prior year results included a significant downward revision in reinsurance receivables.

For the year ended 30 June 2020, the SOE segment reported a deficit $0.9 billion, a fall of $4.1 billion from the $3.2 billion surplus last year. The current year deficit is partly owing to lower sales of goods and services due to the disruption caused from the COVID-19 pandemic. The rise in SOE expenditure is driven by the fair value write down of aircraft of $1.1 billion but also owing to the 2018/19 expense being lower due to a one-off impairment reversal in 2018/19 as discussed on page 18.

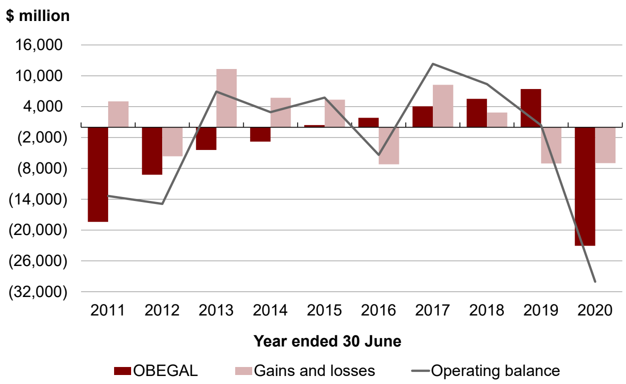
Despite the increase in the deficit from the previous year, the OBEGAL deficit was $5.2 billion lower than forecast in *Budget 2020*. The variance against *Budget 2020* is primarily owing to favourable variances for core Crown revenue and core Crown expenses which have been partially offset by higher than forecast Crown entity and SOE deficits of $1.3 billion and $0.9 billion, respectively (discussed further on pages 26 and 27).

Operating Balance

Overall, total net losses for the year were $8.7 billion, largely owing to $6.0 billion of losses in relation to the valuation of the long-term liability for ACC outstanding claims, $3.3 billion of losses recognised relating to the Large Scale Asset Purchase (LSAP) programme (refer to pages 20 and 21), and $1.1 billion in relation to the Emissions Trading Scheme (ETS). These movements are discussed further on page 19. The valuation losses were partially offset by $1.9 billion in investment gains mostly from the NZS Fund and ACC investment activities.

When these net losses are combined with the OBEGAL deficit (and including surpluses from associates and joint ventures), the operating balance for 2019/20 was a deficit of $30.0 billion.

Figure 2 – Operating balance (excluding minority interests)



Source: The Treasury

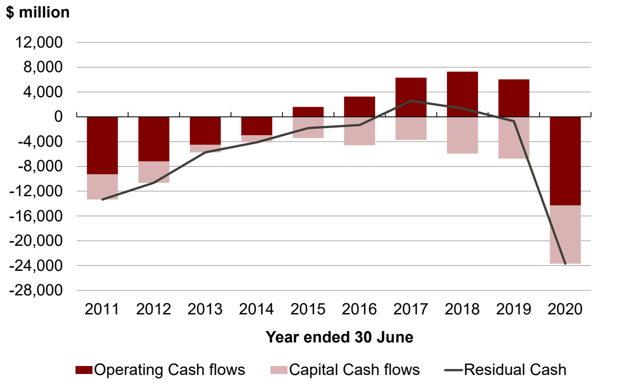
Fiscal Indicators (continued)

Residual Cash

In the year to 30 June 2020, there was a residual cash deficit of $23.7 billion. This was a result of a net operating cash flow deficit of $14.3 billion, combined with a $9.4 billion deficit in net cash flows from core Crown capital spending. This is a $23.0 billion increase in the residual cash deficit from last year.

Operating payments were $103.5 billion, an increase of $20.5 billion compared to last year. The increase in operating payments is broadly in line with the increase in core Crown expenses (discussed on pages 17 and 18) and largely reflects the Government's fiscal support measures in response to the COVID-19 pandemic.

Figure 3 – Core Crown residual cash



Source: The Treasury

Capital spending for 2019/20 totalled $9.4 billion, an increase of $2.7 billion from the previous year. Analysis of capital cash flows by sector excluding NZS Fund shows that 54% of capital spending ($4.3 billion) was within the transport and economic sectors. The total spend in the transport sector was $2.5 billion (32%), largely for the state highway network. The economic sector spent $1.8 billion (22%) which primarily relates to the Small Business Cashflow (Loan) Scheme (SBCS) loans. The education and defence sectors had the third largest spends at 12% each.

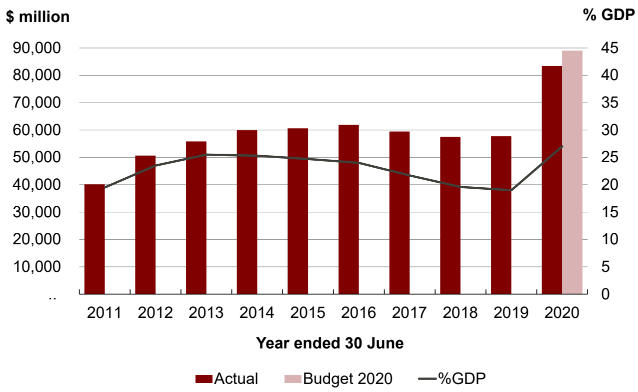
The residual cash deficit was $8.3 billion lower than the deficit forecast at *Budget 2020,* largely as a result of lower than forecast operating payments of $5.7 billion and higher than forecast core Crown tax receipts of $2.3 billion. In addition, capital payments were $0.9 billion lower than forecast.

Net Core Crown Debt

Net core Crown debt has increased by $25.7 billion from $57.7 billion in 2018/19 to $83.4 billion in 2019/20. As a share of the economy, net core Crown debt increased to 27.0% of GDP (compared to 19.0% of GDP a year earlier). The cash shortfall of $23.7 billion is the main driver of the increase, as explained in the residual cash section above.

In addition to the residual cash deficit, the LSAP programme has adversely impacted net core Crown debt by $3.3 billion through losses reported as a consequence of the repurchase of government bonds (as discussed on pages 20 and 21).

Figure 4 – Net debt



Source: The Treasury

The net core Crown debt balance at 30 June 2020 was $5.5 billion below forecast at *Budget 2020*, mainly driven by the residual cash deficit being $8.3 billion lower than *Budget 2020*. However, offsetting this favourable residual cash variance is the impact of the LSAP programme. The significant expansion of the programme has adversely impacted net core Crown debt as described on pages 20 and 21. The programme expanded from $30 billion in March 2020 to $60 billion at 30 June 2020 (in August 2020 the programme increased further, to $100 billion).

Gross Debt

Gross debt, which reflects the borrowings of the core Crown, increased by $17.9 billion, from $84.4 billion in 2018/19 to $102.3 billion this year. As a percentage of the economy, gross debt grew to 33.2% of GDP (27.8% of GDP a year earlier).

Gross debt at $102.3 billion was $2.8 billion higher than forecast at *Budget 2020*, which is largely owing to issuance of treasury bills being $2.2 billion higher than forecast. Treasury bills are a short-term liquidity tool and issuance of these bills was higher than forecast at *Budget 2020* in order to front load funding requirements as part of the Crown's borrowing programme (refer to box on pages 25).

Fiscal impacts of COVID-19

The COVID-19 pandemic has had a significant impact on the Government's results for the 2019/20 fiscal year, shown through a large operating balance deficit, increasing debt levels and a fall in net worth.

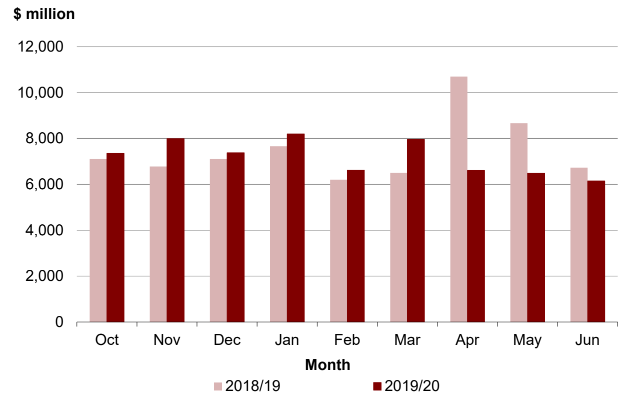
The pandemic contributed to an economic slowdown, with a 12.2% contraction in GDP reported for the June 2020 quarter. In response to the fall in economic activity, both fiscal (Government's response to COVID-19) and monetary policy (Reserve Bank's response) support measures were implemented to cushion the impact on the domestic economy. This has led to a deterioration in the Government's finances in the last quarter of 2019/20, from the relatively strong position at the beginning of the calendar year.

Core Crown tax revenue

Prior to April 2020, monthly core Crown tax revenue was consistently higher than the levels seen in the 2018/19 fiscal year as shown in Figure 5. This reflects the strong and stable economic conditions prevailing prior to the onset of the COVID-19 pandemic. From April 2020, reduced economic activity owing to alert level and border restrictions led to lower core Crown tax revenue being recognised in the quarter to June 2020, compared to the 2018/19 fiscal year.

In addition, measures such as the tax loss carry-back scheme have contributed to the lower tax revenue. Businesses that are expected to make a loss in either the 2019/20 year or the 2020/21 year are able to estimate the loss and use it to offset profits from past years. The impact from using this policy is reported as a reduction in tax revenue.

Figure 5 – Core Crown tax revenue by month

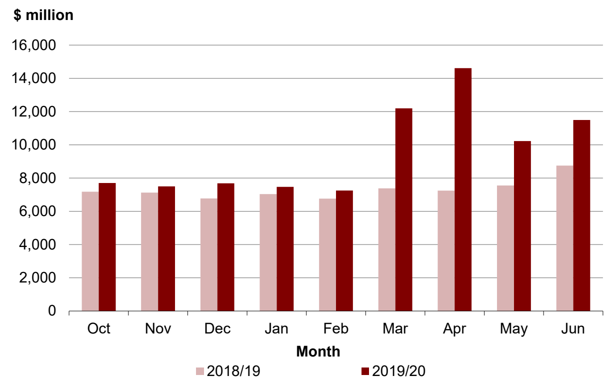


Source: The Treasury

Core Crown expenses

Core Crown expenses were $108.8 billion, an increase of $21.8 billion from the 2018/19 fiscal year, Figure 6 illustrates that much of the increase in core Crown expenses occurred from March 2020 onwards, with a large portion of this increase attributable to the Government's fiscal support measures in response to the COVID-19 pandemic.

Figure 6 – Core Crown expenses by month



Source: The Treasury

The Government introduced the wage subsidy scheme in March 2020 to support employers adversely affected by the COVID-19 pandemic. The payments under the scheme are reported as transfer payments and subsidies and total $12.1 billion up to 30 June 2020 (refer note 8 in the financial statements).

Other COVID-19 related response measures have also contributed to the increase in expenses in the 2019/20 fiscal year, such as the SBCS and the Business Finance Guarantee Scheme. For more details refer to note 3 in the financial statements.

Fiscal impacts of monetary policy

The LSAP programme, introduced by the Reserve Bank to lower borrowing costs by repurchasing Government bonds on the secondary market, has led to $3.3 billion of losses being recognised in the Statement of Financial Performance. The fiscal implications of the LSAP programme are discussed further in the LSAP box on pages 20 and 21.

The reduced interest costs in the economy also have a pervasive effect on the fiscal indicators, including lower withholding taxes, lower borrowing costs, and large increases in the value of long dated liabilities such as the ACC and Veterans Disability obligations, as the time value of money reduces.

Financial Statements Summary

The combination of COVID-19's effect on the economy, along with the Government's fiscal response, has had a significant impact on the Government's fiscal performance and position during the 2019/20 fiscal year. This is shown in the Financial Statements of the Government through a deficit in the operating balance, an increase in borrowings and a reduction in net worth, however these results are stronger than was forecast in *Budget 2020*.

- Core Crown tax revenue was $1.4 billion lower than last year but was higher than the *Budget 2020* forecast by $2.8 billion (page 15).
- Core Crown expenses were $21.8 billion higher than last year, but $5.2 billion lower than the *Budget 2020* forecast (page 17).
- The operating balance was a deficit of $30.0 billion largely a result of higher core Crown expenses of $21.8 billion along with total Crown net losses of $8.7 billion (page 19).
- Net worth has decreased by $27.4 billion to $115.9 billion (page 22).

A comparison of the year end results against *Budget 2020* is included on pages 26 to 27.

These financial statements[2] contain the audited results for the financial year ended 30 June 2020. The results are compared against the previous year and against forecasts[3] for the 2019/20 year:

- *Budget 2019* refers to the *2019 Budget Economic and Fiscal Update* published in May 2019, and
- *Budget 2020* refers to the *2020 Budget Economic and Fiscal Update* published in May 2020.

The financial statements of the Government received an unmodified auditor's opinion for the year ended 30 June 2020.

This commentary should be read in conjunction with the financial statements on pages 41 to 166.

Why has the presentation changed?

We have rearranged content to help clarify and tidy the Financial Statements of Government. It is important to note that there is no removal of information, rather information is now structured differently to assist understanding.

Changes include:

- We have included a separate fiscal strategy and fiscal indicators section in the commentary to the Financial Statements of the Government, to show how the Government is performing against the fiscal strategy.
- We have removed any fiscal strategy indicators from the financial statements that are not GAAP measures and included these as additional information. In particular, we have not presented OBEGAL, a non-GAAP measure, on the face of the Statement of Financial Performance. While this measure is derived from GAAP numbers, the operating balance is the "bottom line" GAAP performance measure in the Statement of Financial Performance.

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2 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.

3 Comparisons against the Pre-election Economic and Fiscal Update (*Pre-election Update*) are available on page 14.

Financial Statements Summary (continued)

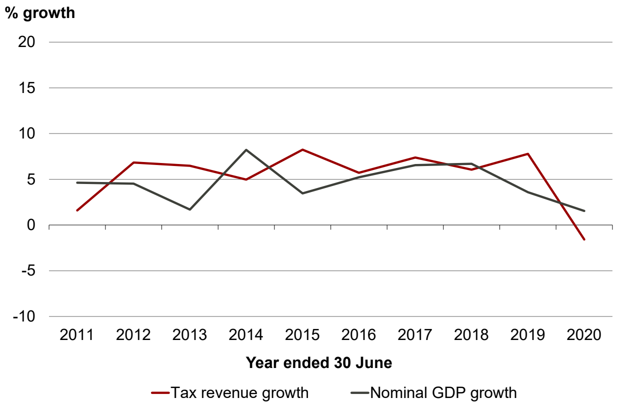
A slowdown in the economy has contributed to a decrease in core Crown tax revenue…

The COVID-19 pandemic has caused a slowdown in the economy, with much of its impact showing in the final quarter of the 2019/20 fiscal year. Nominal GDP was $308.3 billion representing an increase of 1.5% from last year, while real GDP fell by 1.5%. Much of the expected contraction occurred in the June 2020 quarter, continuing the downturn in economic activity from the March 2020 quarter.

The reduction in real activity was contributed to by lower private consumption of 2.4% and residential investment down 12.5%. In addition, lower corporate profits and individuals' income were driven by a reduction in business investment of 10.1%.

The unemployment rate has stayed fairly static year on year, with the wage subsidy scheme providing support to employment through the June quarter.

Figure 7 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

The above economic conditions have contributed to a decrease in core Crown tax revenue, which is down $1.4 billion from last year to $85.1 billion. The one-off increase to core Crown tax revenue recognised in the 2018/19 year from the implementation of Inland Revenue's Simplified Tax and Revenue Technology (START) system, has also contributed to the decrease in core Crown tax revenue this year. Despite this system change, prior to the impacts of the COVID-19 pandemic, core Crown tax revenue had been tracking higher than the previous year. At 29 February 2020, core Crown tax revenue was in line with forecast and $4.0 billion higher than at February 2019. This increase over the prior year fell away in the June quarter, largely driven by the economic conditions described above (refer to page 10).

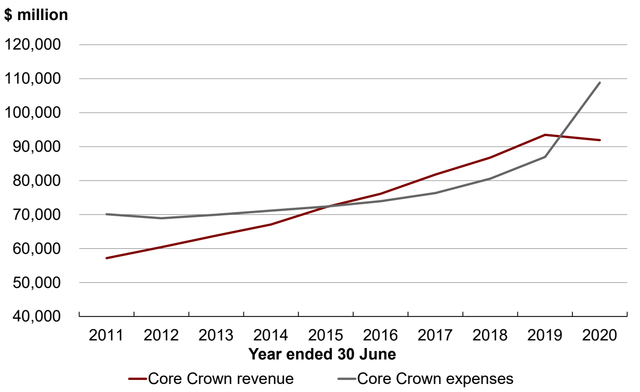
The change in economic conditions has also resulted in a change in the way corporate and other persons tax revenue has been estimated in the 2019/20 year, for more details refer to the Tax Revenue Estimation box on page 16.

... while the Government's fiscal response has driven a significant increase in core Crown expenses...

As a share of the economy, core Crown expenses increased to 35.3% of GDP (28.6% of GDP in 2019); in nominal terms, core Crown expenses increased by $21.8 billion (25.2%) to $108.8 billion.

The largest driver of growth in nominal core Crown expenditure was the Government's fiscal support measures in response to the COVID-19 pandemic.

Figure 8 – Core Crown revenue and core Crown expenses



Source: The Treasury

Within core Crown expenses, the most significant growth was in social security and welfare spending which increased by $15.3 billion, from $28.7 billion in 2018/19 to $44.0 billion in 2019/20. This increase was largely owing to the wage subsidy scheme that was put in place to support businesses and workers who were financially impacted by the COVID-19 pandemic. Payments from this scheme totalled $12.1 billion in the year to 30 June 2020.

Financial Statements Summary (continued)

…the net surpluses from SOEs and Crown entities have declined…

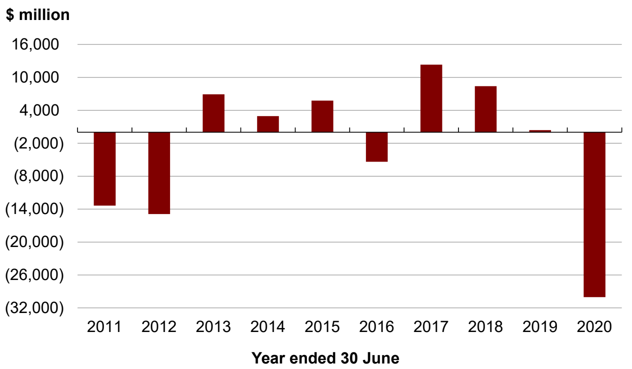
Outside of the core Crown, SOEs and Crown entities have recorded a $5.0 billion OBEGAL deficit, a change of $6.7 billion from the $1.7 billion surplus they contributed in the previous year.

A number of SOEs and Crown entities were impacted by reductions in revenue and increases in expenditure owing to the impacts of the COVID-19 pandemic. Increases in insurance expenditure also adversely impact OBEGAL for Crown entities such as ACC and the EQC.

…and net losses have negatively impacted the operating balance....

Overall, total net losses for 2019/20 were $8.7 billion. This is largely owing to $6.0 billion of losses in relation to the valuation of the long-term liability for ACC claims outstanding, $3.3 billion of losses recognised relating to the LSAP programme (refer to the box on pages 20 and 21), and $1.1 billion in relation to the Emissions Trading Scheme (ETS). These losses were partially offset by $1.9 billion in investment gains, mainly from the NZS Fund and ACC investment activities.

Figure 9 – Operating balance (excluding minority interests)



Source: The Treasury

…resulting in an operating balance deficit…

All of the factors outlined above lead to an operating balance deficit of $30.0 billion for the year ended 30 June 2020.

...and a decline in net worth as the increase in liabilities exceeds the increase in assets.

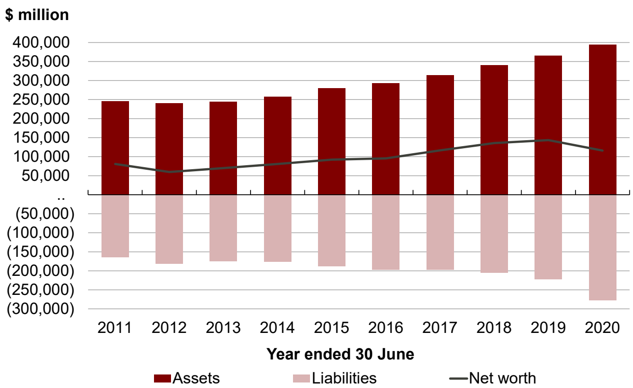
The fall in net worth has been largely driven by the operating balance deficit of $30.0 billion, partially offset by revaluation uplifts of physical assets of $5.2 billion.

When these revaluations are combined with the operating balance deficit and minority interest transactions, net worth decreased by $27.4 billion to $115.9 billion.

Total assets grew by $28.7 billion in the 2019/20 year to reach $393.4 billion, while at the same time liabilities increased by $56.2 billion to reach $277.5 billion.

Of the increase in assets, financial assets grew the most increasing by $19.2 billion, while property, plant and equipment increased by $8.9 billion (including revaluation uplifts). Of the increase in liabilities, borrowings increased by $42.5 billion, while ACC's insurance liability increased by $8.3 billion. The increase in borrowings is largely a result of funding the Government's response to the COVID-19 pandemic.

Figure 10 – Net worth



Source: The Treasury

Year end results compared to *Pre-election Update*

The *Pre-election Update* was published on 16 September 2020. While the financial statements focus on results compared to *Budget 2020* forecasts, this section compares results against the recent *Pre-election Update*.

The *Pre-election Update* included the unaudited actuals for the year ended 30 June 2020. The variances in the table below reflect changes which have been made since the *Pre-election Update*. Overall, the June 2020 results do not indicate a substantial departure from the *Pre-election Update*.

Table 3 – 2020 results compared to the *Pre-election Update*

Year ended 30 June **$ million**	**Actual 2020**	**Pre-election Update 2020**	**Variance to Pre-election Update 2020**
Core Crown tax revenue	85,102	84,930	172
Core Crown expenses	108,832	108,832	-
OBEGAL[1]	(23,057)	(23,358)	301
Operating balance[1]	(30,040)	(30,258)	218
Residual cash	(23,692)	(23,692)	-
Total borrowings	152,717	152,737	20
Gross debt[2]	102,257	101,506	(751)
as a percentage of GDP	*33.2%*	*33.6%*	
Net core Crown debt[3]	83,375	83,374	(1)
as a percentage of GDP	*27.0%*	*27.6%*	
Net worth	115,943	115,729	214
as a percentage of GDP	*37.6%*	*38.3%*	

1 Excluding minority interests. OBEGAL also excludes any losses on large scale asset purchases.
2 Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills.
3 Net core Crown debt excluding the NZS Fund and advances.

Core Crown tax revenue was higher than the *Pre-election Update* by $0.2 billion, at $85.1 billion. Final valuations for certain tax types were confirmed after the *Pre-election Update* and this has resulted subsequent adjustments. The majority of this increase is owing to source deductions on PAYE, which has increased by just under $0.2 billion.

The increase in core Crown tax revenue was the largest contributor to the $0.3 billion favourable variance in **OBEGAL** compared to the *Pre-election Update.* While core Crown expenses remain unchanged, late adjustments to reduce impairment expenditure and other operating expenditure totalling $0.1 billion have also contributed to the lower OBEGAL deficit.

The OBEGAL result has been partially offset by adjustments to gains and losses, resulting in the **operating balance** being $0.2 billion higher than reported in the *Pre-election Update.* Final valuations for electricity generation assets, the rail network and gains and losses on the sale of property, plant and equipment were the primary drivers of the changes to gains and losses.

There have been no significant changes to **residual cash**, **total borrowings** or **net core Crown debt** since the *Pre-election Update.*

Net worth was $214 million higher than in the *Pre-election Update* at $115.9 billion or 37.6% of GDP. This is primarily as a result of the improvement in the operating balance deficit compared to *Pre-election Update* as discussed above.

Revenue

Total Crown revenue was $116.0 billion, a decrease of $3.1 billion from last year largely owing to lower core Crown tax revenue and lower revenue from SOE's sales of goods and services.

Table 4 – Breakdown of revenue

						Forecast 30 June 2020	
Year ended 30 June	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Budget**	**Budget**
$ million	**2016**	**2017**	**2018**	**2019**	**2020**	**2019**	**2020**
Core Crown tax revenue	70,445	75,644	80,224	86,468	85,102	89,245	82,330
Core Crown other revenue	5,676	6,138	6,554	7,006	6,821	7,182	7,144
Core Crown revenue	76,121	81,782	86,778	93,474	91,923	96,427	89,474
Crown entities, SOEs and eliminations (other)	21,295	21,640	23,195	25,668	24,080	24,327	24,929
Total Crown revenue	**97,416**	**103,422**	**109,973**	**119,142**	**116,003**	**120,754**	**114,403**
% of GDP							
Core Crown tax revenue	27.3%	27.5%	27.4%	28.5%	27.6%	28.2%	28.0%
Core Crown other revenue	2.2%	2.2%	2.2%	2.3%	2.2%	2.2%	2.4%
Core Crown revenue	29.5%	29.8%	29.6%	30.8%	29.8%	30.4%	30.4%
Crown entities, SOEs and eliminations (other)	8.3%	7.9%	7.9%	8.5%	7.8%	7.7%	8.5%
Total Crown revenue	**37.8%**	**37.6%**	**37.5%**	**39.2%**	**37.6%**	**38.1%**	**38.9%**

Core Crown Tax Revenue

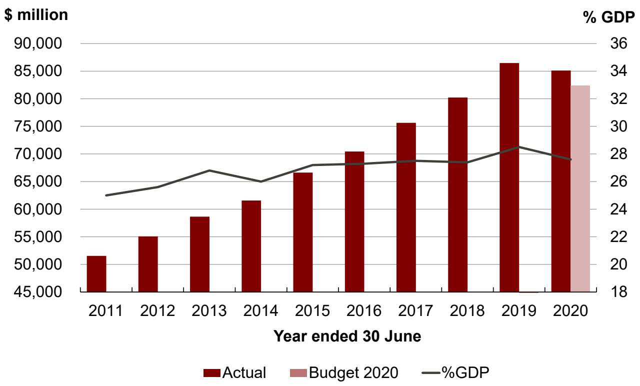
Core Crown tax revenue was $85.1 billion, down $1.4 billion (1.6%) from the year before. The decrease in core Crown tax revenue was broadly as a result of the current economic environment, with lower private consumption and decreased residential and business investment contributing to a reduction in real activity. In addition, part of the decrease was owing to the 2018/19 tax revenue being higher due to the implementation of Inland Revenue's START system in the 2018/19 year, which impacted how tax revenue was calculated and resulted in a one-off increase in that year.

Most major tax types, with the exception of source deductions, have decreased over the year with four tax types making up most of the movement (Table 5):

- Source deductions increased by $2.1 billion (6.3%). This increase was owing mainly to wage increases but was also aided by the wage subsidy scheme supporting employment through the June 2020 quarter.

- Goods and Services Tax (GST) was $0.1 billion (0.5%) lower than last year, mostly owing to weaker private consumption, residential investment and overseas tourist spending in New Zealand in the last part of 2019/20.

Figure 11 – Core Crown tax revenue



Source: The Treasury

Table 5 – Increase in core Crown tax revenue

Year ended 30 June	**($ billion)**
2019 core Crown tax revenue	**86.5**
Source deductions	2.1
GST	(0.1)
Resident withholding tax on interest	(0.1)
Corporate tax	(3.3)
2020 core Crown tax revenue	**85.1**

Source: The Treasury

- Resident withholding tax (RWT) on interest was $0.1 billion lower owing to a drop in deposit interest rates.

- Corporate tax revenue decreased by $3.3 billion (20.7%), mainly reflecting the one-off boost in the 2018/19 year discussed above but also reflecting a $0.4 billion reduction owing to the change in estimation of tax revenue for the 2019/20 year, as discussed in the Tax Revenue box on page 16.

- Other tax types were relatively static compared to 2018/19.

Tax Revenue Estimation

Total Crown tax revenue of $84.5 billion in the Statement of Financial Performance reports what is recognised in the year ended 30 June 2020. While most of this revenue is received in cash in the same financial year, these financial statements include tax receivables of $13.2 billion based on tax estimates and assessments that are not due to be paid at 30 June 2020 and $1.1 billion of past due tax debt. About half of the $13.2 billion relates to estimates and assessments of other persons and corporate tax (ie, around $6.6 billion), with the balance relating to GST and employer taxes, such as PAYE.

Recognising tax revenue for financial reporting requires a degree of estimation. This mainly affects other persons and corporate tax. For GST and PAYE, estimations are relatively straightforward and accurate because taxpayer filing dates are so regular and frequent. For example, the majority of GST is filed on monthly or two-monthly returns and PAYE is based on employment information forms filed by employers after each employee pay date. As these financial statements are prepared in the two months after 30 June 2020, Inland Revenue can look at subsequent filing information in July and August and use this to support estimates made at 30 June 2020.

Impact of the COVID-19 pandemic on income tax revenue estimation

Where taxpayers subject to the provisional tax regime have not yet filed a relevant terminal tax assessment, Inland Revenue previously used a 5 per cent uplift on the previous year's terminal income tax assessment as the basis for estimating the current year's tax revenue for financial reporting. This aligns with the standard uplift method that the majority of taxpayers use where their current year's provisional tax payments are based on 105 per cent of last year's income tax. This method suits a large number of taxpayers who generally expect to make more or roughly the same amount of profit in a coming tax year.

However, given the large and sudden reduction in economic activity with the COVID-19 pandemic, particularly with New Zealand entering the alert level four lockdown on 25 March 2020, the 105 per cent assumption is not appropriate for the estimation of income tax revenue for the financial year ended 30 June 2020. Therefore, Inland Revenue has estimated this year's income tax revenue based on the Treasury's most recent macro-economic forecasts, using the percentage movement in forecasts firms' net operating surplus. Net operating surplus is a measure of business profits and is published by Statistics New Zealand (www.stats.govt.nz).

As a result, the factor applied to prior years' terminal tax is 102.79 per cent for the 2020 income tax year and 97.26 per cent for the 2021 income tax year, rather than the standard factor of 105 per cent. In the 2021 income tax year (with the period from 1 April 2020 to 30 June 2020 included in these financial statements), the "uplift" factor applied means there is a reduction in tax revenue estimates based on prior years' tax assessments.

The change in estimation using the Treasury's forecast of firms' net operating surplus means tax revenue this year is $526 million lower than it would be if the 105 per cent uplift assumption were used, comprised of $356 million gross corporate tax revenue and $170 million other persons income tax revenue. If the firms' net operating surplus assumption changed, the impact on tax revenue would be:

Sensitivity of assumption	Change	Change in income tax 2020 $m
Increase in firms' net operating surplus by	+1%	148
	+5%	924
	+10%	1,848
Decrease in firms' net operating surplus by	-1%	148
	-5%	924
	-10%	1,848

There is considerable uncertainty in the estimate of around $6.6 billion of other persons and corporate tax revenue at 30 June 2020 (7.8% of total tax revenue), largely as a consequence of the reduction in economic activity due to COVID-19. Changing the assumptions used in estimating the taxes firms will pay for the year ended 30 June 2020, and the portion of what they will pay for the year ended 30 June 2021, by applying macro-economic forecasts that explicitly take the impact of COVID-19 into account, is considered the most appropriate way to reflect the current economic circumstances that firms face.

Expenses

Total Crown expenses were $138.9 billion in the current year, $27.5 billion more than last year. The majority of the increase occurred within the core Crown segment ($21.8 billion), with the remaining increase of $5.7 billion in Crown entities and SOEs (including eliminations).

Table 6 – Breakdown of expenses

Year ended 30 June						Forecast 30 June 2020	
$ million	**Actual 2016**	**Actual 2017**	**Actual 2018**	**Actual 2019**	**Actual 2020**	**Budget 2019**	**Budget 2020**
Social security and welfare	24,081	25,294	25,999	28,740	44,028	30,811	44,373
Health	15,626	16,223	17,159	18,268	19,891	19,198	20,104
Education	13,158	13,281	13,629	14,293	16,322	14,919	15,516
Core government services	4,102	3,957	4,670	5,166	6,083	5,610	6,685
Law and order	3,648	3,882	4,184	4,625	4,911	4,890	5,069
Other core Crown expenses	13,314	13,702	14,935	15,867	17,597	17,916	22,251
Core Crown expenses	**73,929**	**76,339**	**80,576**	**86,959**	**108,832**	**93,344**	**113,998**
Crown entities, SOEs and eliminations (other)	21,208	22,668	23,438	24,417	30,084	25,880	28,686
Total Crown expenses	**95,137**	**99,007**	**104,014**	**111,376**	**138,916**	**119,224**	**142,684**
% of GDP							
Social security and welfare	9.3%	9.2%	8.9%	9.5%	14.3%	9.7%	15.1%
Health	6.1%	5.9%	5.9%	6.0%	6.5%	6.1%	6.8%
Education	5.1%	4.8%	4.6%	4.7%	5.3%	4.7%	5.3%
Core government services	1.6%	1.4%	1.6%	1.7%	2.0%	1.8%	2.3%
Law and order	1.4%	1.4%	1.4%	1.5%	1.6%	1.5%	1.7%
Other core Crown expenses	5.2%	5.1%	5.1%	5.2%	5.6%	5.7%	7.6%
Core Crown expenses	**28.7%**	**27.8%**	**27.5%**	**28.6%**	**35.3%**	**29.5%**	**38.7%**
Crown entities, SOEs and eliminations (other)	8.2%	8.2%	8.0%	8.1%	9.8%	8.2%	9.8%
Total Crown expenses	**36.9%**	**36.0%**	**35.5%**	**36.7%**	**45.1%**	**37.6%**	**48.5%**

Core Crown Expenses

Core Crown expenses increased by $21.8 billion to $108.8 billion in the year to 30 June 2020. The expenditure, as a share of the economy was higher than the previous year, reaching 35.3% of GDP compared to 28.6% last year (Table 7).

The largest driver of growth in core Crown expenditure was the wage subsidy scheme that was put in place to support businesses and workers who are financially impacted by the COVID-19 pandemic. This made up $12.1 billion of additional operating expenditure in the 2019/20 year.

Table 7 – Movement in core Crown expenses

Year ended 30 June	**($ billion)**
2019 core Crown expenses	**87.0**
Budget decisions	3.8
Wage subsidy scheme	12.1
New Zealand Superannuation	1.0
Other movements	5.0
2020 core Crown expenses	**108.8**

Source: The Treasury

The Government's *Budget 2019* and *Budget 2020* decisions also contributed to this growth. On announcement, the combination of these decisions was expected to increase core Crown expenses by $3.8 billion in 2019/20. Decisions impacting health and social security and welfare expenses had the largest financial impact, increasing by around $1.2 billion and $0.4 billion respectively from 2018/19.

New Zealand Superannuation costs were higher than last year by $1.0 billion. This was owing to an increase in recipient numbers from an average of around 767,000 in 2018/19, to 794,900 in 2019/20 and increased payment rates.

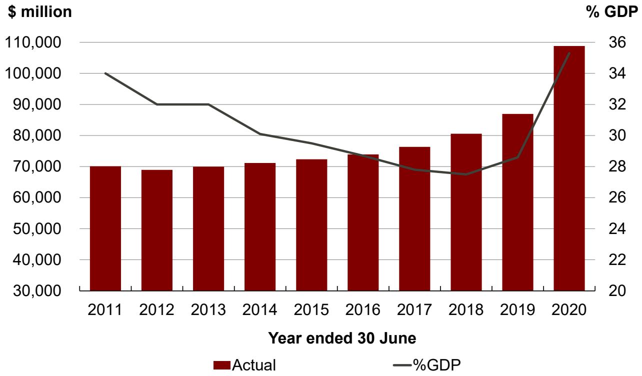
Expenses (continued)

The balance of $5.0 billion increase in expenses includes a large number of smaller movements from multiple entities, largely related to expenses incurred as a result of the COVID-19 pandemic. This includes the fair value write down of the Small Business Cashflow (Loan) Scheme of $0.7 billion, an increase in the impairment of sovereign debt receivables of $0.5 billion compared to last year and impairment of goodwill of $0.3 billion. In addition, an increase in education expenses due to implementation of the Government's commitment to give tertiary education organisations funding certainty in 2020, regardless of any impact on domestic student numbers resulting from the COVID-19 pandemic. The funding provided to Universities and Wānanga is reported as other operating expenses – grants and subsidies (refer note 10 in the financial statements).

Figure 13 shows the composition of core Crown expenses by key areas of Government spending. The three spending areas of social security and welfare, health and education expenses make up 74% of all core Crown spending. The most significant growth was in social assistance spending which increased by $15.3 billion, from $28.7 billion in 2018/19 to $44.0 billion in 2019/20, mainly due to the wage subsidy discussed earlier.

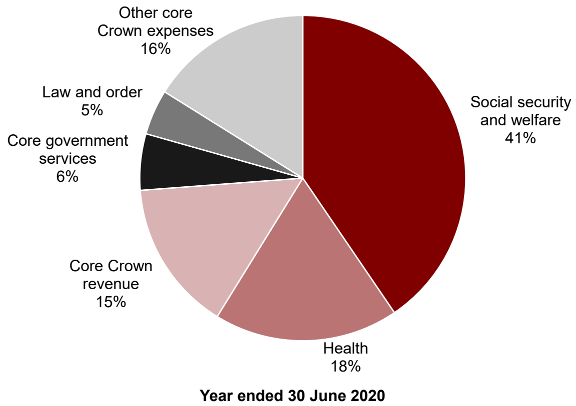
Other core Crown expenses (16%) includes other areas of spending (eg, transport, economic, defence, and environmental protection and finance costs) and these levels of spending remained largely consistent with spending in the prior year.

Figure 12 – Core Crown expenses



Source: The Treasury

Figure 13 – Composition of core Crown expenses



Source: The Treasury

Other Expenses

The SOE and Crown entity sectors (including inter-segment eliminations) recorded net expenses of $30.1 billion, an increase of $5.7 billion from last year.

Part of the increase this year is owing to the 2018/19 expense being lower due to a one-off impairment reversal in 2018/19. This related to the reversal of the KiwiRail rail network impairment which reduced expenses in 2018/19 by $2.6 billion. Excluding this $2.6 billion one-off reversal, the expenditure increase this year was $3.1 billion or 11.7% from 2018/19.

The following key areas contributed to most of the $3.1 billion increase:

- Fair value write down of $1.1 billion in relation to the Air New Zealand aircraft fleet. The valuation of aircraft was based on indicative market values at 30 June 2020 of each aircraft on a stand-alone basis. The COVID-19 pandemic has had a significant impact on these market values, refer to note 17 in the financial statements for further details.
- DHB expenses were $1.0 billion higher than the previous year as a result of increased cost of health services and additional personnel expenses from estimated liabilities under the Holidays Act 2003. This also includes COVID-19 response related payments for primary health care and additional leave accrued by employees, as fewer staff took leave through the COVID-19 response period.
- Higher insurance expenses in ACC of $0.9 billion compared to last year, reflecting the expected increase in the ACC outstanding claims liability which is higher than in 2018/19 (excluding actuarial gains and losses).
- Increased transport expenses for NZTA of $0.6 billion, mainly owing to the impact the COVID-19 pandemic has had on projects eg, project delays and cost pressure on public transport services to which NZTA contributed.

Operating Balance

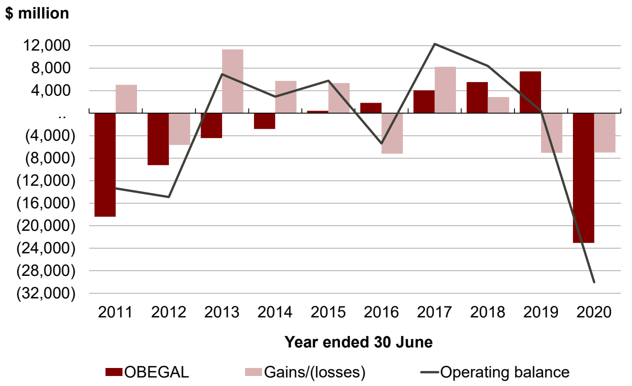
Operating Balance

Total Crown net losses of $8.7 billion, which includes net losses on the LSAP programme, net gains on financial instruments and net losses on non-financial instruments, are partially offset by the net surplus from associates and joint ventures of $1.2 billion. When this is combined with total Crown revenue and expenses, there is an operating balance deficit of $30.0 billion. This deficit compares to last year's operating balance surplus of $0.4 billion, a $30.4 billion decline.

Total net losses include $3.3 billion of losses recognised relating to the LSAP programme. The losses arise as repurchased bonds are bought back at the current market bond prices, which is generally higher than when the bonds were originally issued (as discussed on pages 20 and 21).

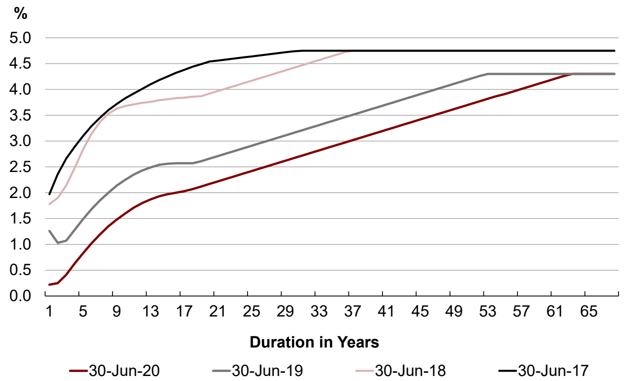
Gains on financial instruments of $1.9 billion in the year have fallen from the $4.4 billion recognised last year. This mainly reflects a more challenging investment environment in the wake of the COVID-19 pandemic (primarily in NZS Fund and ACC portfolios) and a $0.5 billion write-down in student loans owing to revised assumptions regarding future income levels, repayment behaviour and macroeconomic factors. The current year saw volatility in financial markets combined with unfavourable market movements, resulting in investment gains being $2.5 billion lower than last year.

Figure 14 – Operating balance (excluding minority interests)



Source: The Treasury

Figure 15 – Discount rates



Source: The Treasury

Losses on non-financial instruments of $7.4 billion (compared to $11.6 billion of losses last year) largely consisted of losses on the ETS and actuarial losses on the ACC long term liability. The ETS loss was as a result of an increase in the carbon price (from $23.15 last year to $32.10 this year) used to value the ETS liability and the ACC loss was mainly owing to decreases in the discount rates used to value all outstanding claims in today's dollars. Liabilities with long durations such as ACC outstanding claims are particularly sensitive to discount rate movements. If discount rates reduce, the liability in today's dollar increases.

Figure 15 illustrates the reduction of the yield curve of forward discount rates used to value the ACC liability over the last four years.

Impact of the Large Scale Asset Purchases (LSAP) Programme

The aim of the LSAP programme is to inject money into the economy to lower borrowing costs to households and businesses and to depreciate the New Zealand dollar. Under this programme, the Reserve Bank of New Zealand (Reserve Bank) has the ability to buy New Zealand Government Bonds (NZGBs) and Local Government Funding Agency (LGFA) Bonds in the secondary market. The Reserve Bank pays for the bond purchases by crediting settlement account balances held at the Reserve Bank by the seller's bank.

The Reserve Bank, like many other central banks, typically implements monetary policy by controlling the short-term policy rate, the Official Cash Rate (OCR), but has turned to 'alternative' monetary policies, such as LSAP, as their ability to lower the OCR has become constrained. In August 2020, the Monetary Policy Committee directed the Reserve Bank to purchase up to $100 billion NZGBs and LGFA Bonds by June 2022, an expansion from the $30 billion programme initially announced in March 2020. The Reserve Bank's participation in the bond market creates extra demand and increases the price of bonds and so reduces their market yields which is then expected to flow through to interest rates in the economy. In addition, it increases the value of liquid assets held by banks, enabling them to lend more money into the economy.

As well as the economic impacts from the LSAP programme there are several fiscal impacts in the Government's financial statements. The Reserve Bank forms part of the Government reporting entity, therefore their assets, liabilities, revenue and expenses, are added together line by line and any transactions and balances within the Government reporting entity (eg, holdings of NZGBs) are eliminated when presented in the consolidated Financial Statements of the Government. In summary, in reporting on a consolidated basis, the LSAP programme switches borrowings from NZGBs to borrowing through bank settlement deposits with the Reserve Bank. This switch also means there is a move from fixed rate borrowings to floating rate borrowings.

The LSAP programme expands the Reserve Bank's balance sheet…

On the Reserve Bank's balance sheet, the LSAP programme will result in an increase in both financial assets (eg, NZGBs) and borrowings (settlement deposits) of broadly equivalent amounts. To acquire the financial assets on the secondary market, the Reserve Bank must pay current bondholders the market price for those bonds. The current market price will generally be higher than the bond prices that bondholders paid when the bonds were first issued by the Government because interest rates have fallen. The LSAP programme is funded by using newly created settlement balances at the sellers' bank, which is reported as borrowings. As at 30 June 2020 the Reserve Bank had purchased $22.0 billion of assets under the programme, comprising $21.0 billion in NZGBs and $1.0 billion in LGFA bonds, while the liability for settlement deposits with the Reserve Bank has increased significantly.

…on consolidation the NZGBs assets purchased by the Reserve Bank are eliminated against the NZGBs borrowings issued by the Crown, resulting in a loss…

In general, when eliminating transactions and balances on consolidation they match up precisely. However, in some cases this may not be possible, which is the situation when eliminating holdings of NZGBs from the LSAP programme. The NZGBs are purchased by the Reserve Bank at a market price and are purchased directly from the market so it is not possible for the NZGBs purchased to be individually matched back to their original issuance. Therefore, for consolidation purposes it is assumed the oldest holdings of the NZGB liabilities are eliminated first against the Reserve Bank's holdings of NZGBs. Eliminating against the earliest issued bonds means the NZGB liabilities will usually have a lower carrying value than the NZGB assets, as the liabilities for NZGBs are reported at historical cost at the time of issuance, modified for interest yields. There is therefore a difference on consolidation between the market value, paid by the Reserve Bank for the NZGB assets, and the historical value of the NZGB liabilities. Broadly speaking, this difference reflects the change in the value of repurchased bonds since they were first issued owing to movements in market interest rates. Eliminating this difference results in a loss that is included in the operating balance reported in the Statement of Financial Performance. For the year ended 30 June 2020 losses of $3.3 billion have been included in the operating balance. If the NZGB liabilities had been regularly updated to fair value, rather than held at historical costs, valuation losses on these liabilities would have been reported regularly, rather than reported as losses from the LSAP programme.

Impact of the Large Scale Asset Purchases (LSAP) Programme (continued)

…and an increase in net core Crown debt…

The main effect of the LSAP programme on the Government's balance sheet is a switch in borrowings from external bondholders of NZGBs to borrowing through bank settlement deposits with the Reserve Bank. The switch in borrowings is not entirely neutral, as the level of the increase in settlement deposits with the Reserve Bank is greater than the reduction in NZGB borrowings backed out on consolidation, so there is an initial increase in net core Crown debt. In substance, this reflects that the Government has had to raise more debt to finance the purchasing back of NZGBs.

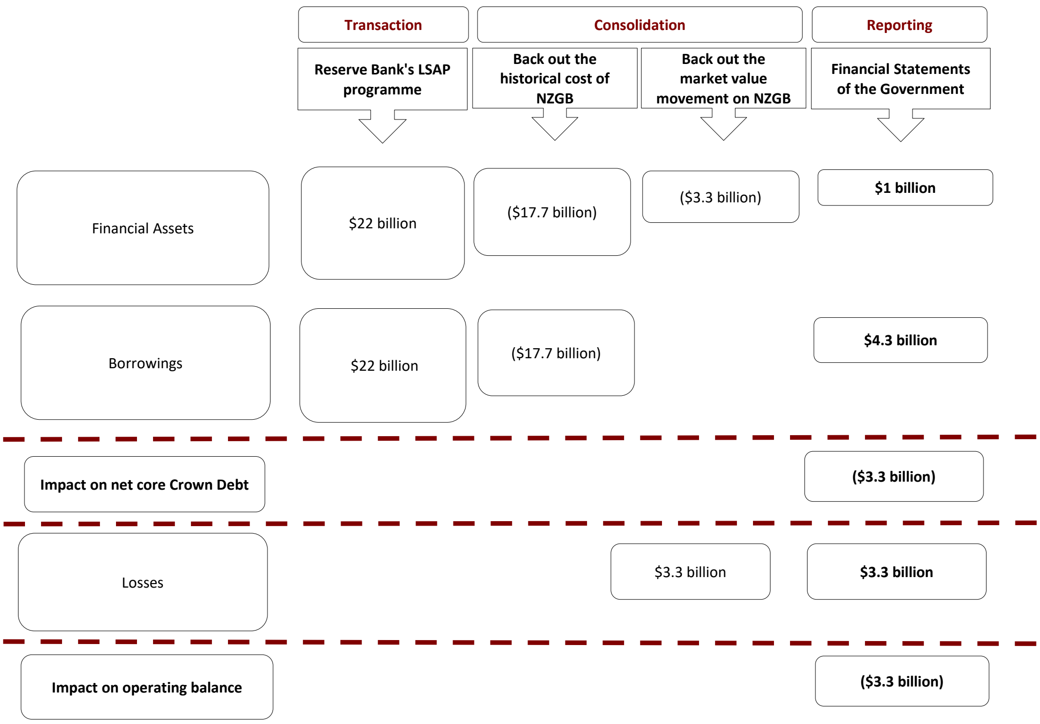
…however subsequently there is a positive fiscal impact on the operating balance and net core Crown debt …

The different valuation methods for NZGB assets and liabilities also means there will be a difference between the interest revenue earned by the Reserve Bank and interest expenses incurred by the Crown on the repurchased NZGBs. The interest earned by the Reserve Bank will be based on market interest rates while the interest expense will be based on interest rates prevailing when the bonds were originally issued. Interest revenue and expenses on re-purchased NZGBs are reversed on consolidation at each future reporting date until the re-purchased NZGBs mature. This means there will be reduction in finance costs because the interest expense being reversed on consolidation is greater than the interest revenue being reversed. Lower finance costs will mean there is a positive impact on the operating balance. There will also be a positive impact on net core Crown debt because interest payments on re-purchased NZGBs will no longer paid to external bondholders but paid to the Reserve Bank.

…and there is an expected benefit of lower interest cost

There is currently a benefit from lower borrowing rates as the fixed interest rate payable on the bonds is replaced by the lower floating OCR rate (currently 0.25%) payable on bank settlement account borrowings. These reduced borrowing costs have a favourable impact on the operating balance and net core Crown debt, through lower finance costs and interest payments. This benefit comes with a risk however, as finance costs would increase more rapidly if monetary policy is tightened and the OCR rate increases.

Figure 16 – Illustration of the initial fiscal impacts of the LSAPs programme



Source: The Treasury

Total Crown Balance Sheet

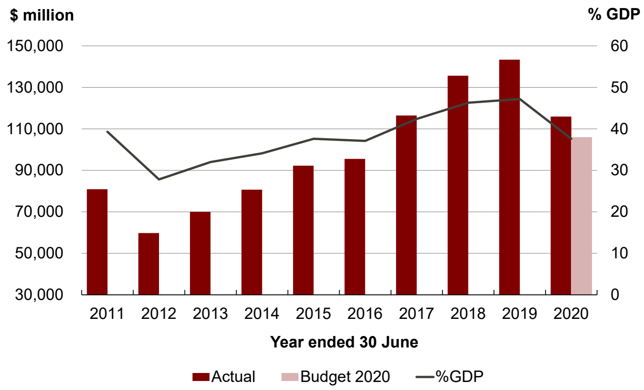
Net Worth

Net worth is the difference between the Crown's total assets (what the government owns) and liabilities (what the government owes). This difference primarily consists of the accumulation of past operating surpluses and deficits (referred to as taxpayers' funds) and revaluation uplifts of physical assets.

Net worth was $115.9 billion at 30 June 2020, a decrease of $27.4 billion from a year earlier.

Although taxpayers' funds were positive in 2019/20 they have been significantly depleted since 2018/19 reducing from $34.0 billion to $3.2 billion mainly as a result of the operating deficit of $30.0 billion. While revaluation uplifts of physical assets increased by $5.2 billion, this was partially offset by revaluations of liabilities, in particular long-term retirement plans (eg, the Government Superannuation Fund) and veterans' disability entitlements resulted in $1.6 billion of losses, which are presented directly in reserves (not in the operating balance). When these revaluations are combined with the operating balance deficit of $30.0 billion and minority interest transactions, net worth decreased by $27.4 billion to be $115.9 billion.

Figure 17 – Net worth



Source: The Treasury

As a share of the economy, net worth fell 9.6% from 47.2% of GDP in 2018/19 to 37.6% of GDP in the current year.

Table 8 – Net worth

Year ended 30 June						Forecast 30 June 2020	
$ million	**Actual 2016**	**Actual 2017**	**Actual 2018**	**Actual 2019**	**Actual 2020**	**Budget 2019**	**Budget 2020**
Net worth attributable to the Crown	89,366	110,532	129,644	136,949	110,320	131,846	100,093
Net worth attributable to minority interests	6,155	5,940	5,993	6,390	5,623	5,834	5,925
Total net worth	**95,521**	**116,472**	**135,637**	**143,339**	**115,943**	**137,680**	**106,018**
Net worth as a % of GDP	**37.1%**	**42.4%**	**46.3%**	**47.2%**	**37.6%**	**43.4%**	**36.0%**

Total Crown Balance Sheet (continued)

Total Crown Balance Sheet

Total Crown assets were $393.4 billion at 30 June 2020, a $28.7 billion increase from last year largely driven by an increase in financial assets held. Total Crown liabilities have increased further, by $56.2 billion from the previous year to reach a total of $277.5 billion, the increase primarily owing to increased borrowings.

The combination of the movements above has resulted in an overall reduction to total net worth of $27.4 billion in the year to 30 June 2020.

Table 9 – Composition of the total Crown balance sheet

Year ended 30 June						Forecast 30 June 2020	
	Actual	Actual	Actual	Actual	Actual	Budget	Budget
$ million	**2016**	**2017**	**2018**	**2019**	**2020**	**2019**	**2020**
Financial assets	138,255	147,050	157,520	164,121	183,315	160,238	179,718
Property, plant and equipment	134,499	144,550	159,018	177,625	186,502	169,151	185,382
Other assets	19,925	22,009	23,394	22,906	23,583	22,644	21,555
Total assets	**292,679**	**313,609**	**339,932**	**364,652**	**393,400**	**352,033**	**386,655**
Borrowings	113,956	111,806	115,652	110,248	152,717	118,005	164,799
Insurance liabilities	42,126	42,786	45,294	58,216	66,690	50,610	60,533
Other liabilities	41,076	42,545	43,349	52,849	58,050	45,738	55,305
Total liabilities	**197,158**	**197,137**	**204,295**	**221,313**	**277,457**	**214,353**	**280,637**
Total net worth	**95,521**	**116,472**	**135,637**	**143,339**	**115,943**	**137,680**	**106,018**
Minority interests	(6,155)	(5,940)	(5,993)	(6,390)	(5,623)	(5,834)	(5,925)
Net worth attributable to the Crown	**89,366**	**110,532**	**129,644**	**136,949**	**110,320**	**131,846**	**100,093**

Financial Assets

Financial assets at $183.3 billion were $19.2 billion higher than last year.

The following key areas contributed to the increase:

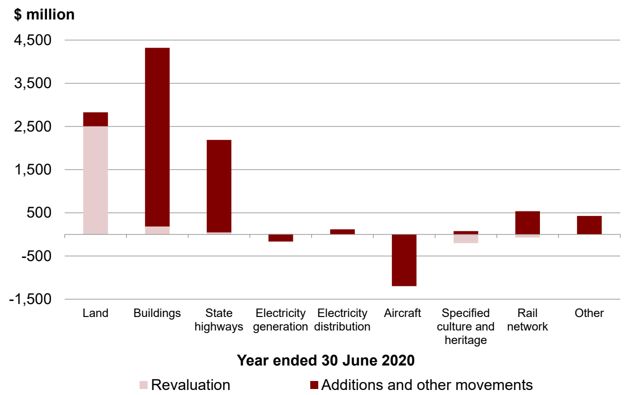
- Marketable securities held by the Reserve Bank increased by $9.1 billion compared to the previous year. This is primarily as a consequence of Reserve Bank balance sheet management and open market operations in response to the COVID-19 pandemic, in order to provide a sizable liquid buffer to manage funding and liquidity risks.
- The financial asset portfolios managed by ACC and NZS Fund grew reflecting investment performance, as discussed earlier. The primary purpose of these assets is to help pay for ACC claims and fund future New Zealand superannuation costs.
- Long term deposits increased by $1.1 billion, primarily as a result of Kāinga Ora's debt issuance in the year which has raised financial assets for the Crown.
- Increase of $2.6 billion in derivatives in gain held primarily by NZS Fund, Treasury, Meridian and Transpower. This is mainly due to favourable market movements, in particular favourable exchange rate movements, in the year to 30 June 2020.
- Growth in Kiwi Group Holdings loans and advances of $1.8 billion.
- Fair value of the small business cashflow loans, which were initiated in response to the COVID-19 pandemic, of $0.7 billion.

Total Crown Balance Sheet (continued)

Property, Plant and Equipment

The $8.9 billion increase in property, plant and equipment (PPE) was as a result of movements across a number of classes such as housing, state highways, aircraft, the rail network and electricity generation assets. The increase is mainly from additions and revaluation changes.

Figure 18 – Movements in PPE by asset classes



Source: The Treasury

As seen in Figure 18, the largest movements in PPE related to the following:

- The housing portfolio managed by Kāinga Ora (previously managed by Housing New Zealand Corporation) increased by $2.3 billion across land and buildings of which $1.2 billion is owing to revaluation uplifts at 30 June 2020 and the remainder relates to increases in the number of houses.

- School property has increased in value by $1.1 billion compared to the previous year. Of this, $0.4 billion relates to revaluation of the property at 30 June 2020 and the remaining increase is predominantly owing to additions.

- The value of state highways (including public-private partnerships) increased by $2.2 billion, mainly reflecting the continued valuation improvements, the development of new state highway assets and improvements to the existing state highway network. The value of corridor land has increased by $1.0 billion which is mainly owing to revaluation of the land at 30 June 2020.

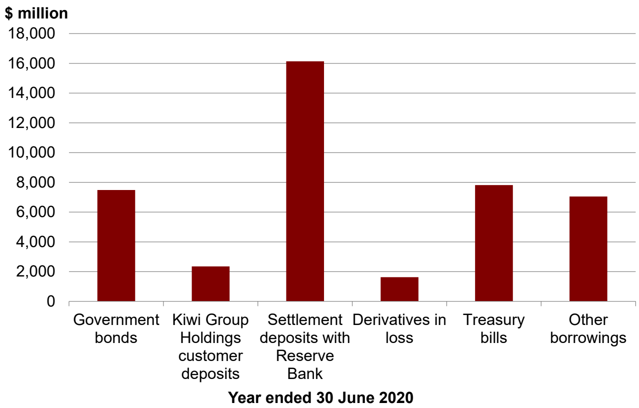
- The $1.2 billion decrease in the carrying value of aircraft (excluding specialised military), is largely owing to $1.1 billion impairment recognised in respect of Air New Zealand aircraft fleet. The COVID-19 pandemic has had an impact on the indicative market values of the aircraft and is a factor is this reduction in value at 30 June 2020. The impairment loss is charged as an expense in the statement of financial performance.

- The rail network increased by $0.5 billion mainly owing to additions from progress in capital rail projects.

Borrowings

Total borrowings represents the borrowings undertaken by the core Crown, Crown entities and SOEs. Borrowings at $152.7 billion was $42.5 billion more than last year.

Figure 19 – Increase in borrowings by types



Source: The Treasury

The overall increase is driven by a combination of factors as seen in Figure 19:

- Settlement deposits with the Reserve Bank increased by $16.1 billion, mainly owing to the LSAP programme. The repurchase of Government bonds by the Reserve Bank has the impact of reducing Government bonds (as the bonds are eliminated on consolidation for the Financial Statements of the Government) and increasing bank settlement deposits, as discussed on pages 20 and 21.

- Treasury bills increased by $7.8 billion owing to changes in the Crown's borrowing programme (discussed on page 25). The short term liquidity tool has been used to help fund the residual cash deficit described on page 9.

- Government bonds have increased by $7.5 billion compared to the previous year. As discussed in the Crown's borrowing programme box on page 25, $32.0 billion of Government bonds were issued in the year offset by $5.3 billion of Government bond repayments. This has been further offset by the Reserve Bank large scale asset purchases which reduces the level Government bonds, as discussed above.

Total Crown Balance Sheet (continued)

- Other borrowings have increased by $6.3 billion. This includes borrowings by Crown entities to fund capital projects (eg, NZTA and Kāinga Ora), increased issuance of European-Commercial Paper (ECP) through the Crown's borrowing programme and increased collateral received on the financial asset portfolio managed by NZS Fund and ACC. In addition, there was a further increase from small movements across various entities.
- Kiwi Group Holdings borrowings (eg, customer deposit held) increased by $2.4 billion, which offsets the increase in Kiwi Group Holdings advances (eg, mortgages) discussed on page 23.
- Derivatives in loss increased by $1.6 billion as a result of market movements, particularly relating to unfavourable interest rate movements (mentioned in the gross debt narrative above).

The Crown's borrowing programme

The total outstanding borrowings (denominated in Government Bonds, Treasury Bills and Euro-Commercial Paper) held by the Treasury as at 30 June 2020 was $33.4 billion higher than at 30 June 2019, with the cash proceeds totalling $35.0 billion (Table 10). The proceeds from issuance during the year funded the core Crown cash deficit and the April 2020 bond maturity.

Table 10 – Cash proceeds from debt programme

Year ended 30 June $ million	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Forecast 30 June 2020 Budget 2019	 Budget 2020
Issue of government bonds	8,079	7,847	7,043	8,372	31,951	10,387	27,752
Repayment of government bonds	(1,779)	(6,080)	(6,828)	(11,908)	(5,380)	(6,627)	(5,380)
Net issue/(repayment) of short-term borrowing[1]	(3,513)	160	100	(730)	8,415	(345)	6,540
Total market debt cash flows	**2,787**	**1,927**	**315**	**(4,266)**	**34,986**	**3,415**	**28,912**
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	(139)	(830)	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	(100)	-	-	-	-	-	-
Total non-market debt cash flows	**(239)**	**(830)**	**-**	**-**	**-**	**-**	**-**
Total debt programme cash flows	**2,548**	**1,097**	**315**	**(4,266)**	**34,986**	**3,415**	**28,912**

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

Insurance and Retirement Liabilities

ACC's insurance liability increased this year by $8.3 billion from $56.6 billion to $64.9 billion. Government Superannuation Fund (GSF) liabilities also increased by $0.8 billion from $13.2 billion to $14.0 billion. The increases were largely owing to actuarial valuation changes, which are influenced by changes in economic assumptions, such as discount rates and inflation.

Actuarial valuations involve using present value calculations where projected cash payments (such as the future cost of all existing ACC claims, and GSF pension payments) are adjusted where necessary for inflation, and then discounted to today's dollars. These liabilities with long durations are particularly sensitive to discount rate movements and inflation assumptions.

ACC's liability increased by $7.3 billion and GSF liability increased by $1.6 billion due to a reduction in the discount rate in the year to 30 June 2020. If discount rates reduce, the liability in today's dollars increases.

Offsetting these losses, ACC's liability decreased by $1.6 billion and GSF liability decreased by $0.5 billion owing to a reduction in the inflation assumption in the year to 30 June 2020.

Year End Results Compared to *Budget 2020*

The *Budget Economic and Fiscal Update 2020* (*Budget 2020*) was published on 14 May 2020.

Table 11 – Comparison to *Budget 2020*

Year ended 30 June $ million	Actual 2020	Budget 2020	Variance to Budget 2020[1] $m	Variance to Budget 2020 %
Core Crown tax revenue	85,102	82,330	2,772	3.4
Core Crown expenses	108,832	113,998	5,166	4.5
Operating balance (excluding minority interests)	(30,040)	(35,491)	5,451	15.4
Total Borrowings	152,717	164,799	12,082	7.3
Net worth	115,943	106,018	9,925	9.4

1 Favourable variances against budget have a positive sign and unfavourable variances against budget have a negative sign.

Core Crown Tax Revenue

Core Crown tax revenue was $2.8 billion (3.4%) higher than expected in *Budget 2020,* with the largest differences being as follows:

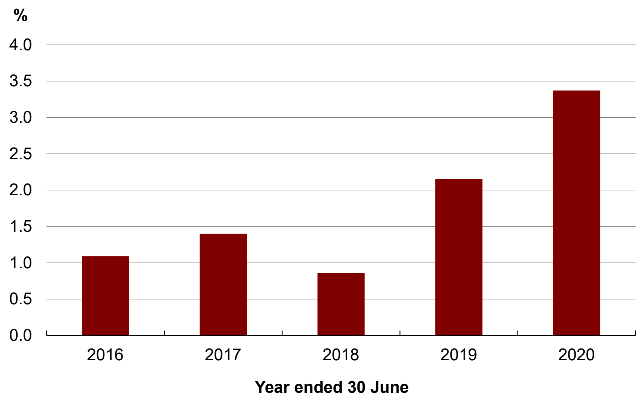
- GST, corporate tax revenue and other persons tax were $1.7 billion (8.3%), $0.3 billion (2.8%) and $0.2 billion (4.2%) above forecast, respectively. This is mainly as a result of economic activity performing better than expected in the June 2020 quarter.
- Source deduction revenue, which is primarily made up of PAYE on wages and salaries, was $0.4 billion (1.0%) above forecast. Labour market data released in early August shows that employment rates and wage growth were both better than forecast through the June 2020 quarter, contributing to the favourable forecast variance. This improvement has been assisted by the COVID-19 pandemic response measures such as the wage subsidy scheme.

Table 12 – Core Crown tax revenue compared to *Budget 2020*

Year ended 30 June	($ billion)
Budget 2020 core Crown tax revenue	82.3
GST	1.7
Source deductions	0.4
Corporate tax	0.3
Other persons tax	0.2
Other movements	0.2
Actual 2020 core Crown tax revenue	**85.1**

Source: The Treasury

Figure 20 – Core Crown tax revenue variance to Estimated Actuals



Source: The Treasury

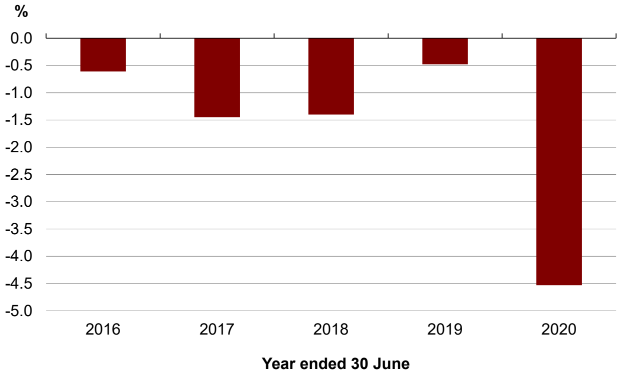
Year End Results Compared to *Budget 2020* (continued)

Core Crown Expenses

Core Crown expenses were $5.2 billion (4.5%) lower than forecast. Excluding the top-down adjustment of $1.1 billion, core Crown expenses were $6.2 billion (5.5%) lower than expected.

The lower than forecast result was largely owing to expenditure now expected to be spent in the 2020/21 fiscal year, originally forecast in the 2019/20 year in *Budget 2020*. This can be mostly attributed to the change in the expected timing of costs funded from the COVID-19 Response and Recovery Fund (CRRF). The most significant variances were in the health, education, and transport sectors, primarily due to a mixture of delays in spending and lower demand for services due to the impacts of the COVID-19 pandemic.

Figure 21 – Core Crown expenses variance to Estimated Actuals



Source: The Treasury

Crown entity and SOE results

Crown entity and SOE operating deficits were higher than forecast by $2.3 billion and $0.4 billion, respectively. A number of SOEs and Crown entities were impacted by reductions in revenue and increases in expenditure owing to the impacts of the COVID-19 pandemic, the full extent of these impacts were not able to be forecast at *Budget 2020* (eg, New Zealand Transport Agency). Increases in insurance expenditure also adversely impacted Crown entities results for ACC and EQC.

Operating Balance

The total Crown operating balance deficit of $30.0 billion was $5.5 billion lower than the deficit forecast in *Budget 2020*. This has been largely driven by favourable variances in core Crown revenue and core Crown expenses discussed above, as well as net surplus from associates and joint ventures $1.1 billion higher than forecast. Increased net surplus from associates and joint ventures relates to Universities and Wānanga whose net surplus has increased compared to *Budget 2020* due to earlier recognition of funding (for further details refer to note 18 in the financial statements).

The favourable variances have been supported by slightly lower than forecast losses on financial and non-financial instruments. The gain recognised on financial instruments is $6.4 billion higher than the forecasted loss, however, this has been almost entirely offset by higher than forecast actuarial losses on the ACC claims liability and higher than forecast losses on the LSAP programme. The actuarial losses were owing to revised discount rate and inflation rate assumptions, whilst the LSAP losses were driven by the expansion of the programme since *Budget 2020* (as detailed on pages 20 and 21).

Total Borrowings

Total borrowings at 30 June 2020 were $152.7 billion, which is $12.1 billion lower than the *Budget 2020* forecast. This variance is primarily resulting from lower than expected bank settlement deposits with the Reserve Bank of $12.7 billion. Despite the expansion of the LSAP programme resulting in increased settlement deposit balances, this has been offset by higher than forecast issuance of government debt, resulting in lower bank settlement deposits than were forecast. In addition, the level of bank settlement deposits is impacted by Reserve Bank's open market operations, including decisions to allow FX swaps to mature which were previously forecast to be reinvested.

Net Worth

Net worth was $9.9 billion higher than the *Budget 2020* forecast, mainly owing to an upwards revaluation of physical assets of $5.2 billion. Revaluations usually occur at 30 June and are not forecast. The largest revaluations were to the land and buildings. When the asset revaluations are combined with the changes in the operating balance this flows through to improve the net worth position. The overall gains and losses which are included in the operating balance are broadly in line with what was expected in *Budget 2020.*

Historical Financial Information

Year ended 30 June **$ million**	**2011** **Actual**	**2012** **Actual**	**2013** **Actual**	**2014** **Actual**	**2015** **Actual**	**2016** **Actual**	**2017** **Actual**	**2018** **Actual**	**2019** **Actual**	**2020** **Actual**
Statement of financial performance										
Core Crown tax revenue	51,557	55,081	58,651	61,563	66,636	70,445	75,644	80,224	86,468	85,102
Core Crown other revenue	5,642	5,347	5,154	5,530	5,577	5,676	6,138	6,554	7,006	6,821
Core Crown revenue	57,199	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,923
Crown entities, SOE revenue and eliminations	23,448	22,321	21,873	21,443	21,592	21,295	21,640	23,195	25,668	24,080
Total Crown revenue	**80,647**	**82,749**	**85,678**	**88,536**	**93,805**	**97,416**	**103,422**	**109,973**	**119,142**	**116,003**
Social security and welfare	21,724	21,956	22,459	23,026	23,523	24,081	25,294	25,999	28,740	44,028
Health	13,753	14,160	14,498	14,898	15,058	15,626	16,223	17,159	18,268	19,891
Education	11,650	11,654	12,504	12,300	12,879	13,158	13,281	13,629	14,293	16,322
Core government services	5,563	5,428	4,294	4,502	4,134	4,102	3,957	4,670	5,166	6,083
Law and order	3,312	3,338	3,394	3,463	3,515	3,648	3,882	4,184	4,625	4,911
Other core Crown expenses	14,097	12,403	12,813	12,985	13,254	13,314	13,702	14,935	15,867	17,597
Core Crown expenses	70,099	68,939	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832
Crown entities, SOE expenses and eliminations	28,944	23,050	20,068	20,005	20,701	21,208	22,668	23,438	24,417	30,084
Total Crown expenses	**99,043**	**91,989**	**90,030**	**91,179**	**93,064**	**95,137**	**99,007**	**104,014**	**111,376**	**138,916**
OBEGAL (excluding minority interests)	**(18,396)**	**(9,240)**	**(4,414)**	**(2,802)**	**414**	**1,831**	**4,069**	**5,534**	**7,429**	**(23,057)**
Gains/(losses)	5,036	(5,657)	11,339	5,741	5,357	(7,200)	8,248	2,862	(7,040)	(6,983)
Operating balance (excluding minority interests)	**(13,360)**	**(14,897)**	**6,925**	**2,939**	**5,771**	**(5,369)**	**12,317**	**8,396**	**389**	**(30,040)**
Statement of financial position										
Property, plant and equipment	114,854	108,584	109,833	116,306	124,558	134,499	144,550	159,018	177,625	186,502
Financial assets	115,362	116,178	118,779	123,918	135,787	138,255	147,050	157,520	164,121	183,315
Other assets	14,999	15,556	15,804	16,600	18,869	19,925	22,009	23,394	22,906	23,583
Total assets	**245,215**	**240,318**	**244,416**	**256,824**	**279,214**	**292,679**	**313,609**	**339,932**	**364,652**	**393,400**
Borrowings	90,245	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,248	152,717
Other liabilities	74,083	80,004	74,318	72,708	74,398	83,202	85,331	88,643	111,065	124,740
Total liabilities	**164,328**	**180,538**	**174,405**	**176,127**	**186,978**	**197,158**	**197,137**	**204,295**	**221,313**	**277,457**
Net worth	**80,887**	**59,780**	**70,011**	**80,697**	**92,236**	**95,521**	**116,472**	**135,637**	**143,339**	**115,943**
Minority interests	308	432	1,940	5,211	5,782	6,155	5,940	5,993	6,390	5,623
Net worth attributable to the Crown	**80,579**	**59,348**	**68,071**	**75,486**	**86,454**	**89,366**	**110,532**	**129,644**	**136,949**	**110,320**
Cash position										
Core Crown residual cash	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)
Debt Indicators										
Net debt	40,128	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375
Gross debt	72,420	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449	102,257

Historical Financial Information (continued)

Year ended 30 June as % of GDP	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual
Nominal GDP (revised)	205,876	215,189	218,826	236,802	245,010	257,814	274,699	293,105	303,605	308,276
Statement of financial performance										
Core Crown tax revenue	25.0%	25.6%	26.8%	26.0%	27.2%	27.3%	27.5%	27.4%	28.5%	27.6%
Core Crown other revenue	2.8%	2.5%	2.4%	2.3%	2.3%	2.2%	2.3%	2.2%	2.3%	2.2%
Core Crown revenue	27.8%	28.1%	29.2%	28.3%	29.5%	29.5%	29.8%	29.6%	30.8%	29.8%
Crown entities, SOE and elimination revenue	11.4%	10.4%	10.0%	9.1%	8.8%	8.3%	7.8%	7.9%	8.4%	7.8%
Total Crown revenue	**39.2%**	**38.5%**	**39.2%**	**37.4%**	**38.3%**	**37.8%**	**37.6%**	**37.5%**	**39.2%**	**37.6%**
Social security and welfare	10.6%	10.2%	10.3%	9.7%	9.6%	9.3%	9.2%	8.9%	9.5%	14.3%
Health	6.7%	6.6%	6.6%	6.3%	6.1%	6.1%	5.9%	5.9%	6.0%	6.5%
Education	5.7%	5.4%	5.7%	5.2%	5.3%	5.1%	4.8%	4.6%	4.7%	5.3%
Core government services	2.7%	2.5%	2.0%	1.9%	1.7%	1.6%	1.4%	1.6%	1.7%	2.0%
Law and order	1.6%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.4%	1.5%	1.6%
Other core Crown expenses	6.7%	5.7%	5.8%	5.5%	5.4%	5.2%	5.1%	5.1%	5.2%	5.6%
Core Crown expenses	34.0%	32.0%	32.0%	30.1%	29.5%	28.7%	27.8%	27.5%	28.6%	35.3%
Crown entities, SOE and elimination expenses	14.1%	10.7%	9.1%	8.4%	8.5%	8.2%	8.2%	8.0%	8.1%	9.8%
Total Crown expenses	**48.1%**	**42.7%**	**41.1%**	**38.5%**	**38.0%**	**36.9%**	**36.0%**	**35.5%**	**36.7%**	**45.1%**
OBEGAL (excluding minority interests)	**(8.9%)**	**(4.3%)**	**(2.0%)**	**(1.2%)**	**0.2%**	**0.7%**	**1.5%**	**1.9%**	**2.4%**	**(7.5%)**
Gains/(losses)	2.4%	(2.6%)	5.2%	2.4%	2.2%	(2.8%)	3.0%	1.0%	(2.3%)	(2.2%)
Operating balance (excluding minority interests)	**(6.5%)**	**(6.9%)**	**3.2%**	**1.2%**	**2.4%**	**(2.1%)**	**4.5%**	**2.9%**	**0.1%**	**(9.7%)**
Statement of financial position										
Property, plant and equipment	55.8%	50.5%	50.2%	49.1%	50.8%	52.2%	52.6%	54.3%	58.5%	60.5%
Financial assets and sovereign receivables	56.0%	54.0%	54.3%	52.3%	55.4%	53.6%	53.5%	53.7%	54.1%	59.5%
Other assets	7.3%	7.2%	7.2%	7.1%	7.8%	7.7%	8.1%	8.0%	7.5%	7.6%
Total assets	**119.1%**	**111.7%**	**111.7%**	**108.5%**	**114.0%**	**113.5%**	**114.2%**	**116.0%**	**120.1%**	**127.6%**
Borrowings	43.8%	46.7%	45.7%	43.7%	45.9%	44.2%	40.7%	39.5%	36.3%	49.5%
Other liabilities	36.0%	37.2%	34.0%	30.7%	30.4%	32.3%	31.1%	30.2%	36.6%	40.5%
Total liabilities	**79.8%**	**83.9%**	**79.7%**	**74.4%**	**76.3%**	**76.5%**	**71.8%**	**69.7%**	**72.9%**	**90.0%**
Net worth	**39.3%**	**27.8%**	**32.0%**	**34.1%**	**37.7%**	**37.0%**	**42.4%**	**46.3%**	**47.2%**	**37.6%**
Minority interests	0.2%	0.2%	0.9%	2.2%	2.4%	2.3%	2.2%	2.1%	2.1%	1.8%
Net worth attributable to the Crown	**39.1%**	**27.6%**	**31.1%**	**31.9%**	**35.3%**	**34.7%**	**40.2%**	**44.2%**	**45.1%**	**35.8%**
Cash position										
Core Crown residual cash	(6.5%)	(4.9%)	(2.6%)	(1.7%)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(7.7%)
Debt Indicators										
Net debt	19.5%	23.5%	25.5%	25.3%	24.7%	24.0%	21.7%	19.6%	19.0%	27.0%
Gross debt	35.2%	37.0%	35.6%	34.6%	35.2%	33.7%	31.7%	30.0%	27.8%	33.2%

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 2020

I have audited the financial statements of the Government of New Zealand (the financial statements of the Government) for the year ended 30 June 2020 using my staff and resources and appointed auditors and their staff. The financial statements of the Government on pages 41 to 166 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2020, 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, statement of borrowings as at 30 June 2020, and other explanatory information;
- a statement of unappropriated expenditure for the year ended 30 June 2020;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended 30 June 2020; and
- a statement of trust money administered by departments for the year ended 30 June 2020.

Opinion

In my opinion, the financial statements of the Government on pages 41 to 166:

- present fairly, in all material respects, the Government's:
    - financial position as at 30 June 2020;
    - financial performance and cash flows for the year ended on that date;
    - borrowings as at 30 June 2020;
    - unappropriated expenditure for the year ended 30 June 2020;
    - expenses or capital expenditure incurred in emergencies for the year ended 30 June 2020; and
    - trust money administered by departments for the year ended 30 June 2020; and
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity Accounting Standards.

My audit was completed on 5 November 2020 and this is the date on which my opinion is expressed. That date exceeds the requirement under section 30(2) (b) of the Public Finance Act 1989 for me to provide an audit report on the financial statements of the Government within 30 days after receiving them. This is due to challenges resulting from the Covid-19 pandemic.

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

Basis for my 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 making this determination, 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.

Key audit matters were addressed in the context of my audit of the financial statements of the Government as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

During the period, the Covid-19 pandemic significantly affected the Government. The effects have been disclosed in note 3 on page 62 to the financial statements of the Government. I refer to those disclosures where they are relevant to the key audit matters.

The key audit matters for my audit are described below.

Recognising other persons and corporate tax revenue	How we addressed this matter
As disclosed in note 4 on page 65, the Government recognised other persons' tax revenue of $7.1 billion and corporate tax revenue of $12.1 billion. Tax revenue for the year from other persons and corporates was estimated because the final income tax owed for a year is known only when a tax return is filed. Filing could happen more than a year after the tax year. The estimation process relies on macro-economic forecasts about how the economy will perform. It also relies on assumptions about how these macro-economic forecasts relate to taxable profits. As a result of the Covid-19 pandemic, there is increased uncertainty about how the New Zealand economy will perform. Therefore, judgements were made about the performance of the economy and they were used to estimate tax revenue. Estimating tax revenue is inherently uncertain and judgement is used to estimate: - the amount of tax 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 performance of the New Zealand and global economy.	We reviewed the systems, processes, and controls for receiving and reviewing provisional and final tax returns, tax assessments, and tax revenue. This included understanding Inland Revenue's information technology system used to manage tax. We assessed the controls for significant reconciliation processes. We tested the underlying data used in the tax revenue estimation models to confirm that it was relevant and used appropriately. We reviewed the main assumptions and judgements used to estimate tax revenue from other persons and corporates. We considered the most important variables in the models used to estimate tax revenue and assessed their reasonableness, given the economic impact of the Covid-19 pandemic. We used independent economic experts to assess the main assumptions about the future (such as economic growth), which could cause a material adjustment to tax revenue from other persons and corporates. We tested how sensitive the estimates were to changes in the main assumptions. The independent experts also considered alternative macro-economic indicators that could reliably estimate tax revenue from other persons and corporates. We satisfied ourselves that the macro-economic indicator used was reasonable. I am satisfied that other persons and corporate tax revenue for the year ended 30 June 2020 are reasonable and that the disclosures are appropriate.

Recognising a loss on the large-scale asset purchase programme	How we addressed this matter
In response to the Covid-19 pandemic, the Reserve Bank of New Zealand (Reserve Bank) implemented a large-scale asset purchase programme. This is the first time the Reserve Bank has embarked on such a programme. The programme is currently expected to operate until June 2022, purchase up to a $100.0 billion of bonds, and result in losses. As outlined in note 3 on page 63, the Reserve Bank has purchased $21.0 billion in New Zealand Government Bonds (Government Bonds) and $964 million in Local Government Funding Agency Bonds under this programme up to 30 June 2020. The purchase of the Government Bonds by the Reserve Bank effectively removed the bonds from the financial statements of the Government. The result is a loss of $3.3 billion, which is the difference between the price paid by the Reserve Bank and the value of the bonds in the financial records of the Government at the date of purchase. Because so many Government Bonds were acquired, a model was prepared to calculate the appropriate difference between the price paid to re-purchase the bonds and the value of the bonds in the financial records of the Government at the date of each transaction. A “first in first out” method was applied, which assumes that the bonds purchased first were the bonds issued earliest.	We considered the appropriateness of the model and use of the “first in first out” method. On a sample basis, we: - agreed the bond information in the model to the Treasury and Reserve Bank systems; - tested the accuracy of key calculations in the model; and - assessed whether the “first in first out” method was correctly applied. We examined how the model calculated the required consolidation adjustments. We confirmed that the entries were adjusting the correct line items in the financial statements. We also assessed the appropriateness of the presentation and disclosures. I am satisfied that the loss on the large-scale asset purchase programme for the year ended 30 June 2020 is reasonable and that the disclosures are appropriate.

Valuing property, plant, and equipment	How we addressed this matter
As outlined in note 17 on page 91, the Government owns physical assets of $186.5 billion at 30 June 2020. Considerable judgement is needed to determine the value of some of these assets because there are inherent uncertainties in valuing them. Valuers have considered the economic impact of the Covid-19 pandemic on significant estimates and judgements. These include economic indicators for interest rates and inflation, cash flow forecasts, any changes in levels of service, and replacement costs. The assets identified below needed significant judgement to determine their value.	
Land and buildings As outlined on page 95, land and buildings were valued at $102.9 billion at 30 June 2020. Calculating the fair value of land and buildings requires a range of valuation methods and assumptions. The economic impact of the Covid-19 pandemic had a significant effect on the assumptions made when assessing the value of land and buildings. A number of valuers have identified that although land and property prices have not changed significantly, there has been limited market information available since the Covid-19 pandemic lockdown period. It is difficult to predict what the short- and long-term effect on values will be.	We examined how land and buildings are valued, the significant estimates and assumptions used, and how reasonable they are. We confirmed the competence, capabilities, and objectivity of the valuers, challenged the main assumptions, and assessed the valuation procedures. We considered whether there were any limitations placed on the valuers. We considered how valuers took the economic impact of the Covid-19 pandemic into account and the effect of any estimation uncertainties on the final valuations. We also checked that the revaluation movements and reversals of previous impairments were correctly accounted for. I am satisfied that the value of land and buildings at 30 June 2020 is reasonable and that the disclosures are appropriate.

Valuing property, plant, and equipment	How we addressed this matter
State highways	
As outlined on page 97, the state highways (excluding land) were valued at $39.4 billion at 30 June 2020 by an independent valuer. The value of the state highways cannot be measured precisely. Significant estimates and assumptions are made, including assumptions about quantities and rates used to construct the state highways, the remaining useful life of the assets, and the unit costs to apply. Changes to the underlying estimates and assumptions can cause a material movement in the valuation of the state highways. Work done over the last three years has improved the quality of the data used in the valuations, but uncertainties with the valuation remain.	We examined how the state highways are valued, the significant estimates and assumptions used, and their reasonableness. We confirmed the competence, capabilities, and objectivity of the valuer, challenged the valuer's main assumptions, and assessed the valuation procedures (including the information extracted from databases). We considered whether there were any limitations placed on the valuer and whether centrally calculated rates applied to the valuation were appropriate. We confirmed that key controls were operating over the systems and processes used to record costs and other asset information about the state highways. We also considered how the valuer took the economic impact of the Covid-19 pandemic into account and the effect of any estimation uncertainties on the final valuations. I am satisfied that the value of the state highways at 30 June 2020 is reasonable and that the disclosures are appropriate.
Electricity generation assets	
As outlined on page 99, the electricity generation assets were valued at $17.1 billion at 30 June 2020. Valuing electricity generation assets is complicated and relies on significant assumptions about the future prices of electricity, generation costs, and how much electricity will be generated. Each of these assumptions affects the others. These assumptions are sensitive to small changes that can have a significant effect on the value of the electricity generation assets. The planned wind-down of the New Zealand Aluminium Smelter at Tiwai Point (announced on 9 July 2020, and disclosed in note 30 on page 152) could change the assumptions and therefore the value of the electricity generation assets. How the planned wind-down affects the value of the electricity generation assets has not been taken into account in the valuation because the announcement was made after the end of the financial year.	We examined how electricity generation assets are valued. We confirmed the competence, capabilities, and objectivity of the valuers, tested their procedures for carrying out the valuations (including the information they used), and challenged their main assumptions and judgements. We tested the sensitivity of the main assumptions to confirm that they were reasonable. We compared the forecast prices of electricity to the expected longer-term wholesale prices and market data, where it was available. We considered how valuers took the economic impact of the Covid-19 pandemic into account in the valuations and the effect of any estimation uncertainties on the value of electricity generation assets. We also considered the timing of the announcement of the planned wind-down of the New Zealand Aluminium Smelter at Tiwai Point. We agreed that the value of the electricity generating assets should not be adjusted as a result of the announcement, given that it was after the date of the financial statements. I am satisfied that the value of electricity generation assets at 30 June 2020 is reasonable and that the disclosures are appropriate.

Valuing financial assets where market data is not available	How we addressed this matter
As outlined in note 27 on page 139, the Government had financial assets that are valued using significant non-observable inputs (that is, where market data is not available) of $18.6 billion at 30 June 2020. These financial assets include loans, investments and deposits, including student loans and the small business cashflow (loan) scheme, which we comment on separately below. When there is no quoted market price for a financial asset, the value of the asset is estimated using an appropriate technique, such as a valuation model. These models are usually complex, using inputs from market data when available. Otherwise inputs are derived from non-market data, which requires greater judgement.	We reviewed the valuation techniques, controls, and inputs used to determine the value of financial assets where market data is not available. Taking into account the nature of the financial assets being valued, the valuation techniques adopted, and the uncertainties in determining values, we: - tested the internal controls over data entered into financial systems for these assets; - assessed the controls and valuation approaches applied where a fund manager carries out the valuation; - compared the fair value of financial assets to independent information and investigated any significant variances; and - assessed the appropriateness of the inputs used in the valuation where market data is not available.

Valuing financial assets where market data is not available	How we addressed this matter
Student loans	
As outlined in note 16 on page 87, at 30 June 2020, the Government had student loans of $10.4 billion. Student loans are measured using actuarial and predictive models, which reflect current student loan policy and macro-economic assumptions. The value is sensitive to changes in several assumptions, including future income levels, repayment behaviour, inflation, and discount rates. There is added uncertainty now about how the Covid-19 pandemic might affect student loan repayments and the limited availability of repayment data during the economic downturn. Adjustments have been made to the valuation to reflect assumptions about employment, overseas compliance, and the associated economic recovery period. Page 88 further outlines the uncertainties resulting from the economic impact of the Covid-19 pandemic on the valuation. This includes sensitivity analysis disclosures about those significant assumptions.	For student loans we: - tested a sample of student loan applications during the year to ensure they were correctly paid out; - tested the internal controls over student loans entered into financial systems and actuarial models used by the valuer; - checked that the underlying information used in the valuation was correctly extracted from the system; - used an independent expert to review the main assumptions in the student loans model, including a review of the cash flow forecasts used to determine the fair value of loans, and adjustments for employment and overseas non-compliance due to the Covid-19 pandemic; - assessed the controls and valuation approaches applied by the valuer; and - performed a retrospective review of the actual receipts of student loans in previous years against prior year cash flow forecasts to consider whether there was any estimation bias.
Small Business Cashflow (Loan) Scheme	
As outlined in note 16 on page 87, at 30 June 2020, the Government had provided loans to small businesses valued at $737 million. Because the small business cashflow scheme is new, there is no data available to determine the likely rates of repayment or default, and limited data to determine discount rates used in the valuation model. It is also difficult to predict how the Covid-19 pandemic will affect the ability of businesses to repay the loans. The external valuer has stated in their valuation report that the uncertain and volatile nature of future debt repayments means that there is significant uncertainty in estimating the fair value of the loans.	For the small business cashflow scheme, we considered the appropriateness of the main assumptions used in the valuation and reviewed how estimation uncertainties due to the Covid-19 pandemic were reflected in the valuation process. We used an independent economic expert to assess whether: - the approach to estimating the default rate was appropriate; and - the estimated default loss rate was reasonable, based on current economic forecasts and other available data. I am satisfied that the value of financial assets where market data is not available at 30 June 2020, including student loans and the small business cashflow scheme, is reasonable and that the disclosures are appropriate.

Valuing insurance liabilities, superannuation liabilities, and veterans' disability entitlements liabilities	How we addressed this matter
The Government has significant insurance liabilities from Accident Compensation Corporation claims, public servants' superannuation liabilities and veterans' disability entitlements liabilities at 30 June 2020. Working out the value of these liabilities is complicated. Actuaries estimate the amount, based on assumptions about the future (including the economic impact of the Covid-19 pandemic). There are uncertainties inherent in the valuations of each of these liabilities.	

Valuing insurance liabilities, superannuation liabilities, and veterans' disability entitlements liabilities	**How we addressed this matter**
Accident Compensation Corporation's outstanding claims liability As outlined in note 12 on page 77, the outstanding claims liability of the Accident Compensation Corporation (ACC) has been valued at $61.5 billion at 30 June 2020, by an independent actuary. Assumptions used to determine the value of the outstanding claims liability include: - the discount rate used to get a present value of expected claims payments; - the risk margin for the inherent uncertainty in the estimate of the present value of expected claims payments; - the effects of inflation and innovation on future medical costs; and - how long it will take people to recover (length of rehabilitation) from injuries. The sensitivity of each assumption is outlined on page 81. Assumptions are closely linked and cannot be viewed in isolation. Changes in assumptions can have a large effect on the value of the outstanding claims liability (and the gain or loss that is recognised).	We examined how ACC's outstanding claims liability is valued by assessing the reasonableness of the approach. We also reviewed ACC's main assumptions about each significant type of claim to see whether these were appropriate, including the impact of the Covid-19 pandemic on these assumptions and estimation uncertainties. We tested the systems and controls and, in particular, tested the process for recording claims in detail. We tested the main assumptions by considering past claims. We assessed the reasonableness of forecasts that differed from past experience by looking at the evidence supporting the forecasts. We used an independent actuary to review the scope, approach, and reasonableness of the estimated liability. We tested the reconciliations of the underlying claims data with ACC's systems, examined the sensitivity analysis for movements in the main assumptions, and reviewed the related financial statement disclosures. I am satisfied that ACC's outstanding claims liability at 30 June 2020 is reasonable and that the disclosures are appropriate.
Government Superannuation Fund's unfunded liability As outlined in note 21 on page 110, the Government's unfunded liability for public servants' superannuation entitlements for past and current members of the Government Superannuation Fund (the Fund) has been valued at $14.0 billion at 30 June 2020, by an independent actuary. The value of the unfunded liability is sensitive to the value of the Fund's assets, expected rates of salary increases for members of the Fund, and estimated inflation and discount rates. The Fund's assets, which are mainly shares and bonds, are traded in markets. Changes in the prices of these shares and bonds affect the amount of the unfunded liability. The sensitivity of critical assumptions and judgements is described on page 112. The assumptions are closely linked and cannot be viewed in isolation, and changes in assumptions can have a significant effect on the value of the unfunded liability.	We examined how the Government's unfunded liability for public servants' superannuation entitlements is valued. We confirmed the competence, capabilities, and objectivity of the actuary, and tested their procedures. We engaged our own actuary to review the main assumptions, judgements, and procedures used to value the unfunded liability. We tested the main controls that ensure that membership data used in the actuary's valuation is complete and accurate. We assessed the appropriateness of the main assumptions used to estimate the value of the unfunded liability, including the expected rates of salary increases, against external benchmarks. We tested the design, implementation, and operating effectiveness of key controls for investments. We obtained an understanding of the valuation techniques and inputs used by the respective fund managers to value the investments. The value of the funds were reconciled to the latest valuation reports. Any movements between the last valuation date and the year-end data were checked against supporting documentation. We also considered the estimated return on assets owned by the Fund. I am satisfied that the Government's unfunded liability for public servants' superannuation entitlements at 30 June 2020 is reasonable and that the disclosures are appropriate.

Valuing insurance liabilities, superannuation liabilities, and veterans' disability entitlements liabilities	How we addressed this matter
Veterans' disability entitlements liability	
As outlined in note 22 on page 114, the Government recognised a veterans' disability entitlements liability of $3.5 billion at 30 June 2020, because it had to use a new accounting standard during the year (PBE IPSAS 39 *Employee Benefits)*. Working out the value of the veterans' disability entitlements liability is subject to uncertainty, because of possible deficiencies in the underlying data used to make the estimate, the extent to which veterans will take up their full entitlement, the discount rate, the inflation rate, and changes in mortality rates. The sensitivity of assumptions is outlined on page 117. The assumptions are closely linked and cannot be viewed in isolation, and changes in assumptions can have a large effect on the value of the veterans' disability entitlements liability, as well as the actuarial gain or loss recognised.	We examined how the Government's veterans' disability entitlements liability is valued. We reviewed the method used to calculate the liability and confirmed the competence, capabilities, and objectivity of the actuary. We also tested the valuation procedures. We used an independent actuary to review the main assumptions, judgements, and procedures used to value the liability. We tested key controls over the completeness and accuracy of veterans' data used in the actuary's valuation. We also reviewed the accounting entries to recognise the change in accounting policy, including the restatement of the 2019 comparative figures. I am satisfied that the Government's veterans' disability entitlements liability at 30 June 2020 is reasonable and that the disclosures are appropriate.

Entitlements under the Holidays Act 2003	How we addressed this matter
As outlined in note 22 on page 115, the provision for employee entitlements includes a provision to comply with the Holidays Act 2003. Further work is still needed to finalise the amounts owed to each individual, resulting in uncertainty in the value of the provision. A number of entities have started or completed a review of current and historical payroll calculations to ensure that they have complied with the legislation. Where possible, provision has been made in the financial statements of the Government for obligations arising from these reviews, where settlement has not been made. For certain entities, particularly district health boards and schools, complexities mean it is taking longer to calculate the amounts owed to each individual. District health boards and schools employ many people and the amounts needed to settle these obligations remain uncertain. The Covid-19 pandemic also resulted in some entities not being able to resolve all historical compliance issues before 30 June 2020. As outlined on page 115, the provision for district health boards could be between $1.0 billion and $1.1 billion. This is based on selecting a small sample of former and current employees, applying a number of assumptions, and calculating a provision by extrapolating the result over the known population. As outlined in note 26 on page 132, if an obligation cannot be reasonably measured at 30 June 2020, there is an unquantified contingent liability. This is the situation for all schools.	For the entities most significantly affected, we considered the progress made in resolving the payroll calculation issues. For those entities that had a provision, we assessed the approach used to calculate the provision. We also: - reviewed the processes followed for calculating a provision and tested a sample of transactions; - considered the completeness of the data used for calculating a provision; - assessed the competence, capabilities, and objectivity of independent experts who were involved in the calculations; and - challenged the main assumptions and judgements made in calculating the provision, including the consideration of the Covid-19 pandemic on the valuation. For those entities that did not have a provision, we made sure that they could not reasonably quantify an amount. We also reviewed the disclosures made. I am satisfied that the provision for entitlements under the Holidays Act 2003 at 30 June 2020 is reasonable, and that where a liability cannot be reliably measured, the contingent liability 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;
- 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. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the decisions readers make based on 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, because fraud can involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- I obtain an understanding of internal controls 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 controls 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 controls 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 29 and pages 167 to 177.

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: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

My staff and I, and my appointed auditors and their staff, may deal with certain public entities on normal terms in the ordinary course of trading activities of these entities. This has not impaired my staff, my appointed auditors and their staff's independence, or me in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities.

As an Officer of Parliament, I am constitutionally and operationally independent of the Government. I was, before starting my term as Auditor-General on 2 July 2018, the Deputy Director-General for the Ministry for Primary Industries. The Deputy Auditor-General has dealt 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.

JM Ryan

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 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Note	Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Revenue			
88,541	81,588	Taxation revenue	4	84,521	85,723
6,027	6,126	Other sovereign revenue	4	6,269	6,028
94,568	**87,714**	**Total sovereign revenue**		**90,790**	**91,751**
19,041	19,196	Sales of goods and services	5	18,437	19,796
2,748	2,440	Interest revenue	6	2,300	2,646
4,397	5,053	Other revenue	7	4,476	4,949
26,186	**26,689**	**Total revenue earned through operations**		**25,213**	**27,391**
120,754	**114,403**	**Total revenue (excluding gains)**		**116,003**	**119,142**
		Expenses			
29,690	42,831	Transfer payments and subsidies	8	42,607	28,086
25,711	27,314	Personnel expenses	9	27,775	25,933
5,217	5,465	Depreciation	17	5,294	4,554
49,012	52,478	Other operating expenses	10	52,583	42,693
4,181	3,896	Interest expenses	6	3,754	4,298
5,547	6,418	Insurance expenses	12	6,903	5,812
1,266	5,357	Forecast new operating spending		-	-
(1,400)	(1,075)	Top-down expense adjustment		-	-
119,224	**142,684**	**Total expenses (excluding losses)**		**138,916**	**111,376**
		Gains/(losses)			
-	(1,624)	Net gains/(losses) on large scale asset purchases	6	(3,258)	-
3,290	(4,470)	Net gains/(losses) on financial instruments	6	1,908	4,444
(71)	(1,297)	Net gains/(losses) on non-financial instruments	11	(7,372)	(11,575)
3,219	**(7,391)**	**Total gains/(losses)**		**(8,722)**	**(7,131)**
		Other interests			
273	143	Net surplus from associates and joint ventures		1,193	206
(372)	38	Less minority interests share of operating balance	23	402	(452)
4,650	**(35,491)**	**Operating balance (excluding minority interests)**		**(30,040)**	**389**
372	(38)	Minority interests share of operating balance	23	(402)	452
5,022	**(35,529)**	**Operating balance (including minority interests)**		**(30,442)**	**841**

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 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
		Total Crown expenses		
36,079	50,390	Social security and welfare	49,900	33,902
18,975	20,080	Health	20,469	18,660
15,868	16,686	Education	17,581	15,280
5,589	6,543	Core government services	5,869	4,732
5,369	5,467	Law and order	5,304	5,050
10,184	10,418	Economic and industrial services	11,246	10,433
11,263	12,644	Transport and communications	12,962	8,429
2,532	2,540	Defence	2,482	2,390
1,279	1,385	Environmental protection	1,472	1,108
2,772	2,872	Heritage, culture and recreation	2,904	2,503
2,500	2,685	Primary services	2,430	2,395
2,339	2,580	Housing and community development	2,393	2,020
87	96	GSF pension expenses	87	80
341	120	Other	63	96
4,181	3,896	Finance costs	3,754	4,298
1,266	5,357	Forecast new operating spending	-	-
(1,400)	(1,075)	Top-down expense adjustment	-	-
119,224	**142,684**	**Total Crown expenses (excluding losses)**	**138,916**	**111,376**

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 153.

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
		Core Crown expenses		
30,811	44,373	Social security and welfare	44,028	28,740
19,198	20,104	Health	19,891	18,268
14,919	15,516	Education	16,322	14,293
5,610	6,685	Core government services	6,083	5,166
4,890	5,069	Law and order	4,911	4,625
4,328	3,450	Economic and industrial services	3,988	3,006
3,103	3,723	Transport and communications	3,179	2,889
2,541	2,546	Defence	2,499	2,395
1,281	1,493	Environmental protection	1,485	1,119
1,036	1,148	Primary services	961	960
996	1,054	Heritage, culture and recreation	1,106	918
897	1,080	Housing and community development	1,015	727
73	76	GSF pension expenses	73	66
341	120	Other	63	96
3,454	3,279	Finance costs	3,228	3,691
1,266	5,357	Forecast new operating spending	-	-
(1,400)	(1,075)	Top-down expense adjustment	-	-
93,344	**113,998**	**Total core Crown expenses (excluding losses)**	**108,832**	**86,959**

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 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Note	Actual 30 June 2020 $m	30 June 2019 $m
5,022	**(35,529)**	**Operating balance (including minority interests)**		**(30,442)**	**841**
		Other comprehensive revenue and expense			
-	(34)	Revaluation of physical assets		4,674	12,180
-	634	Share of associates revaluation of physical assets		559	294
-	(257)	Net revaluations of defined benefit retirement plan schemes	21	(1,271)	(2,615)
-	-	Net revaluations of veterans disability entitlements	22	(311)	(784)
8	332	Transfers to/(from) reserves		(48)	(202)
(4)	(33)	(Gains)/losses transferred to the statement of financial performance		(75)	(2)
-	(10)	Foreign currency translation differences on foreign operations		2	(31)
12	(20)	Other movements		(58)	78
16	**612**	**Total other comprehensive revenue and expense**		**3,472**	**8,918**
5,038	**(34,917)**	**Total comprehensive revenue and expense**		**(26,970)**	**9,759**
		Attributable to:			
359	(61)	- minority interests		(341)	943
4,679	(34,856)	- the Crown		(26,629)	8,816
5,038	**(34,917)**	**Total comprehensive revenue and expense**		**(26,970)**	**9,759**

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

Statement of Changes in Net Worth

for the year ended 30 June 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Note	Actual Taxpayer funds $m	Reserves $m	Minority interests $m	Total net worth $m
136,192	**136,223**	**Net worth at 30 June 2018**		**35,440**	**94,863**	**5,920**	**136,223**
271	333	Impact of adoption new consolidated financial statements standard	28	510	(104)	(73)	333
(2,503)	(2,505)	Impact of adoption new employee entitlements standard	28	(2,503)	-	-	(2,503)
133,960	**134,051**	**Adjusted opening net worth**		**33,447**	**94,759**	**5,847**	**134,053**
186	781	Operating balance		389	-	452	841
(33)	12,474	Net revaluations	17	-	11,884	589	12,473
	(2,615)	Revaluation defined benefit retirement plans	21	-	(2,615)	-	(2,615)
(784)	(995)	Revaluation veterans disability entitlements	22	-	(784)	-	(784)
240	(202)	Transfers to/(from) reserves		130	(255)	(77)	(202)
9	(2)	(Gains)/losses transferred to the statement of financial performance		-	(2)	-	(2)
-	(31)	Foreign currency translation differences on foreign operations		-	(21)	(10)	(31)
(24)	79	Other movements		-	17	62	79
(406)	**9,489**	**Total comprehensive revenue and expense**		**519**	**8,224**	**1,016**	**9,759**
(477)	(473)	Transactions with minority interests	23	-	-	(473)	(473)
133,077	**143,067**	**Net worth at 30 June 2019**		**33,966**	**102,983**	**6,390**	**143,339**
5,022	(35,529)	Operating balance		(30,040)	-	(402)	(30,442)
-	600	Net revaluations of physical assets	17	-	5,176	57	5,233
	(257)	Revaluation defined benefit retirement plans	21	-	(1,271)	-	(1,271)
	-	Revaluation veterans disability entitlements	22	-	(311)	-	(311)
8	332	Transfers to/(from) reserves		(692)	652	(8)	(48)
(4)	(33)	(Gains)/losses transferred to the statement of financial performance		-	(75)	-	(75)
-	(10)	Foreign currency translation differences on foreign operations		-	2	-	2
12	(20)	Other movements		(80)	10	12	(58)
5,038	**(34,917)**	**Total comprehensive revenue and expense**		**(30,812)**	**4,183**	**(341)**	**(26,970)**
(508)	(508)	Transactions with minority interests	23	-	-	(426)	(426)
137,680	**106,018**	**Net worth at 30 June 2020**		**3,154**	**107,166**	**5,623**	**115,943**

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

Statement of Cash Flows

for the year ended 30 June 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
		Cash Flows From Operations		
		Cash was provided from		
87,567	80,903	Taxation receipts	83,156	83,017
4,827	5,380	Other sovereign receipts	5,294	5,187
19,075	19,083	Sales of goods and services	18,289	19,764
2,444	2,162	Interest receipts	2,307	2,528
4,450	5,252	Other operating receipts	4,544	4,563
118,363	**112,780**	**Total cash provided from operations**	**113,590**	**115,059**
		Cash was disbursed to		
30,056	42,981	Transfer payments and subsidies	42,945	27,982
76,094	79,538	Personnel and operating payments	77,192	72,079
3,844	3,700	Interest payments	3,849	4,025
1,266	5,357	Forecast new operating spending	-	-
(1,400)	(1,075)	Top-down expense adjustment	-	-
109,860	**130,501**	**Total cash disbursed to operations**	**123,986**	**104,086**
8,503	**(17,721)**	**Net cash flows from operations**	**(10,396)**	**10,973**
		Cash Flows From Investing Activities		
		Cash was provided from		
179	392	Sale of physical assets	616	295
118,836	135,254	Sale of shares and other securities	146,243	102,427
-	43	Sale of intangible assets	42	1
1,758	2,019	Repayment of advances	4,245	2,268
50	-	Sale of investments in associates	-	280
120,823	**137,708**	**Total cash provided from investing activities**	**151,146**	**105,271**
		Cash was disbursed to		
10,213	11,603	Purchase and construction of physical assets	9,687	8,759
120,593	138,568	Purchase of shares and other securities	160,392	98,623
951	967	Purchase of intangible assets	897	792
3,753	5,869	Advances made	5,535	4,170
552	551	Acquisition of investments in associates	286	144
466	212	Forecast new capital spending	-	-
(950)	(1,050)	Top-down capital adjustment	-	-
135,578	**156,720**	**Total cash disbursed to investing activities**	**176,797**	**112,488**
(14,755)	**(19,012)**	**Net cash flows from investing activities**	**(25,651)**	**(7,217)**
(6,252)	**(36,733)**	**Net cash flows from operating and investing activities**	**(36,047)**	**3,756**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
(6,252)	**(36,733)**	**Net cash flows from operating and investing activities**	**(36,047)**	**3,756**
		Cash Flows From Financing Activities		
		Cash was provided from		
198	339	Issue of circulating currency	1,209	437
10,387	27,752	Issue of Government bonds	31,951	8,372
15	3,064	Issue of foreign currency borrowings	2,310	1,876
14,827	39,484	Issue of other New Zealand dollar borrowings	43,730	16,344
25,427	**70,639**	**Total cash provided from financing activities**	**79,200**	**27,029**
		Cash was disbursed to		
6,627	7,386	Repayment and repurchases of Government bonds	24,353	11,908
(9)	6,089	Repayment of foreign currency borrowings	1,118	389
13,013	9,600	Repayment of other New Zealand dollar borrowings	16,364	16,874
524	550	Dividends paid to minority interests	479	504
20,155	**23,625**	**Total cash disbursed to financing activities**	**42,314**	**29,675**
5,272	**47,014**	**Net cash flows from financing activities**	**36,886**	**(2,646)**
(980)	**10,281**	**Net movement in cash**	**839**	**1,110**
21,768	20,248	Opening cash balance	20,248	18,894
5	967	Foreign-exchange gains/(losses) on opening cash	840	244
20,793	**31,496**	**Closing cash balance**	**21,927**	**20,248**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m	Reconciliation Between the Net Cash Flows from Operations and the Operating Balance	Actual 30 June 2020 $m	30 June 2019 $m
8,503	**(17,721)**	**Net Cash Flows from Operations**	**(10,396)**	**10,973**
		Gains/(losses) and other interests		
-	(1,624)	Net gains/(losses) on large scale asset purchases	(3,258)	-
3,290	(4,470)	Net gains/(losses) on financial instruments	1,908	4,444
(71)	(1,297)	Net gains/(losses) on non-financial instruments	(7,372)	(11,575)
273	143	Net surplus from associates and joint ventures	1,193	206
372	(38)	Minority interests share of operating balance	(402)	452
3,864	**(7,286)**	**Total gains/(losses) and other interests**	**(7,931)**	**(6,473)**
		Other Non-cash Items in Operating Balance		
(5,217)	(5,465)	Depreciation	(5,294)	(4,554)
(789)	(1,071)	Amortisation and impairment of non-financial assets	(2,375)	(934)
(1,072)	(610)	Cost of concessionary lending	(1,279)	(763)
(21)	(4)	Impairment of financial assets (excl receivables)	(53)	(41)
-	-	Reversal of Rail network impairment	-	2,576
(733)	(1,568)	Change in accumulating insurance expenses	(2,351)	(1,768)
(1,305)	29	Other non-cash items	453	(966)
(9,137)	**(8,689)**	**Total other non-cash items in operating balance**	**(10,899)**	**(6,450)**
		Movements in Working Capital		
758	524	Increase/(decrease) in receivables	631	4,168
218	14	Increase/(decrease) in accrued interest	21	37
334	65	Increase/(decrease) in inventories	254	175
12	152	Increase/(decrease) in prepayments	108	36
(40)	(260)	Decrease/(increase) in deferred revenue	(68)	(97)
582	207	Change in accumulating pension expenses	(804)	571
(444)	(2,497)	Decrease/(increase) in payables/provisions	(956)	(2,551)
1,420	**(1,795)**	**Total movements in working capital**	**(814)**	**2,339**
4,650	**(35,491)**	**Operating balance (excluding minority interests)**	**(30,040)**	**389**

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

Statement of Financial Position

as at 30 June 2020

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Note	Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Assets			
20,793	31,496	Cash and cash equivalents		21,927	20,248
21,317	25,918	Receivables	13	24,743	23,327
38,621	48,974	Marketable securities, deposits and derivatives in gain	14	61,005	43,616
41,623	31,112	Share investments	15	33,791	39,552
3,777	4,759	Investments in controlled enterprises	15	4,220	3,688
34,107	37,459	Advances	16	37,629	33,690
1,751	1,584	Inventory		1,773	1,517
2,863	3,193	Other assets		3,610	2,828
169,151	185,382	Property, plant & equipment	17	186,502	177,625
14,931	13,694	Equity accounted investments	18	14,308	14,650
4,375	3,922	Intangible assets and goodwill		3,892	3,911
924	212	Forecast new capital spending		-	-
(2,200)	(1,050)	Top-down capital adjustment		-	-
352,033	**386,655**	**Total assets**		**393,400**	**364,652**
		Liabilities			
6,807	7,151	Issued currency		8,022	6,813
12,847	17,203	Payables	19	16,971	16,742
2,428	2,778	Deferred revenue		2,590	2,523
118,005	164,799	Borrowings	20	152,717	110,248
50,610	60,533	Insurance liabilities	12	66,690	58,216
10,971	12,972	Retirement plan liabilities	21	13,983	13,179
12,685	15,201	Provisions	22	16,484	13,592
214,353	**280,637**	**Total liabilities**		**277,457**	**221,313**
137,680	**106,018**	**Total assets less total liabilities**		**115,943**	**143,339**
		Net Worth			
38,815	(519)	Taxpayer funds		3,154	33,966
94,603	106,941	Property, plant and equipment revaluation reserve	17	112,334	106,495
(872)	(2,872)	Defined benefit retirement plan reserve	21	(3,886)	(2,615)
(784)	(3,500)	Veterans disability entitlements reserve		(1,095)	(784)
84	43	Other reserves		(187)	(113)
131,846	**100,093**	**Total net worth attributable to the Crown**		**110,320**	**136,949**
5,834	5,925	Net worth attributable to minority interests	23	5,623	6,390
137,680	**106,018**	**Total net worth**		**115,943**	**143,339**

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

Statement of Segments

Current Year Actual vs Estimated Actuals (Budget 2020)

	Core Crown		Crown entities		State-owned Enterprises		Inter-segment eliminations		Total Crown	
	Actual 2020 $m	Forecast Budget 2020 $m	Actual 2020 $m	Forecast Budget 2020 $m	Actual 2020 $m	Forecast Budget 2020 $m	Actual 2020 $m	Forecast Budget 2020 $m	Actual 2020 $m	Forecast Budget 2020 $m
Revenue										
Taxation revenue	85,102	82,330	-	-	-	-	(581)	(742)	84,521	81,588
Other sovereign revenue	2,120	2,148	5,688	5,535	-	-	(1,539)	(1,557)	6,269	6,126
Revenue from core Crown funding	-	-	34,107	33,070	441	383	(34,548)	(33,453)	-	-
Sales of goods and services	1,553	1,617	2,400	2,399	15,100	15,851	(616)	(671)	18,437	19,196
Interest revenue	850	969	947	920	953	996	(450)	(445)	2,300	2,440
Other revenue	2,298	2,410	3,463	3,995	906	992	(2,191)	(2,344)	4,476	5,053
Total Revenue (excluding gains)	**91,923**	**89,474**	**46,605**	**45,919**	**17,400**	**18,222**	**(39,925)**	**(39,212)**	**116,003**	**114,403**
Expenses										
Transfer payments and subsidies	43,616	43,828	-	-	-	-	(1,009)	(997)	42,607	42,831
Personnel expenses	8,480	8,469	16,317	15,702	3,023	3,182	(45)	(39)	27,775	27,314
Other operating expenses	53,508	54,144	34,177	32,836	14,199	13,992	(37,104)	(36,611)	64,780	64,361
Interest expenses	3,228	3,275	164	173	901	980	(539)	(532)	3,754	3,896
Forecast new operating spending	-	5,357	-	-	-	-	-	-	-	5,357
Top-down expense adjustment	-	(1,075)	-	-	-	-	-	-	-	(1,075)
Total Expenses (excluding losses)	**108,832**	**113,998**	**50,658**	**48,711**	**18,123**	**18,154**	**(38,697)**	**(38,179)**	**138,916**	**142,684**
Gains/(losses) and other items	(3,974)	(6,737)	(3,143)	(2,091)	382	(15)	(392)	1,633	(7,127)	(7,210)
Operating Balance (excluding minority interests)	**(20,883)**	**(31,261)**	**(7,196)**	**(4,883)**	**(341)**	**53**	**(1,620)**	**600**	**(30,040)**	**(35,491)**
Assets										
Financial assets	120,269	120,451	63,239	58,064	30,005	28,886	(30,198)	(27,683)	183,315	179,718
Property, plant and equipment	45,167	44,819	101,509	100,188	39,828	40,376	(2)	(1)	186,502	185,382
Investments in associates, CEs and SOEs	49,605	50,483	12,856	12,210	562	531	(48,715)	(49,530)	14,308	13,694
Other assets	4,780	4,135	2,080	1,921	2,608	2,740	(193)	(97)	9,275	8,699
Forecast adjustments	-	(838)	-	-	-	-	-	-	-	(838)
Total Assets	**219,821**	**219,050**	**179,684**	**172,383**	**73,003**	**72,533**	**(79,108)**	**(77,311)**	**393,400**	**386,655**
Liabilities										
Borrowings	126,341	138,749	11,111	11,500	36,002	35,017	(20,737)	(20,467)	152,717	164,799
Other liabilities	46,364	43,241	79,891	71,865	8,923	9,185	(10,438)	(8,453)	124,740	115,838
Total Liabilities	**172,705**	**181,990**	**91,002**	**83,365**	**44,925**	**44,202**	**(31,175)**	**(28,920)**	**277,457**	**280,637**
Net Worth	**47,116**	**37,060**	**88,682**	**89,018**	**28,078**	**28,331**	**(47,933)**	**(48,391)**	**115,943**	**106,018**
Cost of Acquisition of Physical Assets (Cash)	**2,739**	**2,867**	**4,906**	**6,185**	**2,042**	**2,550**	**-**	**1**	**9,687**	**11,603**

Statement of Segments (continued)

	Current Year Actual vs Prior Year Actual									
	Core Crown		Crown entities		State-owned Enterprises		Inter-segment eliminations		Total Crown	
	Actual 2020 $m	Actual 2019 $m	Actual 2020 $m	Actual 2019 $m	Actual 2020 $m	Actual 2019 $m	Actual 2020 $m	Actual 2019 $m	Actual 2020 $m	Actual 2019 $m
Revenue										
Taxation revenue	85,102	86,468	-	-	-	-	(581)	(745)	84,521	85,723
Other sovereign revenue	2,120	1,977	5,688	5,588	-	-	(1,539)	(1,537)	6,269	6,028
Revenue from core Crown funding	-	-	34,107	30,602	441	216	(34,548)	(30,818)	-	-
Sales of goods and services	1,553	1,583	2,400	2,224	15,100	16,533	(616)	(544)	18,437	19,796
Interest revenue	850	1,060	947	1,016	953	1,014	(450)	(444)	2,300	2,646
Other revenue	2,298	2,386	3,463	3,845	906	873	(2,191)	(2,155)	4,476	4,949
Total Revenue (excluding gains)	**91,923**	**93,474**	**46,605**	**43,275**	**17,400**	**18,636**	**(39,925)**	**(36,243)**	**116,003**	**119,142**
Expenses										
Transfer payments and subsidies	43,616	29,015	-	-	-	-	(1,009)	(929)	42,607	28,086
Personnel expenses	8,480	7,794	16,317	15,085	3,023	3,096	(45)	(42)	27,775	25,933
Other operating expenses	53,508	46,460	34,177	29,528	14,199	10,945	(37,104)	(33,874)	64,780	53,059
Interest expenses	3,228	3,690	164	117	901	1,045	(539)	(554)	3,754	4,298
Total Expenses (excluding losses)	**108,832**	**86,959**	**50,658**	**44,730**	**18,123**	**15,086**	**(38,697)**	**(35,399)**	**138,916**	**111,376**
Gains/(losses) and other items	(3,974)	3,192	(3,143)	(7,726)	382	(187)	(392)	(2,656)	(7,127)	(7,377)
Operating Balance (excluding minority interests)	**(20,883)**	**9,707**	**(7,196)**	**(9,181)**	**(341)**	**3,363**	**(1,620)**	**(3,500)**	**(30,040)**	**389**
Assets										
Financial assets	120,269	107,288	63,239	57,604	30,005	27,624	(30,198)	(28,395)	183,315	164,121
Property, plant and equipment	45,167	43,684	101,509	93,731	39,828	40,210	(2)	-	186,502	177,625
Investments in associates, CEs and SOEs	49,605	46,602	12,856	13,682	562	290	(48,715)	(45,924)	14,308	14,650
Other assets	4,780	3,850	2,080	1,795	2,608	2,682	(193)	(71)	9,275	8,256
Total Assets	**219,821**	**201,424**	**179,684**	**166,812**	**73,003**	**70,806**	**(79,108)**	**(74,390)**	**393,400**	**364,652**
Liabilities										
Borrowings	126,341	91,510	11,111	6,931	36,002	32,563	(20,737)	(20,756)	152,717	110,248
Other liabilities	46,364	41,370	79,891	69,507	8,923	9,315	(10,438)	(9,127)	124,740	111,065
Total Liabilities	**172,705**	**132,880**	**91,002**	**76,438**	**44,925**	**41,878**	**(31,175)**	**(29,883)**	**277,457**	**221,313**
Net Worth	**47,116**	**68,544**	**88,682**	**90,374**	**28,078**	**28,928**	**(47,933)**	**(44,507)**	**115,943**	**143,339**
Cost of Acquisition of Physical Assets (Cash)	**2,739**	**2,677**	**4,906**	**4,295**	**2,042**	**1,787**	**-**	**-**	**9,687**	**8,759**

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.

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.

These financial statements have therefore 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).

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 5 November 2020.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2020.

Where necessary, the financial information for State-owned Enterprises (SOE) 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. Entities with a differing reporting date are listed on page 172.

Basis of preparation

These financial statements have been prepared on the basis of historical cost modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the Statement of Cash Flows). The financial statements are presented in New Zealand dollars rounded to the nearest million, unless separately identified.

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 2019 were 2020 forecasts published in the *2019 Budget Economic and Fiscal Update*. These forecasts and 2019 Actual balances were restated to reflect the changes in accounting policies related to adoption of new accounting standards PBE IPSAS 35 *Consolidated Financial Statements* and PBE IPSAS 39 *Employee Benefits.* For more details refer to Note 28: *Restatement of Comparative Figures.*

Comparatives referred to as Budget 2020 were 2020 forecasts published in the *2020 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 budgets 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 budgets to provide for the operating balance impact of policy initiatives, changes to demographics, and other forecasting changes expected to occur over the forecast period. The top-down adjustment is an adjustment to expenditure budgets 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 Government 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. Investments in Crown Entities and SOE's 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 on 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

In March 2019, PBE IPSAS 41 *Financial Instruments* was issued. This new standard will supersede PBE IFRS 9 *Financial Instruments* and is effective for reporting periods beginning on or after 1 Jan 2022. This new standard is based on IPSAS 41 *Financial Instruments*, prepared by the IPSASB, and is substantially converged with IFRS 9 *Financial Instruments* prepared by the IASB. As a consequence of the identical, or almost identical, requirements in PBE IFRS 9 and PBE IPSAS 41, any impact on these financial statements from PBE IPSAS 41 is likely to be minimal.

Government Reporting Entity as at 30 June 2020

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.

Note 1: Basis of Reporting (continued)

Basis of combination

These financial statements consolidate the following entities into the Government reporting entity:

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 Universities and Wānanga)
- Air New Zealand Limited
- Regenerate Christchurch
- Christ Church Cathedral Reinstatement Trust
- Kiwi Group Holdings Limited
- Venture Capital Fund
- 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 and City Rail Link Limited (listed in Schedule 4A of the Public Finance Act 1989), Regenerate Christchurch and the entities listed in Schedule 5 of the Public Finance Act 1989 (Mixed ownership model companies).

Corresponding assets, liabilities, revenue and expenses, are added together line by line (with the exception of the New Zealand Superannuation Fund investments in controlled enterprises). 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.

Universities and Wānanga are equity-accounted as explained in note 18.

On 1 April 2020 the New Zealand Institute of Skills and Technology (NZIST) was established and through an amalgamation took control of 16 former Institutes of Technology and Polytechnics (ITPs). Prior to 1 April 2020, the ITPs were equity accounted for the same reasons as the current treatment of Universities and Wānanga. At 1 April 2020, $2,616 million was derecognised from equity accounted investments and recognised on a line-by-line consolidation at the carrying value at the date of amalgamation. There were no changes to the Government's net worth position on transition. The reduction of $2,616 million in equity accounted investments was offset by an increase in assets and liabilities of $3,097 million and $481 million respectively.

As a consequence of the agreements with Auckland Council, City Rail Link Limited (CRL) is reported as a jointly controlled entity in these financial statements and is, therefore, equity accounted. This treatment recognises the government share of CRL's net assets, including asset revaluation movements, surpluses and deficits.

These financial statements adopted PBE IPSAS 35 *Consolidated Financial Statements* from 1 July 2019. In accordance with PBE IPSAS 35 the New Zealand Superannuation Fund is consolidated as an investment entity rather than on the previous line-by-line basis. As a consequence, any controlling interests the New Zealand Superannuation Fund has invested in are reported on a fair value basis and shown as a single line item Investments in controlled enterprises in the Statement of Financial Position. The New Zealand Superannuation Fund is an investment entity as its purpose is to invest funds solely for returns from capital appreciation and investment revenue, with investments being measured on a fair value basis.

In July 2019, PBE IPSAS 40 *PBE Combinations* was issued. This standard has been early adopted this year and was applied to the accounting for the amalgamation of 16 former ITPs when NZIST was established 1 April 2020. This new standard has a broader scope than PBE IFRS 3 *Business Combinations* since it establishes requirements for accounting for both acquisitions and amalgamations. A PBE combination is the bringing together of separate operations into one public benefit entity, which might occur by mutual agreement or by compulsion (for example by legislation).

Note 1: Basis of Reporting (continued)

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 – (includes National Emergency Management Agency as a departmental agency)
Education Review Office
Government Communications Security Bureau
Inland Revenue Department
Land Information New Zealand
Ministry for Culture and Heritage
Ministry for 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 – (includes Cancer Control Agency as a departmental agency)
Ministry of Housing and Urban Development
Ministry of Justice – (includes Te Arawhiti – Office for Māori Crown Relations as a departmental agency)
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 Wellbeing Agency as a departmental agency)
Statistics New Zealand
Te Kāhui Whakamana Rua Tekau mā Iwa – Pike River Recovery Agency
Te Puni Kōkiri (Ministry of Māori Development)
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

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
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)

Note 1: Basis of Reporting (continued)

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
Climate Change Commission
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
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
Human Rights Commission
Independent Police Conduct Authority
Kāinga Ora – Homes and Communities
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 Infrastructure Commission/Te Waihanga
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 Growth Capital Partners (previously New Zealand Venture Investment Fund Limited)
New Zealand Infrastructure Commission/Te Waihanga
New Zealand Institute of Skills and Technology
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,420)
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

Note 1: Basis of Reporting (continued)

Crown entities Segment (continued)

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

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

Education Payroll Limited

Ōtākaro Limited

New Zealand Green Investment Finance Limited

Predator Free 2050 Limited

Provincial Growth Fund 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

Regenerate Christchurch

Christ Church Cathedral Reinstatement Trust

Venture Capital Fund

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

Crown Entities

8 Universities and 3 Wānanga

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

City Rail Link Limited

Subsidiaries of SOEs, Crown Entities and other government entities are consolidated by entities listed above and are 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 2020, 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 about the future, in particular, the service benefits and future cash flows in relation to existing assets and liabilities and judgements in the application of accounting policies.

Individual note disclosures show the sensitivity of the values reported in respect of relevant assumptions.

Use of observable market transactions or market information

In making these assumptions and judgements, observable market transactions or market information are used where these are available. If they are not available, assumptions are necessary to price the assets or liabilities, including assumptions about risk.

	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 represents 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.
Property prices	That current property prices, determined using market evidence, provide the most relevant basis on which to value land and buildings (unless it is a specialised asset where optimised depreciated replacement cost will be used).
Depreciation rates	That the economic useful life of assets (used to determine depreciation rates) will approximate the life of the asset which is determined using a combination of engineering and historical evidence.
Asset 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 and assumed not to be replaced. Otherwise, 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.
Carbon price	That the carbon price, determined by the Ministry for the Environment based on the quoted New Zealand Unit 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.

Assumptions over future cash flows

The assumptions over future cash flows largely reflect the rights and obligations that exist at 30 June 2020 and the extent to which experience has shown that payments owing to the Government will be honoured, and when and the extent that obligations owed by the Government will come due.

Judgements around the amount and duration of future cash flows are critical for valuations. 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. Some examples of these are the length of rehabilitation from injuries for the ACC obligation; mortality rates for the GSF obligation and repayment rates of student loans and the small business cashflow (loan) scheme (SBCS).

Note 2: Key Assumptions and Judgements (continued)

Assumptions over the future value of money

A large amount of future cash outflows will occur a long time in the future, in particular those associated with outstanding ACC claims, defined retirement benefits, and veterans' disability entitlements. To reflect the time value of money and reflect these obligations for future cash flows in present value terms, a risk-free discount rate is applied to long term liabilities.

To ensure consistency across accounting valuations reported in these financial statements, the Treasury produces a central table of risk-free discount rates and consumer price index (CPI) inflation assumptions that are applied to obligations valued in present value terms. The methodology adopted to determine the table of risk-free discount rates is fully explained in www.treasury.govt.nz on the page: *Discount Rates and CPI Assumptions for Accounting Valuation Purposes*. In summary, the risk-free discount rate methodology uses the market yield curve of New Zealand Government Bonds as the most appropriate proxy for the return on a very safe asset (which covers around 15 – 20 years of future cash flows to be present-valued). For valuing cash flows beyond this timeframe, the methodology assumes a single long-term risk-free rate (4.30% nominal, and 2.30% real after inflation expectations) and a bridging assumption to determine a gradual line between the market yields and the long-term rate.

Determining the nominal amounts to be settled or received in the future is likely to be impacted by inflation which is specific to the liability or asset being measured. The Treasury publishes centrally the CPI inflation assumption (based on references to CPI forecasts and inflation-indexed bonds), but each valuation will need to consider the appropriate inflation index to use relative to CPI.

The discount rate and CPI assumption are particularly sensitive to changes in interest rates and CPI expectations. They are used as a building block for the valuation of other items in the balance sheet. For example, the discount rate is risk-adjusted for student loans to reflect their risks, and an additional health related inflation is superimposed for the ACC liability.

Discount rates	Risk free discount rate: From 0.22% for the first year up to 4.3% for the 63rd year
CPI Inflation	From 0.83% in 2021 up to 2.00% in 2083

Note 2: Key Assumptions and Judgements (continued)

Specific accounting estimates and assumptions

Financial statement item	Judgements and Impact on assumptions	Note
Tax revenue and 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 provisional or 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. Key features of the estimation used include: • Where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment for the period, provisional tax assessments are accrued based on the provisional tax method adopted by the taxpayer. • Where taxpayers have made payments to the Inland Revenue Department (IRD) but have not submitted a provisional tax assessment for the period or where the payment is more than the provisional tax assessment submitted, their credit balance is accrued as revenue; and, • For taxpayers not subject to provisional tax, an estimate is made of the tax revenues receivable and refundable based on prior year returns.	3, 4 and 13
Advances	The student loan and small business cashflow (loan) schemes are concessionary loan schemes included in advances and are carried at fair value. As fair value is the amount that the loans could theoretically be sold into the market where unrelated buyers and sellers would set a price that reflects both the concessions (ie, below market terms such as interest-free) and the risk of borrowers defaulting, a number of assumptions need to be applied for financial reporting. The valuation of student loans is based on a number of key assumptions that include employment rates, salary inflation growth and market interest rates. The valuation is completed using actuarial and predictive models to project future repayments, before they are discounted to today's dollars. Different assumptions apply to New Zealand-based borrowers (where repayments are automatically made from borrowers' wages and salaries through the tax system) from ones applied to borrowers who are living overseas (where repayments are based on the size of the loan balance outstanding). The key assumptions in determining the fair value of SBCS are the timing of principal and interest repayments and the default rate. Repayments are not required for the first two years, but voluntary payments can still be made over that period. The most critical assumption is the default rate which has been explicitly modelled for each industry sector and cross-checked with reference to market discount rates. A third cross-check was provided by applying bank capital requirements and a risk weighted assets assumption to estimate the regulatory capital required for a bank owning these loans. This has enabled the calculation of an estimate of the fair value of the loans that a New Zealand commercial bank would likely adopt.	3 and 16

Financial statement item	Judgements and Impact on assumptions	Note
Property, plant and equipment	In accordance with the accounting policies of these financial statements, valuations of property, plant and equipment, where there was a valuation due in the valuation cycle, or material change in value, were updated as at 30 June 2020 to reflect their fair value. Significant assumptions underlying these valuations are as follows: *Electricity generation assets* – The assets are made up mainly of hydro, thermal stations and wind farms owned by mixed ownership model entities. The judgements and assumptions primarily relate to future revenue streams (eg, wholesale electricity prices, generation volumes) and operating expenses, as well as the discount rate used to calculate the present value of those revenues and expenses. Assumptions and sensitivity analyses are in note 17. The key assumptions are subject to significant uncertainty and are based on unobservable market data, such as growth expectations within various sectors of the economy, planned capital projects and varying risk factors. The assumptions interact dynamically with each other. For example, wholesale electricity prices can affect the amount of generation volumes and operating costs. *State highway network valuation* – There are necessary 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 and sensitivity analysis are set out in note 17. *Aircraft (excluding military aircraft)* – Aircraft were revalued at 30 June 2020 based on the sale value of aircraft.	3 and 17

Other uncertainties

In addition to those items in the statement of financial position there are a number of possible assets or liabilities that may arise in the future but are not currently recognised. This is because they are dependent on uncertain future events occurring or the asset/liability cannot be measured reliably at this point. If these contingencies crystallise, there will be an impact on the operating balance and net worth of these financial statements. These contingencies are reported in note 26 of these financial statements.

Note 3: Impact of the COVID-19 pandemic

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19 which has impacted the global economy and created uncertainty in global markets.

The economic impact of the COVID-19 pandemic, coupled with the Government's response, has had a significant impact on the Government's fiscal performance and fiscal position for the year ended 30 June 2020. The impacts on the Government's finances can be broadly grouped into the following categories:

- Government fiscal support measures
- monetary policy measures, and
- economic impacts.

Government Fiscal Support Measures (Fiscal Policy)

The majority of the fiscal impact in the 2019/20 fiscal year, from the Government's fiscal support measures, are reported through operating expenses. However, there are also some measures that are reported through revenue and advances. Overall, total Crown expenses were $138,916 million, an increase of $27,540 million from the 2018/19 fiscal year, with a large portion of this increase attributable to the Government's fiscal support measures.

At Budget 2020, the Government signalled funding of $62 billion over a five-year period (2019/20 to 2023/24) for the response to and recovery from the COVID-19 pandemic. This consisted of a $12 billion initial package to support New Zealanders (announced on 17 March 2020) and the establishment of the COVID-19 Response and Recovery Fund (CRRF) of $50 billion. Given the significant social and economic disruptions caused by the COVID-19 pandemic, the Government has made a large number of funding decisions from March to June 2020 that have impacted on the 2019/20 fiscal year. Further details on individual decisions that impact on the 2019/20 fiscal year can be found in the *Addition to the Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2020* and the *Summary of Initiatives in the COVID-19 Response and Recovery Fund (CRRF) Foundational Package*.

The Government's fiscal support measures implemented in the 2019/20 fiscal year have been mainly focussed on cushioning the impact on the domestic economy, protecting jobs and supporting New Zealand's health response.

Although a large amount of funding was allocated by the Government for the 2019/20 fiscal year, the actual fiscal impact from these decisions reflected in these financial statements was much lower. The main reason for the difference is that the uptake for a number of measures has been less than expected. The most fiscally material decisions are outlined in the below table with the actual amount recognised in 2019/20.

	Actual			
	Operating 2020 $m	Capital 2020 $m	Total 2020 $m	Allocated 2020 $m
Cost of Fiscal Support Measures				
Wage Subsidy Scheme	12,095	-	12,095	15,200
Small Business Cashflow (Loan) Scheme	686	1,423	2,109	5,200
Tax loss carry-back	83	-	83	1,200
Tertiary Education Grant Funding	1,098	-	1,098	1,186
Business Finance Guarantee Scheme	20	-	20	546

Wage Subsidy Scheme

The wage subsidy scheme was introduced to support employers adversely affected by the COVID-19 pandemic. This meant employers could continue to pay their employees and support workers to ensure they continue to receive an income, and stay connected to their employer, even if they are unable to work their normal hours. The payments under the scheme are reported as transfer payments and subsidies (note 8). As there is only a small delay between the application and payment dates there is little estimation uncertainty around the amounts reported in the financial statements. The amount reported includes refunds of wage subsidy payments which as at 30 June 2020 total $230 million, $94 million of this has not been received.

Note 3: Impact of the COVID-19 pandemic (continued)

Small Business Cashflow (Loan) Scheme

The SBCS was introduced to support businesses and organisations affected by a loss of actual or predicted revenue impacting their cashflow as a result of the COVID-19 pandemic. The value of lending by the Government is reported in the advances note (note 16). The loans under the SBCS are reported at fair value. The key assumptions in determining the fair value are the timing of principal and interest repayments and the expected default rate over the five-year loan term.

Tax Loss Carry-back

Businesses expected to make a loss in either the 2019/20 year or the 2020/21 year are able to estimate the loss and use it to offset profits from past years. The impact from using this policy is reported as a reduction in tax revenue (note 4).

Tertiary Education Grant Funding

Funding is guaranteed for tertiary education organisations for the 2020 teaching calendar year, regardless of the impact on domestic student numbers from the COVID-19 pandemic. The funding provided to Universities and Wānanga is reported as other operating expenses – grants and subsidies (note 10). However, as Universities and Wānanga are treated as equity accounted investments there has been a significant uplift in their reported net surplus in 2019/20 (note 18). As these items offset there is no overall impact on the operating balance and net worth.

Business Finance Guarantee Scheme

The scheme supports the provision of bank loans to businesses where 80% of the value of the loans are indemnified. The indemnities under the scheme are initially reported at fair value as a financial guarantee contract and included as part of other provisions (note 22).

Other measures that have impacted expenses in 2019/20 include increases in health funding, a permanent increase in a range of benefits by $25 per week from 1 April 2020 (eg, jobseeker support), the temporary doubling of the rate of the Winter Energy Payment from 1 May 2020 and the introduction of the essential workers leave scheme through alert level 4 lockdown. The Government has also provided a loan facility of $900 million to Air New Zealand, which remained undrawn as at 30 June 2020.

Monetary Policy Measures

The Reserve Bank has used monetary policy measures such as reducing the Official Cash Rate (OCR) and commencing the Large Scale Asset Purchase (LSAP) programme to inject money into the economy to lower borrowing costs to households and businesses.

Under the LSAP programme, the Reserve Bank has purchased, off the secondary market, as at 30 June 2020, $21,025 million New Zealand Government Bonds (NZGBs) and $964 million Local Government Funding Agency (LGFA) bonds. The LSAP programme's impact on the consolidated financial statements can be broadly summarised as follows:

- a loss of $3,258 million is reported in the Statement of Financial Performance (note 6). The loss represents the difference between the Reserve Banks' purchase price of NZGBs (driven by the market price on purchase date) and the NZGBs liability (valued at amortised cost)
- an increase in settlement deposits with Reserve Bank (note 20) to fund the LSAP programme
- the elimination of NZGBs liabilities that were purchased by the Reserve Bank from the market as these bonds are no longer held by third parties
- the recognition of LGFA bonds in marketable securities at fair value, and
- the benefit of lower borrowing rates as the fixed interest rate payable on the NZGBs is replaced by the lower floating OCR rate (currently 0.25%) payable on settlement deposits (note 6).

The above measures have significantly contributed to the operating balance deficit of $30,442 million reported for the year ended 30 June 2020. Where applicable, in order to finance the operating deficit the Government has increased borrowings. Overall, borrowings were $152,717 million at 30 June 2020, an increase of $42,469 million from the 2018/19 fiscal year.

Note 3: Impact of the COVID-19 pandemic (continued)

Economic Impacts

The COVID-19 pandemic has resulted in a significant deterioration in economic conditions, with Statistics New Zealand reporting GDP shrinking by 12.2% over the June 2020 quarter. The value of some of the revenue, expenses, assets and liabilities in the reported financial statements are underpinned by the prevailing economic conditions.

Tax revenue

The level of economic activity is a significant driver of the amount of tax revenue reported in any given year. The impact of the COVID-19 pandemic on economic activity through alert levels and border restrictions has influenced a number of tax types in the 2019/20 fiscal year. Of particular note:

- a reduction in private consumption and overseas tourism spending has impacted GST revenue
- lower than expected taxable income for businesses has impacted on corporate and other persons tax, and
- a drop in interest rates as a result of the Reserve Bank's monetary policy measures impact the revenue earned on resident withholding tax (RWT) on interest.

Most of the tax revenue reported in a fiscal year is received from taxpayers in the same year, however some estimations at 30 June 2020 are still required. The economic impact of the COVID-19 pandemic has affected some assumptions used to estimate tax revenue, in particular, tax revenue subject to the provisional tax regime (note 4).

To recognise the impact of the COVID-19 pandemic on estimates of taxable income, which is not yet reflected in information from taxpayers available to IRD, a downward adjustment to tax revenue has been made using the most recent macro-economic forecasts prepared by the Treasury, which allows for the impact of the COVID-19 pandemic on taxes receivable.

Sales of goods and services

A number of Government reporting entities have experienced a fall in revenue compared to the previous year. Overall, total sales of goods and services were $18,437 million, a decrease of $1,359 million from the 2018/19 fiscal year. The majority of the decrease is attributable to Air New Zealand due to the extensive travel and border restrictions which commenced from March 2020. In addition, a number of other travel related services (eg, passports, border security) provided by the Government have been adversely impacted.

Transfer payments and subsidies

The level of wage growth and employment rates are key factors in determining the amount the Government pays out for a number of benefit types. The labour market has held up in the June 2020 quarter, which is likely a result of the fiscal support measures such as the wage subsidy scheme.

Valuation of financial assets

The weaker economic conditions have created greater uncertainty around the collectability of some financial assets. As a result, the 2019/20 financial statements include an increase in expenses for impairment of financial assets (note 10) and a valuation loss on student loans (note 6). In addition, the valuation for marketable securities and share investment rely on market prices. While markets have remained open, active and liquid through the COVID-19 pandemic, market prices have been volatile.

Valuation of property, plant and equipment

A significant portion of property, plant and equipment assets are reported at current values, either fair value or optimised depreciated replacement cost. There are a range of valuation methods used to calculate fair value which will be underpinned by key assumptions. The economic impact of the COVID-19 pandemic on these assumptions has been considered in determining the fair value as at 30 June 2020. One of the most significant valuation impacts is in the aviation sector where the value of aircraft assets has reduced (note 17). In addition, a number of valuers have identified that while prices have not been significantly impacted by the COVID-19 pandemic, there is limited market evidence available post the COVID-19 pandemic lockdown period. Valuers have signalled that illiquidity in property markets at the time of the valuations may be a short-term issue or a longer-term concern. Consequently, a delay is expected in establishing transactional evidence to demonstrate adjustments from pre-pandemic values with certainty.

Valuation of long-term non-financial liabilities

A number of significant liabilities are valued at 30 June 2020 by discounting future payments to today's dollars using the risk free-discount rate (eg, ACC outstanding claims, defined retirement benefits and veterans' disability entitlements). These valuations are very sensitive to discount rate changes because future payments extend for many years. Interest rates had fallen prior to the economic impacts of the COVID-19 pandemic, but they have continued to fall, particularly as a result of monetary policy measures in response to the COVID-19 pandemic. When interest rates fall, the present value of these liabilities increases (notes 12, 21 and 22).

Note 4: Sovereign Revenue

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Direct Income Tax Revenue		
		Individuals		
34,731	34,611	Source deductions	34,963	32,879
7,149	6,974	Other persons	7,128	7,663
(1,937)	(1,967)	Refunds	(1,887)	(2,429)
585	591	Fringe benefit tax	593	585
40,528	**40,209**	**Total individuals**	**40,797**	**38,698**
		Corporate Tax		
14,074	11,275	Gross companies tax	11,958	14,892
(218)	(262)	Refunds	(424)	(343)
648	580	Non-resident withholding tax	570	650
14,504	**11,593**	**Total corporate tax**	**12,104**	**15,199**
		Other Direct Income Tax		
1,675	1,530	Resident withholding tax on interest revenue	1,529	1,659
796	715	Resident withholding tax on dividend revenue	828	838
2,471	**2,245**	**Total other direct income tax**	**2,357**	**2,497**
57,503	**54,047**	**Total direct income tax**	**55,258**	**56,394**
		Indirect Income Tax Revenue		
		Goods and Services Tax		
37,696	32,777	Gross goods and services tax	35,861	35,860
(14,334)	(12,769)	Refunds	(14,112)	(13,998)
23,362	**20,008**	**Total goods and services tax**	**21,749**	**21,862**
		Other Indirect Taxation		
2,083	1,909	Petroleum fuels excise and duty[1]	1,877	1,982
1,969	2,189	Tobacco excise and duty[1]	2,168	1,980
1,799	1,624	Road user charges	1,716	1,673
1,100	1,085	Alcohol excise and duty[1]	1,064	1,086
177	177	Other customs duty	164	172
548	549	Miscellaneous indirect taxation	525	574
7,676	**7,533**	**Total other indirect taxation**	**7,514**	**7,467**
31,038	**27,541**	**Total indirect taxation**	**29,263**	**29,329**
88,541	**81,588**	**Total taxation revenue**	**84,521**	**85,723**
		Other Sovereign Revenue		
2,938	2,911	ACC levies	3,032	3,014
1,055	1,138	Emission trading revenue	1,043	846
588	591	Fire and emergency levies	596	579
440	445	EQC levies	446	387
225	229	Child support and working for families penalties	254	225
104	115	Court fines	134	124
677	697	Other miscellaneous items	764	853
6,027	**6,126**	**Total other sovereign revenue**	**6,269**	**6,028**
94,568	**87,714**	**Total sovereign revenue**	**90,790**	**91,751**

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

Note 4: 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

Tax revenue represents revenue for the year ended 30 June 2020 based on the revenue recognition point described in the table above. While most of this revenue is also received in cash in the same financial year, these financial statements include tax revenue of $13,238 million based on tax estimates and assessments that are not due to be paid until after 30 June 2020. This amount owing is reported in Tax Receivables (note 13).

Estimation of tax revenue affects mainly direct income tax (both other persons and corporate tax) and makes up about half of the $13,238 million of estimates and assessments at 30 June 2020. Accruing income tax revenue requires a significantly higher degree of estimation compared to tax revenue from GST or source deductions (eg, PAYE). While most taxpayers pay annual income tax in instalments using the provisional tax regime, final income tax owed (or tax refunds due) for a year is only known with reasonable certainty when the taxpayer files a terminal tax assessment for that period. For example, the final terminal tax assessment for a 31 March 2020 annual tax period, may not be filed until March 2021. This means the estimation process at 30 June 2020 needs to consider an estimate for both the period covered by the terminal tax assessment for the 31 March 2020 year, and the three month period of taxable income from the taxpayer's next tax period (ie, an estimate of one quarter of annual tax revenue for the full year to 31 March 2021 for which the final terminal tax assessment is a year later again).

For GST and PAYE, estimations are relatively certain because taxpayer filing dates are so regular and frequent. For example, the majority of GST is filed on monthly or two-monthly returns and PAYE is based on employment information forms filed by employers after each employee pay date. As these financial statements are prepared in the two months after 30 June 2020, IRD can look at subsequent filing information in July and August and use this to support estimates made at 30 June 2020.

Impact of the COVID-19 pandemic on income tax revenue estimation

The impact of the COVID-19 pandemic on economic activity through alert levels and border restrictions has had flow on impacts to tax revenue in 2019/20 compared to what was expected prior to the COVID-19 pandemic, such as lower than expected GST. Lower than expected taxable income for businesses has impacted on estimates of corporate and other persons income tax (note 4).

For estimating other persons and corporate tax, where taxpayers subject to the provisional tax regime have not yet filed a relevant terminal tax assessment, IRD previously used a 5% uplift on the previous year's terminal income tax assessment as the basis for estimating the current year's tax revenue for financial reporting. This aligns with the standard uplift method that the majority of taxpayers use where their current year's provisional tax payments are based on a 105% of last year's income tax. This method suits a large number of taxpayers who generally expect to make more or roughly the same amount of profit in a coming tax year.

Note 4: Sovereign Revenue (continued)

However, given the large and sudden reduction in economic activity with the COVID-19 pandemic, particularly with New Zealand entering the alert level four lockdown on 25 March 2020, the 105% assumption is now not considered appropriate for the estimation of income tax revenue for the financial year ended 30 June 2020. Therefore, estimated income tax revenue has been based on the Treasury's most recent macro-economic forecasts, using the percentage movement in forecasts of firms' net operating surplus. As the estimation of income tax revenue is based on macro-economic forecasts about how the New Zealand economy will perform in the future and how it relates to taxable income, it is an uncertain assumption, particularly in the current environment as a result of the COVID-19 pandemic. This is because macro-economic forecasts by nature are inherently uncertain. Firm's net operating surplus is a measure of business profits that is measured and published by Statistics New Zealand (www.stats.govt.nz). The Treasury produces forecasts of future years' net operating surplus in its economic and fiscal updates.

As a result, the factor applied to prior years' terminal tax is 102.79% for the 2020 income tax year, which ended on 31 March 2020 and 97.26% for the 2021 income tax year which ends on 31 March 2021 (with the period from 1 April 2020 to 30 June 2020 included in these financial statements), rather than the standard factor of 105%. In the 2021 income tax year, the "uplift" factor applied means there is actually a reduction in tax revenue estimates based on prior years' tax assessments.

While we believe the most recent macro-economic forecast percentage change in firms' net operating surplus is the most appropriate assumption to determine taxable income in our tax estimation process, there are other possible macro-economic assumptions that could have been used as inputs including the forecast percentage change in nominal GDP or forecast percentage change in real GDP. The main reason that the percentage change in the net operating surplus measure was chosen, rather than the percentage change in GDP, is that net operating surplus has a higher correlation with taxable profits of businesses than either nominal or real GDP. The firms' net operating surplus is a component of Income GDP and is designed to measure net profits of businesses. This measure is approximately equal to accounting profit before taxes, dividends, and interest, but after depreciation.

The change in estimation using the forecast of firms' net operating surplus means tax revenue for 2019/20 is $526 million lower than it would be if the standard factor of 105% was used (1.0% of total direct income tax for 2020), comprised of $356 million gross corporate income tax revenue and $170 million other persons income tax revenue. If the firms' net operating surplus assumption changed, the impact on tax revenue would be:

Sensitivity of assumption	Change	Change in income tax 2020 $m
Increase in firms' net operating surplus by	+1%	184
	+5%	924
	+10%	1,848
Decrease in firms' net operating surplus by	-1%	(184)
	-5%	(924)
	-10%	(1,848)

There will always be a degree of uncertainty in respect of the estimate of income tax revenue, whether the standard 5% uplift assumption is applied or an alternate approach, but there is elevated uncertainty in the estimation this year due to the impact of the COVID-19 pandemic. However, applying a new assumption this year, based on the forecast of firms' net operating surplus is considered necessary and appropriate to reflect the current economic circumstances.

Note 5: Sales of Goods and Services

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
9,402	10,268	Sales of goods	9,988	10,301
9,639	8,928	Provision of services	8,449	9,495
19,041	**19,196**	**Total sales of goods and services**	**18,437**	**19,796**

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 pattern of recognition better represents the stage of completion of the transaction.

A number of Government reporting entities have experienced a fall in revenue compared to the previous year. Overall, total sales of goods and services were $18,437 million, a decrease of $1,359 million from the 2018/19 fiscal year. The majority of the decrease is attributable to Air New Zealand due to the extensive travel and border restrictions which commenced from March 2020. In addition, several other travel related services (eg, passports, border security) have also been adversely impacted.

Note 6: Investment and Finance Income/(Expense)

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
		Interest Revenue		
1,451	1,232	Other financial assets classified as amortised cost	1,179	1,346
848	823	Financial assets classified as fair value through the operating balance	790	906
449	385	Concessionary loans (interest unwind)[1]	331	394
2,748	**2,440**	**Total interest revenue**	**2,300**	**2,646**
		Interest Expense		
3,621	3,528	Financial liabilities classified as amortised cost	3,320	3,812
263	143	Financial liabilities classified as fair value through the operating balance	179	198
297	225	Interest unwind on provisions and other interest	255	288
4,181	**3,896**	**Total interest expenses**	**3,754**	**4,298**
(1,433)	**(1,456)**	**Net interest income/(expense)**	**(1,454)**	**(1,652)**
		Net gains/(losses) on large scale asset purchases		
-	(1,624)	Net gains/(losses) on large scale asset purchases	(3,258)	-
-	**(1,624)**	**Net gains/(losses) on large scale asset purchases**	**(3,258)**	**-**
		Gains and Losses on Financial Instruments		
1	892	Foreign exchange gains on financial assets and liabilities measured at amortised cost	143	291
(3)	(59)	Foreign exchange losses on financial assets and liabilities measured at amortised cost	(324)	(7)
(73)	(39)	Gains/(losses) on disposal of financial assets and liabilties measured at amortised cost	(96)	(112)
2,437	198	Change in fair value of financial assets and liabilities classified as fair value through the operating balance	1,886	2,457
-	150	Change in fair value of student loans classified as fair value through the operating balance	(97)	981
2,362	**1,142**	**Net gains/(losses) on financial assets and liabilities**	**1,512**	**3,610**
928	(7,236)	Net gains/(losses) on derivatives	396	834
3,290	**(6,094)**	**Net gains/(losses) on financial instruments**	**1,908**	**4,444**
		Other investment income/(expense)		
1,040	1,034	Dividend income (refer to note 7)	906	1,070
1,040	**1,034**	**Total other investment income/(expense)**	**906**	**1,070**
2,897	**(8,140)**	**Total investment and finance income/(expense)**	**(1,898)**	**3,862**

1 Student loans are advanced at below market interest rates and repayments are not fixed, therefore they are discounted to reflect their fair value. The interest unwind reflects the increase in value of student loans as the period to repayment reduces (note 16).

Net gains/(losses) on large scale asset purchases

These financial statements reflect monetary policy measures including the LSAP programme (refer to note 3 for more information). The LSAP programme has resulted in a loss of $3,258 million.

Under the LSAP programme, NZGBs are purchased by the Reserve Bank at market prices and are purchased directly from the market, so it is not possible for NZGBs purchased to be individually matched back to their original issuance. Therefore, for reporting purposes, it is assumed the oldest holdings of the NZGB liabilities are eliminated first against the NZGB assets. Broadly speaking, this reflects the change in the value of repurchased bonds since they were first issued owing to movements in market interest rates.

There is also a benefit of lower interest rates as the fixed interest rate payable on the NZGBs is replaced by the lower floating OCR rate (currently 0.25%) payable on settlement deposits.

Note 6: Investment and Finance Income/ (Expense) (continued)

Interest revenue and expense on financial assets and financial liabilities classified at amortised cost is accrued using the effective interest method. The effective interest rate 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. This means interest is allocated at a constant rate of return over the expected life of the financial instrument based on the estimated cash flows.

Interest revenue on financial assets classified as fair value through the operating balance is recognised as it accrues.

The interest unwind on concessionary loans reflects the increase in value of the loans as the period to repayment reduces. Concessionary loans are classified as fair value through the operating balance and the interest unwind is calculated using the market discount rate at the beginning of the year.

Gains and losses on financial instruments are reported in the Statement of Financial Performance where financial instruments are revalued in accordance with the accounting policies of these financial statements.

Gains and losses on large scale asset purchases (LSAP) result from the acquisition of government bonds in the secondary market. A "first in first out" method has been applied to calculate the value of the NZGBs issued by the Crown to be eliminated against the purchase price paid for the bonds at the time of the transaction. This method means that the bonds purchased were eliminated against the earliest issued bonds.

Note 7: Other Revenue

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
1,040	1,034	Dividends	906	1,070
705	758	Donations	757	754
688	925	Rental revenue	632	616
4	(41)	EQC insurance claim on reinsurers	(20)	460
253	303	Sale of royalties	294	259
1,707	2,074	Other revenue	1,907	1,790
4,397	**5,053**	**Total other revenue**	**4,476**	**4,949**

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 8: Transfer Payments and Subsidies

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
15,488	15,516	New Zealand superannuation	15,521	14,562
-	12,000	Wage subsidy scheme	12,095	-
2,195	2,144	Family tax credit	2,189	2,131
1,976	2,373	Jobseeker support and emergency benefit	2,285	1,854
1,810	1,936	Accommodation assistance	1,923	1,640
1,589	1,645	Supported living payment	1,650	1,556
1,175	1,235	Sole parent support	1,231	1,115
915	944	KiwiSaver subsidies	893	951
740	784	Official development assistance	736	708
536	624	Other working for families tax credits	641	635
585	580	Student allowances	567	583
458	682	Winter energy payment	669	441
391	397	Disability allowances	395	386
346	400	Hardship assistance	418	300
247	248	Orphan's/unsupported child's benefit	248	225
231	188	Best start credit	184	48
84	95	Income related rent subsidy	63	45
924	1,040	Other social assistance benefits	899	906
29,690	**42,831**	**Total transfer payments and subsidies**	**42,607**	**28,086**

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

Wage Subsidy Scheme

In response to the COVID-19 pandemic, a wage subsidy scheme to support employers adversely affected by the COVID-19 pandemic was introduced, so that they can continue to pay their employees and support workers to ensure they continue to receive an income, and stay connected to their employer, even if they are unable to work their normal hours.

To achieve its objectives to enable businesses to remain viable and retain staff for the short term, payments under the scheme needed to be facilitated quickly. The scheme had a ‘high trust’ environment, that included a self-declaration by applicants, which meant there was little delay between application and payment, and little estimation uncertainty. To ensure payments under the wage subsidy scheme are transparent and that the scheme is accountable to the public, the companies that have received payments are identified at https://www.workandincome.govt.nz/covid-19/wage-subsidy/index.html.

Note 9: Personnel Expenses

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
23,929	24,816	Salaries and wages	25,159	23,622
631	642	Costs incurred on defined contribution plans (e.g. KiwiSaver)	726	651
102	117	Costs incurred on GSF and other defined benefit plans	93	104
1,049	1,739	Other personnel expenses	1,797	1,556
25,711	**27,314**	**Total personnel expenses**	**27,775**	**25,933**

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. The service cost and returns on defined benefit plan assets at the risk-free rate of return are recognised in the statement of financial performance. Actuarial gains and losses and investments returns in excess of the risk-free rate of return of defined benefit plans are recognised in other comprehensive revenue and expense.

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

Key management personnel compensation was $10 million (2019: $10 million). This reflects salaries, benefits and allowances. Key management personnel are the 27 Ministers of the Crown who are members of the Executive Council as at 30 June 2020 (2019: 27).

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 10: Other Operating Expenses

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
10,031	9,796	Grants and subsidies	10,499	8,162
1,584	2,236	Repairs and maintenance	2,420	2,265
1,429	1,501	Rental and leasing costs	1,480	1,431
1,381	1,444	Clinical supplies	1,403	1,343
789	1,071	Amortisation and impairment of non-financial assets	2,375	934
798	1,083	Impairment of financial assets	1,493	920
1,072	610	Cost of concessionary lending	1,279	763
726	734	Lottery prize payments	754	645
443	442	Inventory expenses	370	239
4	5	Fees paid to audit firms other than the Auditor-General (refer below)	6	5
-	-	Reversal of Rail network impairment (refer to note 17)	-	(2,576)
30,755	33,556	Other operating expenses	30,504	28,562
49,012	**52,478**	**Total other operating expenses**	**52,583**	**42,693**

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.

Amortisation and impairment

The increase in expenditure compared to 2018/19 is largely related to expenses incurred as a result of the COVID-19 pandemic. This includes the impairment losses of $1,068 million recognised against aircraft due to the pandemic's impact on the market value of the asset and the fair value write down of the Small Business Cashflow (Loan) Scheme ($686 million).

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 $50 million (2019: $47 million). These fees include $0.3 million (2019: $0.3 million) for the audit of these financial statements. Fees paid for other assurance and related services paid to the Controller and Auditor-General were $0.6 million (2019: $0.7 million). As the Controller and Auditor-General is part of the Government reporting entity, these fees are eliminated on consolidation.

Note 11: Net Gains/(Losses) on Non-Financial Instruments

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Note	Actual 30 June 2020 $m	Actual 30 June 2019 $m
-	(600)	Actuarial gains/(losses) on ACC outstanding claims	12	(5,974)	(11,367)
-	(563)	Gains/(losses) on the Emissions Trading Scheme	22	(1,097)	(225)
(71)	(59)	Gains/(losses) on disposal or revaluation of property, plant and equipment		(154)	(110)
-	(75)	Other gains/(losses) on non-financial instruments		(147)	127
(71)	**(1,297)**	**Net gains/(losses) on non-financial instruments**		**(7,372)**	**(11,575)**

The ACC outstanding claims liability is valued by an independent actuary (note 12). 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 12: Insurance

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Insurance expense by entity		
5,478	6,217	Accident Compensation Corporation (ACC)	6,246	5,362
95	213	Earthquake Commission (EQC)	614	476
(42)	(26)	Southern Response	27	(40)
16	14	Other	16	14
5,547	**6,418**	**Total insurance expenses**	**6,903**	**5,812**

Note 12: Insurance (continued)

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Insurance liability by entity		
50,083	59,540	ACC liability	64,946	56,611
481	841	EQC property damage liability	1,528	1,342
-	186	Southern Response liability	168	216
46	(34)	Other (incl. Inter-segment eliminations)	48	47
50,610	**60,533**	**Total insurance liabilities**	**66,690**	**58,216**
		By component		
		Outstanding claims liability	62,943	54,686
		Unearned premium liability	2,276	2,295
		Unearned premium liability deficiency	1,471	1,235
		Total insurance liabilities	**66,690**	**58,216**
		By maturity		
		Expected to be settled within one year	9,360	8,848
		Expected to be outstanding for more than one year	57,330	49,368
		Total insurance liabilities	**66,690**	**58,216**
		Assets arising from insurance obligations are:		
		Receivables for premiums	3,661	3,475
		Reinsurance claim recoveries	525	635

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 available to fund present and future claims obligations. There are no deferred acquisition costs (eg, marketing costs) in respect of insurance obligations at the reporting date.

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 2020. 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 or events 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 12: Insurance (continued)

	Actual 30 June 2020 $m	Actual 30 June 2019 $m
Analysis of ACC Insurance Expense		
By type		
Claims expense	12,478	16,787
Movement in unearned premium deficiency liability	266	432
Other underwriting expenses	205	176
Total ACC claims and other expenses	**12,949**	**17,395**
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss) - (refer note 11)	(5,974)	(11,367)
Operating costs relating to claims	(729)	(666)
Total ACC insurance expenses (excluding gains/(losses) and operations)	**6,246**	**5,362**

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 2020 $m	Actual 30 June 2019 $m
ACC Claims Incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	8,751	9,236
Discount and discount movement	(2,725)	(3,424)
Total current year net claims incurred	**6,026**	**5,812**
Previous years' net ACC claims incurred		
Reassessment of gross claims and expenses – undiscounted	(3,821)	(601)
Discount and discount movement	10,273	11,576
Total previous years' net claims incurred	**6,452**	**10,975**
ACC claims expense	**12,478**	**16,787**

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 2020 $m	Actual 30 June 2019 $m
Net ACC Underwriting Result		
Premium revenue (refer to note 4)	3,032	3,014
Less claims and other expenses	(12,949)	(17,395)
Net ACC underwriting surplus/(deficit)	**(9,917)**	**(14,381)**
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	2,925	2,782
Cash payments	(4,335)	(4,179)
Net ACC operating cash flows	**(1,410)**	**(1,397)**

Note 12: 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 actuaries are satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual 30 June 2020 $m	Actual 30 June 2019 $m
The ACC liability comprises:		
ACC outstanding claims liability	61,463	53,319
ACC unearned premium liability	2,012	2,088
ACC unearned premium liability deficiency	1,471	1,204
Total ACC liability	**64,946**	**56,611**
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	87,589	87,054
Discount adjustment	(33,196)	(39,863)
Risk margin	7,070	6,128
Total outstanding ACC claims liability	**61,463**	**53,319**
Discounted central estimate of future payments for outstanding claims	51,598	44,638
Claims handling expenses	2,795	2,553
Outstanding claims liability before risk margin	**54,393**	**47,191**
Risk margin	7,070	6,128
Total outstanding ACC claims liability	**61,463**	**53,319**
Movement in Outstanding ACC Claims Liability		
Opening balance	53,319	40,605
Claims incurred for the year	6,668	5,511
Claims paid out in the year	(5,167)	(4,856)
Discount rate unwind	669	692
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience[1]	258	634
- change in discount rate	7,280	10,793
- change in inflation rate	(1,564)	(60)
Closing outstanding ACC claims liability	**61,463**	**53,319**

1 This amount includes a reduction of $394 million for the impact of the COVID-19 pandemic alert level 4 lockdown (ie, reducing the outstanding ACC claims liability). This is due to fewer claims arising over the year compared to what was anticipated, because under the alert level 4 lockdown, people’s movements were restricted resulting in fewer accidents occurring.

Note 12: Insurance (continued)

	Actual 30 June 2020 $m	30 June 2019 $m
Movement in ACC Unearned Premium Liability		
Opening balance	2,088	1,937
Earning of premiums previously deferred	(2,088)	(1,937)
Deferral of premiums on current year contracts	2,012	2,088
Closing ACC unearned premium liability	**2,012**	**2,088**
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	2,012	2,088
Adjusted for unearned premium relating to claims arising from medical misadventure premium liabilities without deficiency	(54)	(55)
Adjusted ACC unearned premium liability	**1,958**	**2,033**
Discounted central estimate of payments for insured future claims	3,076	2,908
Risk margin	353	329
Present value of expected cash flows for future accident claims	**3,429**	**3,237**
Total ACC unearned premium liability deficiency	**1,471**	**1,204**

Claims development historical analysis

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

	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	30 June 2020 $m
Estimate of ultimate claims costs:								
At the end of the accident year	7,264	7,192	6,884	7,914	8,038	8,828	8,368	54,488
One year later	6,547	6,682	7,272	7,160	7,738	9,137		44,536
Two years later	5,823	7,062	7,230	7,430	7,655			35,200
Three years later	6,252	7,382	7,518	7,500				28,652
Four years later	6,316	7,261	7,246					20,823
Five years later	6,229	6,755						12,984
Six years later	5,967							5,967
Current estimate of cumulative claim costs	5,967	6,755	7,246	7,500	7,655	9,137	8,368	52,628
Cumulative payments	(1,984)	(2,145)	(2,178)	(2,201)	(2,259)	(2,165)	(1,218)	(14,150)
Outstanding claims undiscounted	**3,983**	**4,610**	**5,068**	**5,299**	**5,396**	**6,972**	**7,150**	**38,478**
Discount								(16,063)
Claims handling costs								3,154
2013 and prior claims (net present value)								35,879
Short tail outstanding claims								15
Total outstanding ACC claims liability								**61,463**

Note 12: 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 (note 2). The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is a short-term discount rate of 1.86% (2019: 2.42%) and a long term discount rate of 4.30% beyond 62 years (2019: 4.30% beyond 53 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 12: Insurance (continued)

Summary of assumptions	30 June 2020	30 June 2020 Beyond Next Year	30 June 2019	30 June 2019 Beyond Next Year
Average weighted term to settlement from reporting date	20 years		16 years 8 months	
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	0.2%	0.3% to 4.3%	1.3%	1.0% to 4.3%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	2.5%	1.2% to 2.2%	2.0%	1.9% to 2.2%
Impairment benefits	2.5%	1.0% to 2.0%	1.5%	1.7% to 2.0%
Social rehabilitation benefits (serious and non serious injury)	1.0%	1.4% to 2.2%	1.9%	1.9% to 2.2%
Hospital rehabilitation benefits	1.0%	1.4% to 2.2%	1.9%	1.9% to 2.2%
Medical costs	1.0%	1.4% to 2.2%	1.9%	1.9% to 2.2%
Superimposed inflation:				
Social rehabilitation benefits (serious injury care)	0.2%	1.0% to 3.9%	1.4%	0.0% to 2.0%
Social rehabilitation benefits (serious injury capital expenditure)	0.7%	0.8% to 3.3%	0.7%	0.8% to 3.2%
Hospital rehabilitation benefits	3.0%	3.0%	3.0%	3.0%
Medical costs (GPs)	2.0%	2.0%	2.0%	2.0%
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)	2.0%	2.0%	2.0%	2.0%

Note 12: 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 2020 $m	30 June 2019 $m
Sensitivity of assumptions			
Average weighted term to settlement from reporting date	+1 year	183	(41)
	-1 year	(178)	44
Risk-free discount rate	+1%	(10,305)	(8,594)
	-1%	14,485	11,977
Inflation rates (including superimposed inflation)	+1%	14,302	12,059
	-1%	(10,411)	(8,575)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	2,081	1,874
	-1%	(1,502)	(1,292)
Social rehabilitation benefits - superimposed inflation after two years for serious injury claims	+1%	5,179	5,465
	-1%	(3,771)	(4,922)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $54,393 million (2019: $47,191 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 2020. These estimated cash flows include the effects of assumed future inflation.

	Actual 30 June 2020 $m	30 June 2019 $m
No later than 1 year	3,069	2,915
Later than 1 year and no later than 2 years	2,250	2,076
Later than 2 years and no later than 5 years	5,757	5,378
Later than 5 years and no later than 10 years	8,508	8,085
Later than 10 years and no later than 15 years	7,817	7,495
Later than 15 years and no later than 20 years	7,372	7,128
Later than 20 years and no later than 25 years	7,046	6,869
Later than 25 years and no later than 30 years	6,669	6,589
Later than 30 years and no later than 35 years	6,247	6,252
Later than 35 years and no later than 40 years	5,764	5,851
Later than 40 years and no later than 45 years	5,242	5,404
Later than 45 years and no later than 50 years	4,685	4,903
Later than 50 years	17,163	18,109
Undiscounted outstanding claims liability	**87,589**	**87,054**

Note 13: Receivables

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
12,109	14,347	Tax receivables	14,290	13,764
2,526	2,478	ACC levy receivables	2,490	2,541
1,005	1,081	Social benefit receivables	1,107	964
397	511	Other levies, fines and penalty receivables	463	505
16,037	**18,417**	**Sovereign receivables**	**18,350**	**17,774**
120	308	Reinsurance receivables	525	635
5,160	7,193	Trade and other receivables	5,868	4,918
21,317	**25,918**	**Total receivables**	**24,743**	**23,327**
		By maturity		
19,437	23,835	Expected to be realised within one year	22,519	20,943
1,880	2,083	Expected to be outstanding for more than one year	2,224	2,384
21,317	**25,918**	**Total receivables**	**24,743**	**23,327**

Receivables arising from sovereign revenue are 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 receivables on paid claims and outstanding claims, are recognised as revenue in the statement of financial performance.

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 tax or other sovereign receivables, 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 is considered. 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.

There is no collateral held or any other credit enhancements over receivables.

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 the Ministry of Justice (ie, court fines) and IRD (ie, child support). These receivables are recorded at fair value, which on initial recognition represent the face value of the amount owed, 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 a reduction of $242 million (2019: $230 million), with $190 million (2019: $161 million) of the adjustment relating to child support debt.

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 $5,868 million (2019: $4,918 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

Note 13: Receivables (continued)

30 June 2020	Gross receivable $m	Impairment $m	Net receivable $m
Tax receivables	17,596	(3,306)	14,290
ACC levy receivables	2,600	(110)	2,490
Social benefit receivables	1,916	(809)	1,107
Other levies, fines and penalty receivables	2,980	(2,517)	463
Reinsurance receivables	525	-	525
Trade and other receivables	5,982	(114)	5,868
Total receivables	**31,599**	**(6,856)**	**24,743**

30 June 2019	Gross receivable $m	Impairment $m	Net receivable $m
Tax receivables	16,106	(2,342)	13,764
ACC levy receivables	2,656	(115)	2,541
Social benefit receivables	1,762	(798)	964
Other levies, fines and penalty receivables	3,034	(2,529)	505
Reinsurance receivables	635	-	635
Trade and other receivables	5,038	(120)	4,918
Total receivables	**29,231**	**(5,904)**	**23,327**

The 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 up to June 2020, deducting an estimate of service costs and then discounting at the current market rate of 5.0% (2019: 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.

Note 13: Receivables (continued)

	Actual 30 June 2020 $m	30 June 2019 $m
Gross Tax Receivable		
Current	13,349	12,585
Past due	4,247	3,521
Total gross tax receivable	**17,596**	**16,106**
% past due	24.1%	21.9%
Impairment of Tax Receivables		
Opening balance	2,342	2,035
Impairment losses recognised during the year	1,370	834
Amounts written off as uncollectible	(406)	(527)
Closing balance	**3,306**	**2,342**
Tax Receivable Net of Impairment		
Current	13,238	12,517
Past due	1,052	1,247
Total tax receivable net of impairment	**14,290**	**13,764**
% past due	7.4%	9.1%
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	1,217	946
Between six months and one year	381	421
Between one year and two years	748	633
Greater than two years	1,901	1,521
Total tax receivables past due (Gross)	**4,247**	**3,521**

Tax receivables are classified as either current (not due) or past due. Current tax receivables comprise estimations or assessments for tax where the tax has been recorded based on the relevant tax recognition point (note 4), but is not yet due to be paid and for returns that have been filed before due date. Approximately half of the current tax receivable amount relates to estimates and assessments of income tax (both other persons and corporate tax), with about a third relating to GST and the balance relating mainly to employer taxes, such as PAYE. Note 4 *Sovereign Revenue* describes how these tax estimates and assessments are made.

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

The past due tax receivables have increased from $3,521 million in 2019 to $4,247 million in 2020, an increase of $726 million (21%). Tax receivables related to GST has increased by 31%, PAYE by 31%, Family Assistance by 30% and Income Tax by 8%. This increase largely reflects the economic impacts of the COVID-19 pandemic on taxpayers, particularly through alert levels and border restrictions beginning in March 2020. In some cases, instalment payment plans have been offered to support taxpayers, and penalties and interest incurred on overdue debt has been remitted. This has been possible following the Government’s announcement on 17 March 2020 (and legislation passed in August 2020) that gave the IRD the ability to write-off the interest charge for late payments on all tax types (due on or after 14 February 2020), also known as use-of-money interest (UOMI).

For 30 June 2020, the average impairment percentage applied to past due debt as a result of the June 2020 valuation (using June 2020 data which includes evidence of some slow-down in payments in the April to June quarter) is 78.5%, compared to 64.8% at 30 June 2019 (based on tax debt data at 31 December 2018).

Taxes repayable are recorded as a liability with further information in note 19.

Note 14: Marketable Securities, Deposits and Derivatives in Gain

2020 Forecast at			Actual	
Budget 2019 $m	Budget 2020 $m		30 June 2020 $m	30 June 2019 $m
		By type		
29,806	37,779	Marketable securities	45,858	32,349
3,419	3,861	Long term deposits	5,443	4,355
3,062	4,951	Derivatives in gain	7,166	4,585
2,334	2,383	IMF financial assets	2,538	2,327
38,621	**48,974**	**Total marketable securities, deposits and derivatives in gain**	**61,005**	**43,616**
		Expected Realisation		
19,252	27,521	Expected to be realised within one year	39,287	23,975
19,369	21,453	Expected to be held for more than one year	21,718	19,641
38,621	**48,974**	**Total marketable securities, deposits and derivatives in gain**	**61,005**	**43,616**

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.

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. Further information is provided on these financial assets in note 27.

Note 15: Share Investments and Investments in Controlled Enterprises

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		By type		
41,623	31,112	Share investments	33,791	39,552
3,777	4,759	Investments in controlled enterprises	4,220	3,688
45,400	**35,871**	**Total share investments and investments in controlled enterprises**	**38,011**	**43,240**
		Expected Realisation		
27,863	15,908	Expected to be realised within one year	17,323	25,844
17,537	19,963	Expected to be held for more than one year	20,688	17,396
45,400	**35,871**	**Total share investments**	**38,011**	**43,240**

Share investments and investments in controlled enterprises 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 and investment in controlled enterprises is determined from the initial cost of the investment and adjusted for performance of the business and changes in equity market conditions since purchase.

The majority of share investments and investments in controlled enterprises use observable inputs in their valuation. While there has been volatility in these valuations due to the COVID-19 pandemic, the fair value of these assets reflect observable prices or inputs that existed at balance date. There is limited subjectivity in the valuations that used observable inputs.

While the share investments and investments in controlled enterprises that are categorised within level 3 of the fair value hierarchy make up a minority of the overall portfolio, these investments, by their nature, are inherently more subjective and are more exposed to valuation uncertainty as at 30 June 2020. This category predominantly includes private equity investments held directly or via investment funds; controlled enterprises and other externally managed investment vehicles. Whilst the determination of fair value in relation to these investments is subject to careful consideration and consultation with a range of reliable and independent sources, the volatility in market conditions at balance date has resulted in certain valuation inputs being more uncertain, such as when the price is based on recent comparable transactions.

Further information is provided on these financial assets in note 27.

Note 16: Advances

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		By type		
21,099	22,351	Kiwi Group Holdings loans and advances	22,189	20,411
9,884	10,819	Student loans	10,395	10,731
-	-	Small business cashflow loans	737	-
3,124	4,289	Other advances	4,308	2,548
34,107	**37,459**	**Total advances**	**37,629**	**33,690**

Further information on the management of risks associated with these financial assets is provided in note 27.

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Kiwi Group Holdings Loans and Advances		
		By maturity		
1,398	1,616	Expected to be repaid within one year	1,494	1,476
19,701	20,735	Expected to be outstanding for more than one year	20,695	18,935
21,099	**22,351**	**Total Kiwi Group Holdings loans and advances**	**22,189**	**20,411**

Kiwi Group Holdings loans and advances are measured at amortised cost.

The fair value of Kiwi Group Holdings loans and advances is $22,291 million (2019: $20,448 million). This fair value is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses.

Kiwi Group Holdings loans and advances include a provision for expected credit losses of $86 million (2019: $40 million).

Note 16: Advances (continued)

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Note	Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Student Loans			
15,842	16,034	Nominal value		16,135	16,034
(5,958)	(5,215)	Write-down on initial recognition, impairment and other fair value changes		(5,740)	(5,303)
9,884	**10,819**	**Total student loans**		**10,395**	**10,731**
		By maturity			
		Expected to be repaid within one year		1,256	1,398
		Expected to be outstanding for more than one year		9,139	9,333
		Total student loans		**10,395**	**10,731**
		Movement During the Year			
		Opening balance		10,731	9,929
		Net new lending (including fees)		1,413	1,361
		Initial write-down to fair value		(506)	(563)
		Repayments made during the year		(1,477)	(1,371)
		Interest unwind	6	331	394
		Unwind of administration costs		36	36
		Experience/actuarial adjustments:			
		- Projected repayments		(476)	211
		- Change in discount rates		343	734
		Closing balance student loans		**10,395**	**10,731**

Student loans are recognised initially by writing the amount lent down to fair value. Subsequently student loans are measured at fair value through the operating balance.

Fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length basis.

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 fair value of student loans has decreased by $476 million as a result of the economic impacts of the COVID-19 pandemic, but partially offsetting this is a $343 million increase in the loan value due to a reduction in the discount rate since 2019. The risk-adjusted discount rate (used to present value all projected repayments to today's dollars) is made up of a risk-free component and a risk-premium adjustment.

The overall discount rate has reduced due to a lower risk-free discount rate component (in line with falling market interest rates), partially offset by an increase in the risk-premium adjustment. The decrease of $476 million is mainly due to lower salary inflation assumptions (ie, lower domestic incomes and so lower domestic repayment obligations), reduced repayments assumed from overseas borrowers during the global economic downturn, and the impact of New Zealand unemployment and underemployment (eg, shifting from full-time work to part-time work) for domestic borrowers. For example, it is assumed that 22% (45,000) of employed borrowers in New Zealand will experience either unemployment or underemployment as a result of the COVID-19 pandemic. This significantly impacts repayment assumptions to March 2021, when it is assumed there will be a linear recovery in employment outcomes, where cash flow projections return to normal by April 2025.

There is uncertainty around the impact of the COVID-19 pandemic on future student loan repayments and the availability of actual repayment data during the economic downturn is limited at this stage. Current assumptions for COVID-19 pandemic impacts have been checked against repayment data post the Global Financial Crisis (GFC) for reasonableness and consistency, where appropriate. For the assumed impact to New Zealand employment prospects for student loan borrowers, the key assumption is the five-year recovery. If employment outcomes eventually return to normal by April 2025 for borrowers, the main impact of the COVID-19 pandemic is a delay in repayments, rather than seeing a permanent increase in the number of long-term unemployed borrowers. The severity of the impact from the COVID-19 pandemic on overseas borrowers is likely to be wide-ranging, as it will depend on the country that they are based in, and which countries recover economically sooner than others.

Note 16: Advances (continued)

Amounts recognised in the statement of financial performance in respect to student loans are as follows:

	Note	Actual 30 June 2020 $m	Actual 30 June 2019 $m
Interest Revenue			
Interest unwind	6	331	394
Other operating expenses			
Initial write-down to fair value		(506)	(563)
Total included in other operating expenses		**(506)**	**(563)**
Net Gains/(Losses) on Financial Instruments			
Experience/actuarial adjustments:			
- Projected repayments		(476)	211
- Change in discount rates		343	734
Unwind of administration costs		36	36
Total Net Gains/(Losses) on Financial Instruments	6	**(97)**	**981**

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.

The valuation of student loans is performed each year using actuarial and predictive models which reflect current student loan policy and macroeconomic assumptions. As such, the carrying value is sensitive to changes in several underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates.

	Actual 30 June 2020	Actual 30 June 2019
Significant assumptions behind the carrying value are:		
Interest rate applied to loans for overseas borrowers	1.9%-5.0%	2.6%-5.0%
Consumer Price Index	0.5%-2.0%	1.4%-2.1%
Future salary inflation	0.0%-3.5%	3.0%-3.5%
Discount rate	4.0%	4.4%

The table below outlines the sensitivity of student loans fair value to discount rates and salary inflation:

	Actual 30 June 2020 $m	Actual 30 June 2019 $m
Impact on fair value of a 1% increase in discount rate	(602)	(580)
Impact on fair value of a 1% decrease in discount rate	674	648
Impact on fair value of a 1% increase in salary inflation[1]	109	91
Impact on fair value of a 1% decrease in salary inflation[1]	(114)	(110)

[1]Considering 1% increase/decrease over the next 5 years

The student loan scheme creates an exposure 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 many 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: Advances (continued)

	Actual 30 June 2020 $m	30 June 2019 $m
Small Business Cashflow (Loan) Scheme		
Nominal value	1,423	-
Write-down on initial recognition, impairment and other fair value changes	(686)	-
Total small business cashflow loans	**737**	**-**
By maturity		
Expected to be repaid within one year	356	-
Expected to be outstanding for more than one year	381	-
Total small business cashflow loans	**737**	**-**
Movement During the Year		
Opening balance	-	-
Net new lending (including fees)	1,423	-
Initial write-down to fair value	(686)	-
Closing Small Business Cashflow (Loan) Scheme	**737**	**-**

The SBCS is recognised initially by writing the amount lent down to fair value. Subsequently, SBCS loans are measured at fair value through the operating balance.

Fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length transaction.

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

The SBCS is managed by IRD and provides 5-year loans to eligible small businesses to manage the impact of lower cash flows due to the COVID-19 pandemic. Borrowers under the SBCS are not charged interest if the loan is fully repaid within one year, otherwise the interest rate is 3% per annum on amounts outstanding for a maximum term of five years. Repayments are not required for the first two years, but voluntary payments can still be made over this period.

The valuation of SBCS loans is performed using actuarial and predictive models which reflect current policy and macroeconomic assumptions because there is limited repayment data available for this new scheme. As such, the carrying value is sensitive to changes in several underlying assumptions, including default levels, repayment behaviour and macroeconomic factors such as discount rates.

	Actual 30 June 2020	30 June 2019
Significant assumptions behind the carrying value are:		
Loan interest rate	3.0%	-
Default rate	29.7%	-
Discount rate	15.0%	-

The SBCS creates an exposure to the risk that borrowers will default on their obligation to repay their loans. The SBCS does not require borrowers to provide any collateral or security to support their borrowings. As the total sum advanced is widely dispersed over many 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.

Note 17: Property, Plant and Equipment

for the year ended 30 June 2020	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 2019	192,808	55,006	42,438	37,222	17,252	6,103	4,993	4,873	3,239	6,435	15,247
Additions	9,568	674	3,558	2,154	188	324	372	337	35	525	1,401
Disposals	(1,202)	(448)	(68)	(11)	(3)	(32)	(95)	(16)	(8)	-	(521)
Net revaluations	2,477	2,506	183	47	17	-	-	-	(202)	(73)	(1)
Transfers from/(to) other asset classes	(425)	(271)	(1)	(2)	11	-	(113)	-	15	-	(64)
Other[1]	2,463	368	1,558	-	16	(2)	-	-	-	19	504
Total gross carrying amount	**205,689**	**57,835**	**47,668**	**39,410**	**17,481**	**6,393**	**5,157**	**5,194**	**3,079**	**6,906**	**16,566**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2019	15,189	-	1,707	-	13	1,930	-	1,520	89	28	9,902
Eliminated on disposal	(686)	-	(84)	-	(2)	(23)	(44)	(15)	(7)	-	(511)
Eliminated on transfer to other asset classes	(138)	-	(19)	-	-	-	(79)	-	1	-	(41)
Eliminated on revaluation	(2,086)	-	(867)	(591)	(201)	-	-	-	(56)	(371)	-
Impairment losses charged to operating balance	1,193	-	8	-	-	-	1,068	1	-	10	106
Depreciation expense	5,294	-	1,789	591	580	196	417	349	27	366	979
Other[1]	421	-	80	-	-	(1)	1	-	-	1	340
Total accumulated depreciation and impairment	**19,187**	**-**	**2,614**	**-**	**390**	**2,102**	**1,363**	**1,855**	**54**	**34**	**10,775**
Carrying value as at 30 June 2020	**186,502**	**57,835**	**45,054**	**39,410**	**17,091**	**4,291**	**3,794**	**3,339**	**3,025**	**6,872**	**5,791**
By holding											
Leasehold	2,599	1	327	-	2	-	2,187	-	45	-	37
Public Private Partnerships	3,705	338	1,417	1,950	-	-	-	-	-	-	-
Freehold (excluding PPP)	180,198	57,496	43,310	37,460	17,089	4,291	1,607	3,339	2,980	6,872	5,754
Carrying value as at 30 June 2020	**186,502**	**57,835**	**45,054**	**39,410**	**17,091**	**4,291**	**3,794**	**3,339**	**3,025**	**6,872**	**5,791**

1 The other movements in land, buildings and other plant and equipment mainly relates to the establishment of New Zealand Institute of Skills and Technology. Refer to note 1 for further details.

The total amount of property, plant and equipment under construction is $4,990 million (2019: $3,803 million)

Note 17: Property, Plant and Equipment (continued)

For the year ended 30 June 2019	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 2018	**175,019**	52,394	39,076	31,702	16,124	5,850	4,686	4,373	3,492	2,418	14,904
Additions	**9,462**	859	3,541	2,051	115	271	682	546	36	324	1,037
Disposals	**(1,157)**	(131)	(135)	(78)	(1)	(18)	(31)	(4)	(11)	-	(748)
Net revaluations	**9,624**	2,009	37	3,512	1,045	-	(350)	(42)	(278)	3,691	-
Transfers from/(to) other asset classes	**(110)**	(136)	(40)	35	-	-	-	-	-	-	31
Other	**(30)**	11	(41)	-	(31)	-	6	-	-	2	23
Total gross carrying amount	**192,808**	**55,006**	**42,438**	**37,222**	**17,252**	**6,103**	**4,993**	**4,873**	**3,239**	**6,435**	**15,247**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2018	**16,356**	-	1,930	-	246	1,753	-	1,189	354	1,230	9,654
Eliminated on disposal	**(789)**	-	(14)	-	-	(15)	(7)	(3)	(9)	-	(741)
Eliminated on transfer to other asset classes	**(2)**	-	-	-	-	-	-	-	-	-	(2)
Eliminated on revaluation	**(2,452)**	-	(1,925)	(497)	(739)	-	(338)	-	(282)	1,329	-
Impairment losses charged to operating balance	**(2,516)**	-	(4)	-	3	-	-	-	-	(2,576)	61
Depreciation expense	**4,554**	-	1,681	497	508	192	345	334	26	45	926
Other	**32**	-	38	-	(5)	-	-	-	-	-	(1)
Total accumulated depreciation and impairment	**15,183**	**-**	**1,706**	**-**	**13**	**1,930**	**-**	**1,520**	**89**	**28**	**9,897**
Carrying value as at 30 June 2019	**177,625**	**55,006**	**40,732**	**37,222**	**17,239**	**4,173**	**4,993**	**3,353**	**3,150**	**6,407**	**5,350**
By holding											
Leasehold	**3,060**	1	241	-	2	-	2,787	-	-	-	29
Public Private Partnerships	**2,963**	339	1,308	1,316	-	-	-	-	-	-	-
Freehold (excluding PPP)	**171,602**	54,666	39,183	35,906	17,237	4,173	2,206	3,353	3,150	6,407	5,321
Carrying value as at 30 June 2019	**177,625**	**55,006**	**40,732**	**37,222**	**17,239**	**4,173**	**4,993**	**3,353**	**3,150**	**6,407**	**5,350**

Note 17: Property, Plant and Equipment (continued)

Items of Property, Plant and Equipment (PPE) are initially recorded at cost. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, and as 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.

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

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

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 and impairment accumulated since the assets were last revalued. Land associated with the rail network and state highways is valued using an estimate based on adjacent land 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.
Electricity distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
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.

Note 17: Property, Plant and Equipment (continued)

Typically, the estimated useful lives of different classes of PPE are as follows:	
Class of PPE	**Estimated useful lives**
Buildings	25 to 150 years
Electricity distribution network	2 to 80 years
Other plant and equipment	3 to 30 years

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 PPE owned by the Crown has been pledged as security for liabilities. Government-owned PPE is, however, subject to a significant number of legislative and policy restrictions with respect to its use and disposal. PPE owned by SOEs and mixed ownership companies has been pledged to secure borrowings and finance lease obligations of $2,914 million (2019: $3,691 million).

Property, plant and equipment revaluation reserve	**Actual 30 June 2020 $m**	**Actual 30 June 2019 $m**
Opening revaluation reserve	106,495	94,742
Net revaluations	5,233	12,474
Minority interest share of revaluation reserve	(57)	(589)
Transfers from/(to) taxpayer funds	663	(132)
Closing revaluation reserve	**112,334**	**106,495**
Class of Asset		
Land	47,102	41,437
Buildings	24,834	25,760
State highways	23,116	22,478
Electricity generation assets	12,120	11,965
Specified cultural and heritage assets	1,353	1,535
Specialist military equipment	559	561
Rail network	2,797	2,388
Other reserves	453	371
Closing revaluation reserve	**112,334**	**106,495**

Net revaluations in the note above exclude movements attributable to minority interests and includes the share of associates revaluation of physical assets. It will therefore differ from the movements on pages 91 and 92.

Note 17: Property, Plant and Equipment (continued)

Land and Buildings

Breakdown of land and buildings

30 June 2020	Actual Land $m	 Buildings $m	 Total $m
Housing stock	19,910	12,604	32,514
School property	6,055	14,481	20,536
State highway corridor land	14,724	14	14,738
Hospitals	1,280	6,135	7,415
Conservation estate	6,741	64	6,805
Rail network corridor land	3,779	-	3,779
Prisons and Department of Corrections	185	3,412	3,597
Defence Force land and buildings	1,009	1,990	2,999
New Zealand Institute of Skills and Technology	377	1,478	1,855
Ministry of Justice land and buildings	230	989	1,219
Landcorp farmland and buildings	1,018	150	1,168
Fire Stations	328	440	768
Police stations	240	392	632
Other	1,959	2,905	4,864
Total land and buildings	**57,835**	**45,054**	**102,889**

30 June 2019	Actual Land $m	 Buildings $m	 Total $m
Housing stock	18,819	11,407	30,226
School property	5,772	13,627	19,399
State highway corridor land	13,745	6	13,751
Hospitals	1,230	5,968	7,198
Conservation estate	6,630	66	6,696
Rail network corridor land	3,516	-	3,516
Prisons and Department of Corrections	185	3,282	3,467
Defence Force land and buildings	1,002	2,010	3,012
Landcorp farmland and buildings	1,073	153	1,226
Ministry of Justice land and buildings	248	942	1,190
Fire Stations	311	399	710
Police stations	241	367	608
Other	2,234	2,505	4,739
Total land and buildings	**55,006**	**40,732**	**95,738**

Land and building valuation

Valuations are undertaken in accordance with standards issued by the NZ Property Institute or are based on the Rating Valuation Act 1988 which have been confirmed as appropriate by an independent valuer.

A number of valuers have identified that while values have not been significantly impacted by the COVID-19 pandemic, there is limited market evidence available post the COVID-19 pandemic lockdown period. They have warned that illiquidity in property markets at the time of the valuations may be a short-term issue or a longer-term concern. Consequently, a time delay must be expected in establishing transactional evidence to demonstrate what the adjustment from pre-pandemic values is with certainty.

Note 17: Property, Plant and Equipment (continued)

Valuation Information

Description	Valuer/Reviewer	Approach	Timing
Housing stock	Quotable Value Limited	Valuations based on market evidence using sales comparison data.	Annual valuation with the latest completed in the 30 June 2020 financial year.
School property	Quotable Value Limited or experienced staff (reviewed by Quotable Value Limited)	Valuations based on market evidence where possible, or optimised depreciated replacement cost (ODRC).	Annual valuation with the latest completed as at 30 June 2020.
State highway corridor land and held properties	Darroch Ltd, a registered property valuation company, peer reviewed by WSP Opus.	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 1-9 years. The latest valuation and indexation was completed as at 30 June 2020.
Conservation estate (national parks, forest parks, conservation areas, reserves)	Quotable Value Limited rateable valuations reviewed by Logan Stone Limited	Valued based on current year rateable valuations from Quotable Value Limited. 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 regional and district sales indices from CoreLogic.	Annual valuation with the latest completed as at 30 June 2020.
Hospitals	Each District Health Board uses an independent valuer	Land values and non-specialised properties were based on market evidence while buildings were valued at ODRC.	Each DHB revalues land and buildings on a two 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 is valued based on adjacent use ('across the fence'), as an approximation of 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 2020.
Prisons and Department of Corrections	Beca Limited	Prison complex assets considered to be specialised assets are valued using a cost approach with the land component valued using a market approach. Other non-specialised land and buildings are valued using income, market and cost approaches as appropriate.	Valuations are completed at least once every three years with the latest completed as at 30 June 2019.
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 2019.

Note 17: Property, Plant and Equipment (continued)

Carrying value of other asset classes subject to revaluation

State Highways (excluding land)

	Actual	
	30 June 2020 $m	**30 June 2019 $m**
Formation	15,919	14,193
Pavement (structure)	6,284	6,285
Pavement (surface)	1,093	1,039
Bridges	8,387	8,067
Drainage	1,775	1,770
Traffic facilities	1,515	1,451
Culverts and subways	706	738
Other structures	3,428	3,679
Miscellaneous[1]	303	-
Total state highways	**39,410**	**37,222**

1 Miscellaneous is a new asset class that is made up of intelligent traffic systems (ITS), traffic management units, bailey bridges, sea and river protection structures and other structures previously held outside of the road assessment and management (RAMM) database.

Accounting policy	Estimated useful lives
State highways are recorded on an 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).	Formation – Permanent Pavement structure (sub-base) – Permanent Pavement structure (base course) – 50 years Pavement surface – 9 years Bridges – 90 to 100 years

Valuation information

Description	Valuer/Reviewer	Approach	Timing
Formation, pavement, bridges, drainage works, traffic facilities, culverts, subways and other structures.	WSP Opus	State Highways are valued using the ODRC of the existing asset database.	The latest valuation was completed as at 30 June 2020.

The state highway net value increased by $2,188 million in 2019/20 mainly due to the capital expenditure of state highway projects. The indexation of base unit rates to reflect the current costs of construction did not have a significant impact on the 2019/20 valuation.

WSP Opus, an independent valuer, determined the valuation of the state highway as at 30 June 2020 by assigning replacement costs to the components of the state highway reported in the RAMM database and other databases as at 30 June 2019. The net capital expenditure for the year to 30 June 2020 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 above.

Note 17: Property, Plant and Equipment (continued)

Significant estimates and assumptions have been applied to the valuation, which include assumptions on the 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:

	30 June 2020	30 June 2019
Overhead Factors		
Professional Fees	15%	15%
Preliminary & general costs	35%	35%
Formation		
$ per square metre cost in flat terrain	$23	$23
$ per square metre cost in rolling terrain	$69	$67
$ per square metre cost in mountainous terrain	$129	$127
Pavement (surface)		
Asphalt ($/m2)	$19-$109	$26-$108
Chipseal ($/m2)	$7-$8	$7-$8
Bridges		
Routine (single span) ($/m2)	$4,262	$4,199
Routine (multi span) ($/m2)	$3,483	$3,431
Motorway ramps ($/m2)	$5,041	$4,967

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 increases to estimates.

Movement	30 June 2020 ($m)	30 June 2019 ($m)
Increase in external professional fees by 10%	398	188
Increase in preliminary & general costs by 10%	971	931
Increase in formation unit costs by 10%	839	1,288
Increase in unit costs of bridges, culverts, pavements, railings and barriers by 10%	1,647	1,613
Increase in brownfield costs by 10%	124	124
Increase in price index by 10%	3,375	N/A[1]

1 This is a new sensitivity for 2020.

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 state highways (excluding land) value (-$2,956 million to +$3,941 million).

Note 17: Property, Plant and Equipment (continued)

Electricity generation assets

	Actual 30 June 2020 $m	30 June 2019 $m
Meridian Energy	8,445	8,747
Mercury NZ	5,581	5,347
Genesis Energy	3,228	3,308
Inter segment eliminations	(163)	(163)
Total electricity generation assets	**17,091**	**17,239**

Accounting policy	Estimated useful lives
Electricity generation assets are recorded at fair value less depreciation accumulated since the assets were last revalued.	25 to 100 years

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 2020.
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 2020.
Genesis Energy: Thermal and Hydro stations and Wind farms	Internal valuation	Based on the present value of estimated future cash flows of the assets.	Valuations are performed with sufficient regularity to ensure the carrying amount does not materially differ from the estimated fair value at balance date. The latest valuation being as at 30 June 2020.

There are a number of key assumptions used to value electricity generation assets. These judgements and assumptions predominantly relate to future revenue streams (eg, wholesale electricity prices, generation volumes) and operating expenses, 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 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.

There are a range of reasonable judgements and assumptions that could be used in estimating the fair value of these assets. These key assumptions are subject to significant uncertainties driven by unobservable market data, such as growth expectations within various sectors of the economy, planned capital projects and varying risk factors. These assumptions interact dynamically with each other. For example, wholesale electricity prices can affect the amount of generation volumes and operating costs.

Note 17: Property, Plant and Equipment (continued)

Meridian Energy

Key input		**Sensitivity range**	**Valuation impact on fair value of generation assets**
Generation volume	13,400 GWh p.a to 15,590 GWh p.a.	+/- 250 GWh	$286 million / ($286) million
Operating expenditure	$300 million p.a. (in real terms)	+/- $10 million p.a.	($162) million / $162 million
Earnings before interest tax, depreciation and financing costs multiple	12.2x	+/- 0.5x	$416 million / ($416) million

Genesis Energy

Key input		**Sensitivity range**	**Valuation impact on fair value of generation assets**
Wholesale electricity price path	$88/MWh to $114/MWh referenced to the Ōtāhuhu 220KV location node from July 2020 to July 2040 (in nominal terms)	+/- 10%	$550 million / ($550) million
Generation volume	2,827 GWh to 6,689 GWh per annum, the low end of the range relates to periods where there is no thermal generation	+/- 10%	$408 million / ($408) million
Discount rate	Pre-tax equivalent discount rate of 9.4%	+/- 1%.	($329) million / $419 million

Mercury NZ

Key input		**Sensitivity range**	**Valuation impact on fair value of generation assets**
Future wholesale electricity price path	$75/MWh to $93/MWh (in real terms)	+/- 10%	$891 million / ($898) million
Discount rate	Post-tax discount rate between 6.5% to 6.9%	+/- 0.5%	$(604) million / $747 million
Operating expenditure	$161 million p.a.	+/- 10%	($267) million / $267 million

For further information on the valuation of electricity generations assets, refer to the individual annual reports of each entity.

Note 17: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

	Actual 30 June 2020 $m	Actual 30 June 2019 $m
National Library	876	1,059
Te Papa	955	942
National Archives	548	628
Conservation	538	460
Other	108	61
Total specified cultural and heritage assets	**3,025**	**3,150**

Accounting policy	Estimated useful lives
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.	5 to 100 years except for Te Papa collections that have indefinite life and are generally not of depreciable nature.

Valuation information

Description	Valuer/Reviewer	Approach	Timing
National Library collections	Dunbar Sloane	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 2020.
Te Papa collections	Art: Art & Object Library, History, Mātaraunga Māori, Pacific and International and Photography: Dunbar Sloane Natural History: Dunbar Sloane and Mowbray Collectables Limited Philatelic: Mowbray Collectables Limited	Art, Library, History, Mātaraunga 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 2020.
Archives New Zealand	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 2020.

Note 17: Property, Plant and Equipment (continued)

Description	Valuer/Reviewer	Approach	Timing
Conservation estate assets including visitor buildings, structures, land formation, roads, campgrounds, tracks, signs, fences and infrastructure	Internal valuation	Revaluations use the movement in the appropriate capital goods index as supplied by Statistics New Zealand to estimate the change in asset values.	All asset classes were valued at fair value effective as at 30 June 2020.

Rail network

Carrying value of the rail network

	Actual 30 June 2020 $m	30 June 2019 $m
Network required for freight	5,695	5,428
Network not required for freight (including metro)	858	836
Total rail infrastructure	**6,553**	**6,264**
Buildings	48	54
Capital work in progress	271	89
Total rail network	**6,872**	**6,407**

Accounting policy	Estimated useful lives
The Rail Network is recorded on an 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).	Track and ballast – 40 to 50 years Tunnels and bridges – 75 to 200 years Overhead traction and Signalling – 15 to 80 years

The ODRC approach recognises that the Rail Network will be maintained and replaced over time, given its purpose in a multi-modal transport system enabling access and mobility, transporting people and goods to where they need to go, supporting productivity and business growth, reducing emissions, congestion and road deaths, and strengthening social and cultural connections between communities. If its only purpose were to be cash generating the asset would be reported at its recoverable value based on a discounted cashflow calculation. The 30 June 2020 recoverable amount is $136 million (2019: $170 million).

Valuation information

Description	Valuer/Reviewer	Approach	Timing
Tunnels, bridges, rail, sleepers, electrification and other assets.	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. The Rail Network is valued using the ODRC of the existing asset database. Recoverable amount information is also obtained.	A full valuation is completed annually where assets are valued using a combination of latest costs and indexation. The latest valuation was completed as at 30 June 2020.

Note 17: Property, Plant and Equipment (continued)

	Actual 30 June 2020 $m	30 June 2019 $m
Tunnels	2,083	2,066
Bridges	1,443	1,425
Rail (includes allowance for formation)	928	682
Sleepers	737	746
Electrification	600	605
Other	762	740
Total rail network	**6,553**	**6,264**

The rail network comprises around 3,700 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.

Other significant classes of PPE

Specialist military equipment

Accounting policy	Estimated useful lives
Specialist military equipment is recorded on an ODRC basis less depreciation accumulated since the assets were last revalued.	5 to 55 years

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 (excluding specialised military)

Accounting policy	Estimated useful lives
Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation accumulated since the assets were last revalued.	10 to 20 years

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 2020.

The COVID-19 pandemic has had a significant impact on the market values of aircraft. Aircraft assets were revalued to market value as at 30 June 2020 using independent external valuations on a stand-alone basis. The valuations are determined by reference to relevant market conditions, the specification of each aircraft and issues affecting specific aircraft types. The valuations assume that the aircraft were in the equivalent of half-life condition with respect to the airframe and engines other than for newer aircraft which had not yet reached the equivalent half-life condition. Impairment losses of $1,068 million were recognised against aircraft for the financial year ended 30 June 2020.

Note 17: 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 borrowings (note 20).

	Actual 30 June 2020 $m	30 June 2019 $m
Transmission Gully State Highway	1,195	854
Puhoi to Warkworth State Highway	874	593
Education Assets	578	599
Waikeria Corrections Facility	392	212
Auckland Prison	338	361
Auckland South Corrections Facility	328	344
Total public private partnerships	**3,705**	**2,963**
Carrying value of assets by source		
Provided by private sector partner	3,367	2,624
Existing government assets	338	339
Total public private partnerships	**3,705**	**2,963**

Movements in carrying value for Public Private Partnerships

	Actual 30 June 2020 $m	30 June 2019 $m
Gross carrying amount		
Opening balance 1 July	2,978	2,174
Assets provided by private sector partner(s)	542	705
Existing Government assets	(11)	71
Net revaluations	(34)	17
Other	281	11
Total Gross Carrying Amount	**3,756**	**2,978**
Accumulated Depreciation and Impairment		
Opening balance 1 July	15	22
Eliminated on disposal	20	-
Eliminated on revaluation	(18)	(44)
Depreciation expense	34	37
Total accumulated depreciation	51	**15**
Carrying value as at 30 June	**3,705**	**2,963**

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 18: Equity Accounted Investments

2020 Forecast at			Actual	
Budget 2019 $m	Budget 2020 $m		30 June 2020 $m	30 June 2019 $m
13,195	11,984	Universities and Wānanga	12,637	13,395
857	386	City Rail Link Limited	548	347
879	1,324	Other	1,123	908
14,931	**13,694**	**Total equity accounted investments**	**14,308**	**14,650**

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, for financial reporting purposes.

The Government cannot determine the operating and financing policies of Universities and Wānanga, but does have a number of powers in relation to these entities, therefore, it is appropriate to treat them as associates. City Rail Link is a joint venture that the Government jointly controls with its joint venture partner, Auckland Council.

Universities and Wānanga

Universities and Wānanga 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 Universities and Wānanga, 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 Universities and Wānanga is set out below:

2020 Forecast at			Actual	
Budget 2019 $m	Budget 2020 $m		30 June 2020 $m	30 June 2019 $m
		Operating Results		
2,734	2,584	Revenue from Crown	3,544	2,480
2,705	2,840	Other revenue	2,839	2,920
(5,307)	(5,298)	Expenses	(5,205)	(5,233)
132	**126**	**Net surplus**	**1,178**	**167**
		Assets		
2,143	1,888	Financial assets	2,014	2,427
12,799	11,456	Property, plant and equipment	11,203	12,323
1,283	906	Other assets	1,630	1,202
16,225	**14,250**	**Total assets**	**14,847**	**15,952**
		Liabilities		
708	375	Borrowings	267	418
2,322	1,891	Other liabilities	1,943	2,139
3,030	**2,266**	**Total liabilities**	**2,210**	**2,557**
13,195	**11,984**	**Net worth**	**12,637**	**13,395**

The Universities and Wānanga net surplus in 2019/20 increased by $1,011 million from $167 million in 2018/19 to $1,178 million in 2019/20. This is largely due Universities and Wānanga being provided with certainty of funding for the 2020 teaching calendar year regardless of domestic student numbers due to the COVID-19 pandemic. This change resulted in the early recognition of the July to December 2020 funding from the 2020/21 financial year. As a result of moving the income forward, a net deficit is forecast for 2020/21. There is no impact on the timing of cash flows.

Note 18: Equity Accounted Investments (continued)

City Rail Link Limited

City Rail Link Limited (CRLL) is a jointly controlled Crown Entity company, co-funded with the Auckland Council, for the purpose of designing and constructing 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 $4.4 billion, which will be confirmed once all the contracts are finalised. The Government's share of costs is $2.2 billion.

For the year ended 30 June 2020, CRLL recognised revenue of $2 million (2019: $4 million), a deficit of $113 million (2019: $25 million), assets of $1,158 million (2019: $721 million), liabilities of $61 million (2019: $27 million) and equity of $1,097 million (2019: $694 million).

The Government has a commitment to fund CRLL for 50% share of its commitments, being $1,598 million (2019: $152 million). The increase in commitments in 2019/20 is due to the finalisation of a contract for the building of two new inner-city underground stations, upgrading the existing Mt Eden station, and completing tunnel construction.

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 2020, NZLGFA recognised revenue of $370 million (2019: $361 million) and a surplus of $11 million (2019: $11 million). NZLGFA's assets were $13,174 million (2019: $10,382 million) and liabilities were $13,091 million (2019: $10,308 million). The Crown's share of the net assets is $17 million (2019: $15 million). The Crown is not a guarantor of the NZLGFA and has no share of any contingent liabilities of the NZLGFA.

Note 19: Payables

2020 Forecast at			Actual	
Budget 2019 $m	Budget 2020 $m		30 June 2020 $m	30 June 2019 $m
		By type		
7,582	11,562	Accounts payable	11,928	10,449
5,265	5,641	Taxes repayable	5,043	6,293
12,847	**17,203**	**Total payables**	**16,971**	**16,742**
		By maturity		
12,136	16,141	Expected to be settled within one year	15,741	15,868
711	1,062	Expected to be outstanding for more than one year	1,230	874
12,847	**17,203**	**Total payables**	**16,971**	**16,742**

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 20: Borrowings

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		By type		
62,378	64,322	Government bonds	64,363	56,874
17,033	17,608	Kiwi Group Holdings customer deposits	20,583	18,231
6,713	35,759	Settlement deposits	23,027	6,891
2,964	9,969	Treasury bills	11,269	3,455
2,344	9,705	Derivatives in loss	5,567	3,939
3,328	3,122	Public private partnership liability	3,082	2,556
2,539	1,446	Finance lease liabilities	1,495	1,328
177	164	Government retail stock	242	169
20,529	22,704	Other borrowings	23,089	16,805
118,005	**164,799**	**Total borrowings**	**152,717**	**110,248**
		By maturity		
36,339	75,868	Due to or expected to be settled within one year	76,227	40,331
81,666	88,931	Expected to be outstanding for more than one year	76,490	69,917
118,005	**164,799**	**Total borrowings**	**152,717**	**110,248**
		By guarantee		
80,129	122,785	Sovereign-guaranteed debt	109,547	74,946
37,876	42,014	Non-sovereign debt	43,170	35,302
118,005	**164,799**	**Total borrowings**	**152,717**	**110,248**

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.

In respect of the borrowings by maturity, borrowings that are expected to be settled within one year include settlement deposits and Kiwi Group Holdings customer deposits. While these liabilities are not expected to be settled in the next 12 months, there is no right for the Government to defer the settlement of these liabilities beyond 30 June 2021 and on this basis, are classified as “current”.

Large Scale Asset Purchases

Under the LSAP programme, up to 30 June 2020, $21,025 million New Zealand Government Bonds (NZGBs) and $964 million Local Government Funding Agency bonds have been purchased on the secondary market, paid for with an increase in the settlement deposits, at the sellers' bank.

The statement of financial position reflects the net effect of the LSAP programme in respect of NZGBs through decreases in the liability for NZGB’s outstanding and increases in the liability for settlement deposits.

Note 20: Borrowings (continued)

Government Bonds

Government bonds are measured at amortised cost.

The fair value of Government bonds measured at amortised cost is $76,830 million (2019: $66,454 million). This valuation is based on observable market prices at 30 June 2020. The difference in value is due to a reduction in market rates, increasing the value of the bonds.

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.

Where Government bonds are repurchased, which is primarily through the LSAP programme, the first in, first out method for matching bonds is used to calculate the gain/loss on re-purchase.

Settlement deposits

Most transactions involve transferring money from one person's bank account to another. If the people involved in a transaction hold their accounts at different banks, it means that one bank owes money to another bank, on behalf of its customer. As well as such transactions, commercial banks also transact with the Government (eg, the purchase of notes and coins).

As with currency in circulation, settlement deposits are usually considered part of the supply of money. They are administered through the Exchange Settlement Account System (ESAS). ESAS is used to transfer funds between banks and the government at the end of each day. The Reserve Bank manages settlement deposits to meet the economic objectives specified in the Reserve Bank of New Zealand Act 1989 to achieve and maintain stability in the general level of prices over the medium term, and to support maximum sustainable employment.

Kiwi Group Holdings customer deposits

Kiwi Group Holdings customer deposits are measured at amortised cost using the effective interest 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 Kiwi Group Holdings customer deposits measured at amortised cost is $20,615 million (2019: $18,255 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.

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

Treasury bills

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

Derivatives in loss

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.

Note 20: Borrowings (continued)

Public private partnership liability

A public private partnership (also known as a service concession arrangement) is an arrangement between the Crown and a private sector partner. While assets constructed in a public private partnership (PPP) are recognised as assets of the Government, at the same time, a matching financial liability, initially at the same value of the asset, is also recognised and forms part of the Government's total borrowings. When the assets are fully constructed, the total asset cost and the matching financial liability reflect the value of the future compensation to be provided to the private-sector partner for the assets.

The Crown has entered into a number of public–private partnership agreements either to construct and operate (eg, selected state highways and corrections facilities) or to only construct (eg, selected schools) as listed in the note 17. The operational agreements run generally for 25 years from the service commencement date. PPP liabilities are measured at amortised cost and their carrying value approximates the amount payable at maturity. At the time the PPP assets becomes operational, the Crown will begin paying the private sector partner a regular unitary charge (eg, monthly or quarterly) over 25 years, subject to satisfactory performance against agreed service levels in some cases. The unitary charge typically has three components covering the reduction of the PPP financial liability, an amount for finance costs and if applicable, an amount for service costs.

Currency Issued

Currency issued represents a liability in favour of the holder. Currency issued for circulation, including demonetised currency after 1 July 2004, is recognised at face value. For currency demonetised before 1 July 2004, this is recognised as a contingent liability, except for a provision recognised in the Statement of Financial Position to cover expected redemptions.

Other borrowings

	Actual	
	30 June 2020 $m	30 June 2019 $m
Other borrowings measured at amortised cost	19,055	12,719
Other borrowings measured at fair value	4,034	4,086
Total other borrowings	**23,089**	**16,805**

Other borrowings held for trading or designated at fair value through the operating balance (to avoid an accounting mismatch) are measured at fair value. The movements in fair value are reported in the Statement of Financial Performance, except for other borrowings designated as fair value where the changes in own credit risk are included in other comprehensive revenue and expenses.

All other borrowings are reported at amortised cost.

Other borrowings includes $4,138 million (2019: $3,066 million) of sovereign-guaranteed debt administered by the Reserve Bank and the Treasury.

The fair value of other borrowings measured at amortised cost is $19,116 million (2019: $12,729 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, the value of these instruments will be affected by changes in interest rates due to credit risk and broader market influences.

Note 20: Borrowings (continued)

	Actual 30 June 2020 $m	30 June 2019 $m
Other borrowings measured at fair value		
Carrying value	4,034	4,086
Amount payable on maturity	3,484	3,772
Fair value impact from changes in credit risk for the year	(9)	(12)
Cumulative fair value impact from changes in credit risk	73	83

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.

Of the other borrowings measured at fair value, $3,678 million (2019: $4,060 million) was designated as such to prevent a valuation mismatch between this debt and associated derivatives that are managed as one integrated portfolio.

Note 21: Retirement Plan Liabilities

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
10,968	12,955	Government Superannuation Fund (GSF)	13,970	13,161
3	17	Other funds	13	18
10,971	**12,972**	**Total retirement plan liabilities**	**13,983**	**13,179**

There is 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. The GSF has been closed to new members since 1 July 1992.

The GSF obligation has been calculated by GSF's actuary as at 30 June 2020. 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 using assumptions about the likelihood of an entitlement becoming payable in the future (the demographic assumptions) and about members’ future salary growth and pension increases (the financial assumptions). These projected benefit payments are then discounted back to the valuation date.

The Government has adopted PBE IPSAS 39 *Employee Benefits* from 1 July 2019 (updating the existing standard PBE IPSAS 25 *Employee Benefits).* The new standard impacts the way the GSF defined benefit pension scheme is presented in the financial statements, with actuarial gains/losses now being presented in the Statement of Comprehensive Revenue and Expense (and accumulated in a new revaluation reserve) rather than presented as a gain or loss in the Statement of Financial Performance. The new standard also means the investment return on the scheme’s assets above the risk-free rate of return is now classified as actuarial gains and losses.

The new accounting standard does not affect the way the GSF defined benefit liability is calculated overall, and therefore it does not affect the Crown’s total Net Worth.

Comparatives have been restated to reflect the presentation changes. From 1 July 2018, cumulative GSF actuarial gains and losses will accumulate in the new revaluation reserve, rather than in Taxpayers’ Funds. The reclassification of GSF actuarial gains and losses of $2,615 million to 30 June 2019 can be seen in note 28.

Note 21: Retirement Plan Liabilities (continued)

Amounts recognised in the Statement of Financial Position in respect of GSF are as follows:

	Actual 30 June 2020 $m	Actual 30 June 2019 $m
Net GSF Obligation		
Present value of defined benefit obligation	18,238	17,692
Fair value of plan assets	(4,268)	(4,531)
Present value of unfunded defined benefit obligation	**13,970**	**13,161**
Present value of defined benefit obligation		
Opening defined benefit obligation	17,692	15,558
Expected current service cost	66	60
Expected unwind of discount rate	218	270
Actuarial losses/(gains) arising from changes in financial assumptions	1,090	2,611
Actuarial losses/(gains) arising from changes in demographic assumptions and experience adjustments	73	86
Benefits paid	(901)	(893)
Closing defined benefit obligation	**18,238**	**17,692**
Fair value of plan assets		
Opening fair value of plan assets	4,531	4,570
Expected interest on plan assets [1, 2]	57	76
Actuarial gains/(losses) [2]	(108)	82
Funding of benefits paid by Government	696	702
Contributions from other entities	15	16
Contributions from members	21	23
Benefits paid	(901)	(893)
Other	(43)	(45)
Closing fair value of plan assets	**4,268**	**4,531**

[1] Calculated at the risk-free rate of return

[2] The actual return on plan assets is made up of the sum of the expected interest on plan assets and the actuarial gains/(losses) on plan assets.

Amounts recognised in the Statement of Financial Performance in respect of GSF are as follows:

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Personnel Expenses		
		Expected current service cost	66	60
		Contributions from members and funding employers	(36)	(39)
		Other expenses	43	45
		Past service cost	-	-
73	**76**	**Total included in personnel expenses**	**73**	**66**
		Net interest costs		
		Expected unwind of discount rate	218	270
		Expected interest on plan assets	(57)	(76)
185	**162**	**Total included in finance costs**	**161**	**194**

Note 21: Retirement Plan Liabilities (continued)

Amounts recognised in other comprehensive revenue and expense in respect of GSF are as follows:

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
		Actuarial losses/(gains) arising from changes in financial assumptions	1,090	2,611
		Actuarial losses/(gains) arising from changes in demographic assumptions and experience adjustments	73	86
		Experience gain/(loss) on plan assets	108	(82)
-	257	**Total revaluations on defined benefit retirement plan scheme**	**1,271**	**2,615**

A contribution of $737 million (2019: $711 million in the year ended 30 June 2020) is expected to be made to the GSF in the year ended 30 June 2021.

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

	Actual 30 June 2020 %	30 June 2019 %
Summary of assumptions		
For following year		
Discount rate	0.2%	1.3%
Expected interest on plan assets (as per discount rate above)		
Expected rate of salary increases	2.5%	2.5%
Expected rate of inflation	0.8%	1.7%
Beyond next year		
Discount rates between 2 and 21 years	0.3% to 2.2%	1.0% to 2.7%
Discount rates between 22 and 36 years	2.3% to 3.0%	2.8% to 3.5%
Discount rates between 37 and 52 years	3.0% to 3.8%	3.5% to 4.3%
Discount rates between 53 and 63 years	3.8% to 4.3%	4.3%
Discount rate from 64 years onwards	4.3%	4.3%
Expected interest on plan assets (as per discount rate above)		
Expected rate of salary increases	2.5%	2.5%
Expected rate of inflation from years 2 to 17	1.6%	1.7%

Inflation is assumed to be 0.8%, increasing to 1.58% over 4 years and remaining at 1.58% up to 17 years, then gradually increases, reaching 2.0% in year 63 and continuing thereafter.

The defined benefit obligation increased in the year to 30 June 2020 by $546 million, mainly due to a decrease in the short and medium term discount rates over the last year.

The discount rates used to determine the present value of the pension cash flows associated with this obligation are based on the market yield curve of New Zealand Government Bonds as set out on the Treasury's central table of risk-free discount rates described in note 2 *Assumptions over the future value of money*.

Note 21: Retirement Plan Liabilities (continued)

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

	Actual 30 June 2020 $m	Actual 30 June 2019 $m
Equity instruments	2,754	3,053
Other debt instruments	179	419
Cash and short term investments	482	279
Insurance linked securities	419	375
Derivatives	146	70
Other	288	335
Fair value of plan assets	**4,268**	**4,531**

The expected rate of return on the plan assets is 5.0% (2019: 5.0%) and is based on 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 2020 was -1.1%, or -$51 million (2019: 3.6% or $158 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 one assumption will change in isolation.

If the discount rate were to change in isolation, this would impact the measurement of the 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 2020 $m	Actual 30 June 2019 $m
Sensitivity of assumptions			
Discount rate (present value of the obligation)	+ 1%	(2,058)	(1,971)
	- 1%	2,519	2,407
Share price (fair value of equity instruments)	+ 10%	(275)	(305)
	- 10%	275	305
Expected rate of inflation	+ 1%	2,312	2,202
	- 1%	(1,940)	(1,857)

Note 21: Retirement Plan Liabilities (continued)

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $18,238 million (2019: $17,692 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 2020. These estimated cash flows include the effects of assumed future inflation.

	30 June 2020 $m	30 June 2019 $m
No later than 5 years	4,553	4,587
Later than 5 years and no later than 10 years	4,335	4,469
Later than 10 years and no later than 15 years	3,900	4,100
Later than 15 years and no later than 20 years	3,232	3,478
Later than 20 years and no later than 25 years	2,466	2,712
Later than 25 years and no later than 30 years	1,725	1,941
Later than 30 years and no later than 35 years	1,092	1,261
Later than 35 years and no later than 40 years	615	731
Later than 40 years and no later than 45 years	299	369
Later than 45 years and no later than 50 years	119	154
Later than 50 years	42	61
Undiscounted defined benefit obligation	**22,378**	**23,863**

Note 22: Provisions

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		By type		
3,623	8,193	Provision for employee entitlements	5,535	4,582
3,228	3,500	Veterans' disability entitlements	3,483	3,228
2,182	2,671	Provision for Emission Trading Scheme credits	3,804	2,884
725	824	Provision for National Provident Fund guarantee	857	879
-	-	Aircraft Lease Return Costs	303	268
-	-	Provision for firearms buy-back	39	150
2,927	13	Other provisions	2,463	1,601
12,685	**15,201**	**Total provisions**	**16,484**	**13,592**
		By longevity		
4,564	4,500	Expected to be settled within one year	6,002	4,530
8,121	10,701	Expected to be outstanding for more than one year	10,482	9,062
12,685	**15,201**	**Total provisions**	**16,484**	**13,592**

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

Note 22: Provisions (continued)

For the year ended 30 June 2020	Employee entitlements $m	ETS $m	NPF guarantee $m	Aircraft lease return costs $m	Firearms Buyback $m	Other $m
Opening Provision	4,582	2,884	879	268	150	1,601
Additional Provision	1,570	650	-	110	-	1,441
Provision Utilised	(496)	(827)	(74)	(76)	(111)	(693)
Reversal of previous provision	(156)	-	(97)	(6)	-	(90)
(Gains) / Losses on NZ Units	-	1,097	-	-	-	-
Other Movements	35	-	149	7	-	204
Closing Provision	**5,535**	**3,804**	**857**	**303**	**39**	**2,463**

For the year ended 30 June 2019	Employee entitlements $m	ETS $m	NPF guarantee $m	Aircraft lease return costs $m	Firearms Buyback $m	Other $m
Opening Provision	3,677	2,541	835	265	-	1,364
Additional Provision	2,585	543	-	94	150	660
Provision Utilised	(1,490)	(425)	(67)	(83)	-	(348)
Reversal of previous provision	(190)	-	(80)	(9)	-	(82)
(Gains) / Losses on NZ Units	-	225	-	-	-	-
Other Movements	-	-	191	1	-	7
Closing Provision	**4,582**	**2,884**	**879**	**268**	**150**	**1,601**

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 0.22% (2019: 1.26%) next year to 4.30% (2019: 4.30%) in later years (note 2).

The economic impact of the COVID-19 pandemic has contributed to the increase in the employee entitlements provision at 30 June 2020. This was driven by fewer employees taking leave during the last quarter of the 2019/20 fiscal year compared to pre-COVID-19 pandemic levels. As a result, leave entitlements accruing to employees has increased, which increases the employee entitlement provision at 30 June 2020.

This balance also includes a provision for the review of calculations for compliance with the Holidays Act 2003. A number of entities have commenced or completed a review of calculations in recent years in order to ensure compliance with the legislation. Where possible, a provision has been made in these financial statements for obligations arising from those reviews. These estimates and assumptions may differ to the actual results as further work is completed and could result in further adjustments to the carrying amount of the provision in the next financial year. District Health Boards have recognised a Holidays Act 2003 provision; the indicative potential range for the liability could be between $1.0 billion and $1.1 billion (2019: between $550 million and $650 million). To the extent that an obligation cannot reasonably be quantified at 30 June 2020, an unquantified contingent liability has been disclosed in note 26.

Note 22: Provisions (continued)

Veterans' disability entitlements

Veterans who have suffered a service-related injury or illness as defined in the Veterans' Support Act 2014 are eligible to receive financial support from the Crown. This is primarily provided through the payment of disablement pensions and allowances, covering the cost of rehabilitation and medical treatments and providing services to help veterans live independently.

	Actual	
	30 June 2020 $m	30 June 2019 $m
Veterans' disability entitlements		
Veterans' support entitlements (VSE)	1,692	1,725
Veterans' independence programme entitlements (VIP)	1,018	828
Assessments, treatments and rehabilitation obligations (ATR)	773	675
Total veterans' disability entitlements	**3,483**	**3,228**
Veterans' disability entitlements		
Opening value of entitlements	3,228	2,503
Current service costs	16	10
Unwind of discount rate	41	45
Benefit payments	(113)	(114)
Actuarial (gains)/losses arising from changes in demographic assumptions	61	155
Actuarial (gains)/losses arising from changes in financial assumptions	277	627
Actuarial (gains)/losses - liabilities	(27)	2
Closing value of veterans' disability entitlements	**3,483**	**3,228**

From 1 July 2019, the Crown has adopted PBE IPSAS 39 *Employee Benefits* (updating the existing standard PBE IPSAS 25 *Employee Benefits*). The new standard led to a change in the way veterans' disability entitlements are accounted for in these financial statements. Veterans' disability entitlements are now treated as a post-employment benefit, which means an expense and a liability is recognised to reflect the expected future payments (discounted to today's dollars). Previously, these obligations had been classed as social benefits, and the expense was recognised at the point when the entitlement payments were made. The change to the comparatives is outlined in note 28.

The value placed on the liability for veterans' disability entitlements is an estimate, in that there is uncertainty as to the amount and timing of future payments. This uncertainty arises mainly from:

- possible deficiencies in the underlying data used to make the estimate
- the accuracy of the model in predicting future events, and
- Imprecision in the assumptions used in the model

To reduce this uncertainty when bringing the veterans' disability entitlements liability onto the Statement of Financial Position for the first time, significant efforts have been made to test and validate the underlying data as much as possible, actuarial expertise has been procured to develop an actuarial model for the liability, and sensitivity testing was conducted on the assumptions used.

As the incidents that result in a veterans' disability entitlement may have occurred many decades previously, the data used to make the estimate primarily relies on records of payments, rather than data on the eligible population and utilisation rates. This has the advantage that uncertainties in the assumptions for the numbers of veterans that are eligible to receive entitlements and the utilisation rate are less likely to impact the overall estimate.

The estimate recognises however that based on past experience not all eligible veterans who are entitled to benefits will apply for them. "Utilisation rate" is the term used to describe the ratio of eligible veterans who actually take up full entitlements and the New Zealand Defence Force (NZDF) has a continuous communication programme with the goal to increase this rate over time. As a result future changes in the utilisation rates could differ from previous experience that has been largely relied on in this estimate. However, as the data indicates a significant increase in the proportion of veterans receiving ATR and VIP payments in the last three years (with greater communication of the entitlements), the estimate already makes some allowance for continued future utilisation increases.

Note 22: Provisions (continued)

Payments to eligible veterans start when they submit an application to NZDF. This is not back-dated to the date of the service-related illness or injury, which can be many years prior to application. This means there can be a significant period of time between the illness or injury and the payment start date. The estimated liability reflects the future payments for veterans' long-term employee benefits under the Act, taking into account inflationary increases where applicable and discounting these payments to their present value in today's money. Therefore, the assumption of the discount rate used and the inflation rate is critical to the estimate of this liability. The risk-free discount rate and long-term inflation rate, also used for other long term liabilities, has been applied.

Pension entitlements have been assumed to increase by the rate of CPI plus an additional 2.25% (2019: CPI + 2.25%). The additional 2.25% is to reflect the actual increase in Disablement Pensions over recent years.

Veterans will often continue to receive entitlements for their lifetime, which means the end date of payments depends on life expectancy assumptions. The mortality of veterans has been estimated using the cohort mortality tables and New Zealand life tables published by Statistics New Zealand. The relevant data is only available up to 2014 and represents the entire New Zealand population. The only adjustment made for veteran mortality being different to population mortality is to adjust the mortality of veterans in the immediate post-World War II period. There is no evidence available to indicate any further adjustments are appropriate.

The sensitivity of the estimate to these assumptions and judgements is shown below.

		Impact on Veterans' Liability	
		Actual	
Sensitivity of assumptions	**Change**	**30 June 2020 $m**	**30 June 2019 $m**
Utilisation Rates	No increase	(430)	(357)
	+50% p.a	333	278
Discount Rate (present value of the obligation)	+1% p.a	(595)	(509)
	-1% p.a	821	677
Inflation Rate	+1% p.a	821	651
Change in mortality	+ 2 years	(406)	(367)
	- 2 years	439	397

Amounts recognised in the statement of financial performance in respect of veterans' entitlements are as follows:

	30 June 2020 $m	30 June 2019 $m
Transfer payments and subsidies		
Current service cost	16	10
Interest expenses		
Unwind of discount rate	41	45
Total veterans' entitlements expense	**57**	**55**

Note 22: Provisions (continued)

Amounts recognised in the statement of comprehensive revenue and expense in respect of veterans' entitlements are as follows:

	30 June 2020 $m	30 June 2019 $m
Net revaluations of veterans' disability entitlements		
Actuarial gains/(losses) arising from changes in demographic assumptions	(61)	(155)
Actuarial gains/(losses) arising from changes in financial assumptions[1]	(277)	(627)
Actuarial gains/(losses) - liabilities	27	(2)
Total veterans' entitlements other comprehensive revenue and expense	**(311)**	**(784)**

[1] Changes in financial assumptions reflects both changes in discount rates and inflation rates.

Emissions Trading Scheme

The emissions trading scheme (ETS) was established to encourage a reduction in New Zealand's greenhouse gas emissions. The ETS provision represents the tradeable NZ units outstanding that will be accepted as emitters honour the emissions obligations under the ETS. The carbon price used to calculate the ETS provision at 30 June 2020 is $NZ 32.10 (2019: $NZ 23.15). The carbon price used 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

A provision has been recognised for the guarantee of superannuation schemes managed by the National Provident Fund (NPF). Included in the provision is the NPF's DBP annuitants scheme unfunded liability position of $857 million (2019: $879 million), represented by a gross estimated pension obligation of $896 million (2019: $916 million) with net investment assets valued at $39 million (2019: $37 million).

Other Provisions

Other provisions includes the impact of a Government policy announced on 15 August 2019 that allowed homeowners of on-sold over-cap properties in Canterbury to apply for an ex-gratia payment to enable them to complete agreed earthquake repairs. Subject to certain criteria, the Crown will contribute to the over-cap cost of repairs for these homes. The application period closed on 14 October 2020, with assessments and payments expected to continue until 2022. The calculation of the future cost of the policy is complex as it depends on the individual situation of many claimants. As the number and value of valid applications for on-sold over-cap repairs is highly uncertain, the provision of $274 million has been calculated based on the data available. The liability will be recalculated periodically, as information to estimate the forecast payments improves.

Note 23: Minority Interests

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Net Worth Attributable to Minority Interests		
5,983	6,494	Opening minority interest	6,390	5,920
372	(38)	Operating balance attributable to minority interests	(402)	452
(508)	(508)	Transactions with minority interests	(426)	(473)
(12)	82	Movement in reserves attributable to minority interests	49	502
(1)	(105)	Other movements	12	(11)
5,834	**5,925**	**Closing minority interest**	**5,623**	**6,390**
		Consisting of interests in:		
		Meridian Energy	2,341	2,520
		Mercury NZ	1,662	1,573
		Air New Zealand	618	1,251
		Genesis Energy	959	995
		Other	43	51
		Closing minority interest	**5,623**	**6,390**
		Minority share of Operating Balance		
		Meridian Energy	81	157
		Mercury NZ	91	161
		Air New Zealand	(623)	98
		Genesis Energy	22	27
		Other	27	9
		Operating balance attributable to minority interests	**(402)**	**452**

Transactions with minority interests include items such as dividend payments and dividend reinvestments. Other minority interests consists mainly of minority interests in Kiwi Group Holdings capital notes issued.

Information about the minority interest share of the entities above is included on page 172 and information about their financial position is included on pages 173 to 174.

Note 24: 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 Wellbeing Budget* published with the Government's budget on 14 May 2020.

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

Note 25: Commitments

	Actual 30 June 2020 $m	30 June 2019 $m
Capital Commitments		
State highways[1]	4,788	4,436
Aircraft (excluding military)	2,907	1,066
Specialist military equipment	2,677	1,786
Land and buildings	5,395	4,618
Other property, plant and equipment	926	919
Other capital commitments	895	753
Share of capital commitments from joint venture (CRLL)	799	73
Universities and Wānanga	400	595
Total capital commitments	**18,787**	**14,246**
Operating Lease Commitments		
Non-cancellable accommodation leases	5,095	4,779
Other non-cancellable leases	3,969	3,204
Universities and Wānanga	1,084	936
Total operating lease commitments	**10,148**	**8,919**
Total commitments	**28,935**	**23,165**
By source		
Core Crown	14,484	9,699
Crown entities	9,690	9,173
State-owned Enterprises	6,646	4,472
Inter-segment eliminations	(1,885)	(179)
Total commitments	**28,935**	**23,165**
By Term		
Capital Commitments		
One year or less	6,919	5,933
From one year to two years	3,107	2,803
From two to five years	5,445	3,001
Over five years	3,316	2,509
Total capital commitments	**18,787**	**14,246**
Operating Lease Commitments		
One year or less	1,500	1,497
From one year to two years	1,247	1,369
From two to five years	2,109	1,990
Over five years	5,292	4,063
Total operating lease commitments	**10,148**	**8,919**
Total commitments	**28,935**	**23,165**

1 State highway project commitments have been calculated using a forecast of approved cash flows for each project, where that project is in the construction phase.

Note 25: Commitments (continued)

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, inventory and commitments relating to employment contracts are not separately reported as commitments.

Note 26: 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 were 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 are not able to be quantified; these unquantifiable contingent liabilities and contingent assets are disclosed as at 30 June 2020 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.

Note 26: Contingent Liabilities and Contingent Assets (continued)

Contingent Liabilities

	Actual 30 June 2020 $m	30 June 2019 $m
Quantifiable Contingent Liabilities		
Uncalled capital	8,384	8,245
Guarantees and indemnities	263	190
Legal proceedings and disputes	491	734
Other quantifiable contingent liabilities	485	488
Total quantifiable contingent liabilities	**9,623**	**9,657**
By source		
Core Crown	9,453	9,175
Crown entities	89	392
State-owned Enterprises	210	191
Inter-segment eliminations	(129)	(101)
Total quantifiable contingent liabilities	**9,623**	**9,657**

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.

Uncalled capital

As part of the 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”.

	Actual 30 June 2020 $m	30 June 2019 $m
Asian Development Bank	3,315	3,216
International Monetary Fund - promissory notes	2,058	2,145
International Bank for Reconstruction and Development	1,724	1,654
International Monetary Fund - arrangements to borrow	693	660
Asian Infrastructure Investment Bank	575	551
Other uncalled capital	19	19
Total uncalled capital	**8,384**	**8,245**

Note 26: Contingent Liabilities and Contingent Assets (continued)

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.

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.

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.

IMF arrangements to borrow

Funds are 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.

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. Funds are available to the AIIB, the occurrence and amount of which will depend upon uncertain trigger events and AIIB calling the funds.

Guarantees and Indemnities

Guarantees are legally binding promises that have been made 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 there is an undertaking 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.

	Actual	
	30 June 2020 $m	**30 June 2019 $m**
New Zealand Export Credit Office guarantees	127	109
Share of OECD employee benefits	44	29
Air New Zealand letters of credit and performance bonds	34	31
Other guarantees and indemnities	58	21
Total guarantees and indemnities	**263**	**190**

Note 26: Contingent Liabilities and Contingent Assets (continued)

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.

Share of OECD employee benefits

New Zealand is a member of the OECD and as a member has a proportional responsibility for the employee benefits obligations such as pension and healthcare recorded by the OECD. The OECD has increased its measurement of its obligation to €5.396 billion on the OECD Balance Sheet ($44 million represents New Zealand's share of the unfunded portion of this balance). There is significant uncertainty as to when or if this responsibility will be triggered.

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.

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 have an adverse outcome. The amount shown is 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.

	Actual	
	30 June 2020 $m	**30 June 2019 $m**
Legal tax proceedings	189	134
Kiwifruit vine disease Psa-V	93	93
New Zealand Transport Agency - Contractual disputes	80	385
Ministry of Health - Contractual disputes	47	31
Ministry of Education - Contractual disputes	26	23
Air New Zealand legal proceeding	25	-
Other legal proceedings and disputes	31	68
Total legal proceedings and disputes	**491**	**734**

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 IRD has in respect of these cases.

Kiwifruit vine disease Psa-V

A post-harvest operator (Seeka), 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. Seeka filed a notice of particulars of loss in September 2016, which quantifies its loss as $93 million. The Ministry for Primary Industries defended the claim. On 27 June 2018 the High Court found that the Ministry did not owe a duty of care to Seeka. Seeka had cross-appealed the High Court's finding that the Ministry for Primary Industries did not owe a duty of care to Seeka. The Court of Appeal dismissed that cross-appeal. Seeka is appealing the decision to the Supreme Court and the Supreme Court has granted leave to appeal. This contingent liability of $93 million represents the maximum liability the Ministry for Primary Industries has in respect of the case.

Note 26: Contingent Liabilities and Contingent Assets (continued)

New Zealand Transport Agency – Contractual disputes

Legal proceedings and disputes represent the amounts claimed by plaintiffs relating to roading and other contract disputes. In addition, there is regular dialogue between the New Zealand Transport Agency and its contractors over technical and commercial matters that may result in dispute between the parties.

Ministry of Health – Contractual disputes

Legal proceedings and disputes represent the amounts claimed by plaintiffs primarily relating to hospital construction contract disputes. The Ministry maintains regular dialogue with its contractors over technical and commercial matters that may result in dispute between the parties.

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.

Air New Zealand – legal proceeding

In April 2020, the Employment Court released a judgment involving third parties which is relevant to Air New Zealand's treatment of payments made under short-term incentive schemes in calculating entitlements under the Holidays Act 2003. The judgment has been appealed by the third party involved. It is expected that the position regarding payments made under the Air New Zealand's discretionary short-term incentive scheme will be clarified when the case is heard before, and determined by, the Court of Appeal. That decision will not be available for some time. If the Employment Court's initial reasoning is upheld and that reasoning was determined to be applicable to Air New Zealand's short-term incentive scheme, then a liability of approximately $25 million would arise for obligations in respect of the preceding six year period.

Other quantifiable contingent liabilities

	Actual	
	30 June 2020 $m	**30 June 2019 $m**
Unclaimed monies	183	174
Ministry for Primary Industries - Bonamia ostreae	132	138
Transpower - Economic gains	80	2
Air New Zealand partnership	70	155
Other contingent liabilities	20	19
Total other contingent liabilities	**485**	**488**

Unclaimed monies

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

Note 26: Contingent Liabilities and Contingent Assets (continued)

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 for Primary Industries has been notified compensation will be sought following its responses for incursions including pea weevil, Bonamia ostraea, kauri dieback and other minor incursions, as well as claims for losses incurred following the destruction of bud-stock, known as the Post Entry Quarantine response. Infectious Bursal Disease Virus claims are also expected based on discussions with industry. These claims can be quantified but do not meet the tests for recognising a provision.

Transpower New Zealand Limited – Economic gains

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 the customer balance at the end of Regulatory Control Period 2. Transpower's contingent liability includes the provisional balance from the EV accounts at 30 June 2020. This balance will spread evenly over 5 years from 1 April 2020 to 31 March 2025.

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.

Unquantifiable Contingent Liabilities

This part of the statement provides details of those contingent liabilities that 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 indemnifier 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 consolidated in these financial statements, to protect them against specified losses. If these indemnities were to crystallise, compensation to the individual entity for the loss and there would likely be an adverse impact on core Crown expenses and core Crown net debt. The total Operating Balance and Net Worth would not be impacted by the indemnity itself, but rather by the specified losses incurred by the indemnified organisations.

Note 26: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
Contact Energy Limited	A number of documents have been signed with Contact Energy to settle in full Contact Energy's outstanding land rights and geothermal asset rights at Wairakei	The documents contain two reciprocal indemnities with 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	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, section 4F of the Justices of the Peace Act 1957 and section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of 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 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.
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, local authorities will be reimbursed, 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.

Note 26: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
New Zealand Transport Agency (NZTA)	Deed of Indemnity pursuant to Section 65ZD of the Public Finance Act 1989	The indemnity is provided to NZTA in respect of additional payments such as a Māori Claim or a Natural Disaster Event, any failure to pay, and compensation amounts on termination of the Project Agreement to the contractors of Transmission Gully and Puhoi to Warkworth.
Reserve Bank	A letter of indemnity provided by the Crown to the Reserve Bank to cover losses arising from the large-scale asset purchases of indemnified bonds	In March 2020, the Crown agreed to indemnify the Reserve Bank in respect of all losses which the Reserve Bank incurs in respect of Indemnified Bonds. The scale of coverage was expanded in May 2020.
Southern Response Earthquake Services Limited (SRES)	Deed of Indemnity	SRES continues to work through and settle the claims of AMI residential policyholders which arose from the Canterbury earthquake series. However, it has not proven possible to settle some claims through the normal internal process or with external assistance such as mediation. SRES was provided with a Deed of Indemnity for certain litigation on 25 September 2018.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master Agreement	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 26: Contingent Liabilities and Contingent Assets (continued)

Legal claims and proceedings

There are numerous legal actions that have been brought against the Government. However, in the majority of these actions it is considered a remote possibility that the Government would lose the case, or if the Government 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.

Accident Compensation Corporation (ACC) litigations

Litigation involving ACC arises mainly 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.

Aquaculture Settlements

Under the Māori Commercial Aquaculture Claims Settlement Act 2004 the Government is obligated to provide regional Iwi with 20% of future aquaculture growth. This settlement is unusual because it is an ongoing and prospective settlement. As aquaculture in New Zealand grows, settlement obligations arise. Iwi may choose to accept settlement as either cash, marine rights, or a combination following the negotiation process. The amount and timing of settlements are therefore uncertain, as they are dependent on sector growth, as well as the preferred nature of settlement, this results in challenges with regards to reliably estimating the potential obligations.

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 part of conducting its business.

On 7 September 2020, the Court of Appeal largely dismissed SRESL's appeal of a 16 August 2019 High Court judgment. Damages were awarded to Mr and Mrs Dodds relating to settlement of a Christchurch earthquake claim. On 22 September 2020, the Minister of Finance announced the Crown's decision not to appeal the Court of Appeal decision. Informed by principles in the Court of Appeal decision, the Crown and SRESL are working on a response to other policyholders who are in a similar position to Mr and Mrs Dodds. No decisions have been made at the time of preparation of the Financial Statements of the Government. The obligation to be incurred by the Crown is currently considered to be unquantifiable, as it requires a case by case assessment of the applicability of the Court of Appeal decision to the individual circumstances of each policyholder.

A representative action proceeding was filed against SRESL on 29 May 2018. This claim is being defended and the financial statements make no allowance for the outcome of this proceeding, as the range of possible outcomes cannot be reliably quantified at this time. Any estimate of a possible obligation resulting from this proceeding would be unreliable.

Kiwifruit vine disease Psa-V

In addition to the claim from Seeka reported on page 125 approximately 210 growers, represented by Strathboss Kiwifruit Limited, filed a claim against the Ministry for Primary Industries alleging it is legally liable for damages they have suffered from a biosecurity incursion of the kiwifruit vine disease, Psa-V, in New Zealand. On 27 June 2018, the High Court found that the Ministry owed a duty of care to Strathboss and claimants. The Court of Appeal overturned the High Court's decision, finding that the Ministry for Primary Industries did not owe a duty of care to Strathboss and claimants. Strathboss is appealing the decision to the Supreme Court and the Supreme Court has given leave to appeal. The Ministry for Primary Industries is unable to quantify Strathboss' claim because the extent of any loss will be decided at a second trial in the High Court. Unless the Supreme Court finds the Ministry for Primary Industries is liable, this trial will not occur, and the claim will not be quantified.

Note 26: Contingent Liabilities and Contingent Assets (continued)

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 for Primary Industries has been notified that compensation will be sought following its response to the Mycoplasma Bovis incursion. The contingent liability resulting from the Mycoplasma Bovis outbreak is unquantified because the Ministry for Primary Industries is unable to reliably estimate the period of time losses will be incurred as a result of its actions under the Biosecurity Act 1993.

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 Government with respect to land that has been transferred by the Government to an SOE, Universities, Wānanga or NZIST, or is subject to the Crown Forest Assets Act 1989.

On occasion, Māori claimants pursue the resolution of particular claims through higher courts. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

Wakatu

Crown Law is acting for the Attorney-General on behalf of the Crown in right of New Zealand in Proprietors of Wakatu v Attorney-General (CIV 2010-485-181), in which it is claimed that the Crown breached trust, fiduciary and other equitable obligations relating to land transactions in the top of the South Island in the 1840s. The plaintiff seeks the return of land he says the Crown holds on trust for the successors of the original owners and compensation, or other relief, for alleged breach of trust, fiduciary and other equitable obligations. In February 2017, the Supreme Court held that a fiduciary duty was owed in relation to the land transactions concerned, but remitted matters of breach, defences and remedy to the High Court for a further hearing or hearings. The matter is large and complex and could take up to a further 10 years to resolve.

Other unquantified contingent liabilities

Accident Compensation Corporation (ACC) sensitive claims

ACC provides support to victims of sexual violence and abuse who suffer mental injury (sensitive claims) in the form of counselling services, weekly compensation and other entitlements. Due to the nature of these injuries, many years may pass before the individual starts receiving treatment. Based on section 36 of the Accident Compensation Act 2001, the date of mental injury is generally recorded as the date the person first receives treatment for that injury. Once a client starts receiving treatment a liability is recorded in the ACC outstanding claims liability recognised in the statement of financial position. With the information ACC holds for these claims, a reliable estimate of the mental injuries incurred but not yet reported as sensitive claims is unable to be made and therefore no liability is recorded in the outstanding claims liability for these unreported claims.

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.

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.

Note 26: Contingent Liabilities and Contingent Assets (continued)

Holidays Act compliance

A number of entities have commenced or completed a review of calculations in recent years to ensure compliance with the Holidays Act 2003. Where possible, a provision has been made in these financial statements for obligations arising from those reviews that have been made in the current year or previous years. To the extent that an obligation cannot reasonably be quantified, there is an unquantified contingency. Further work continues to be undertaken by entities to calculate the potential liability. For some entities, there are complexities and this issue is taking longer to resolve (eg, District Health Boards and schools).

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 $1,000 million 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.

Contingent Assets

	Actual	
	30 June 2020 $m	**30 June 2019 $m**
Contingent assets		
Tax disputes	9	35
Other contingent assets	36	37
Total contingent assets	**45**	**72**
By source		
Core Crown	17	70
Crown entities	28	-
State-owned Enterprises	-	2
Total quantifiable contingent assets	**45**	**72**

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

Tax disputes

A contingent asset is recognised when the IRD 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.

Note 27: 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, IRD, Kiwi Group Holdings Limited and ACC. The financial management objectives of these entities are influenced by the purpose and associated governance framework for which the entity is established. The purposes of an entity 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. 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 and the SBCS portfolio is that borrowers will default on their obligation.

- Investment purposes. 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. 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. Held by entities that operate on a commercial basis, who will hold financial instruments arising from their normal business activity. The main examples are SOE's (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:

- Non-derivative financial instrument policies (pages 134 to 136)

- Classification of financial assets and financial liabilities (pages 137 to 138)

- Fair value measurement (page 138 to 139)

- Derivative disclosures (pages 140 to 141)

- Risk management (pages 141 to 145), and

- Sensitivity analysis (pages 145 to 146).

Note 27: Financial Instruments (continued)

Non-derivative financial assets

Financial assets are initially recognised at fair value and subsequently measured in accordance with the business model in which assets are managed and their contractual cash flow characteristics. Financial assets are measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive revenue and expense ("FVCRE") where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive revenue and expense; or
- fair value through operating balance ("FVTOB") if they are held for trading or if the cash flows of the asset do not solely represent payments of principal and interest. Financial assets may also be designated into this category if this 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.

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

Financial asset type	Measurement
Cash and cash equivalents	Amortised cost
Trade and other receivables	Amortised cost
Long-term deposits	Generally measured at amortised cost
Marketable securities	Generally measured at fair value through the operating balance
IMF financial assets	Amortised cost
Share investments	Generally measured at fair value through the operating balance
Investments in controlled enterprises	Generally measured at fair value through the operating balance
Kiwi Group Holdings loans and advances	Amortised cost
Concessionary loans	Fair value through operating balance
Other advances	Generally measured at amortised cost

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method (refer interest revenue policy). If issued with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Financial assets measured at fair value through other comprehensive revenue and expense (FVCRE) 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 financial assets at FVCRE (eg, some equity instruments) the fair value movements recognised in the statement of comprehensive revenue and expense include any related foreign exchange component. Dividends related to these assets are recorded in the statement of financial performance. At de-recognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive revenue and expense, is recognised in taxpayers funds for non-monetary financial assets and in the statement of financial performance for monetary financial assets.

Note 27: Financial Instruments (continued)

An expected credit loss (ECL) model is used to recognise and calculate impairment losses for financial assets subsequently measured at amortised cost and debt instruments subsequently measured at FVCRE. Financial assets are to be assessed at each reporting date for any significant increase in the credit risk since initial recognition.

The simplified approach to providing for expected credit losses is applied to trade and other receivables and lease receivables. The simplified approach involves making a provision at an amount equal to lifetime expected credit losses. The allowance is assessed on a portfolio basis based on the number of days overdue, and taking into account the historical loss experience and incorporating any external and future information.

The general model prescribed is adopted for individual financial assets or groups of financial assets held at amortised cost or FVCRE, other than trade and other receivables and lease receivables. This model recognises impairment losses in line with the credit quality stage of the financial asset.

Impairment of financial assets that are individually significant are determined on an individual basis. Specific lifetime expected credit losses allowance is recognised for these assets under both the general and simplified impairment model.

Financial assets measured at fair value through the operating balance (FVTOB) are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. 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.

Financial assets classified at FVTOB are not assessed for impairment as their fair value reflects the credit quality of the instruments and changes in fair value are 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 27: Financial Instruments (continued)

Non-derivative financial liabilities

Financial liabilities are initially recognised at fair value and generally subsequently measured at amortised cost except of those measured at fair value through the operating balance.

Financial liabilities measured at fair value through the operating balance (FVTOB) comprise liabilities held-for-trading and financial liabilities irrevocably designated as FVTOB on initial recognition.

- A financial liability is classified as held-for-trading if it is incurred principally for the purpose of trading in the short term, or forms a part of a portfolio of financial instruments that are managed together and for which there is evidence of recent short-term profit-taking, or it is a derivative.
- Financial liabilities may be designated as FVTOB if this accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with a related asset or is part of a group of financial assets that is managed and evaluated on a fair value basis.

Financial liability type	Designation
Accounts payable	Amortised cost
Government stock	Amortised cost
Treasury bills	Amortised cost
Government retail stock	Amortised cost
Settlement deposits	Amortised cost
Issued currency	Not designated: Recognised at face value
Other borrowings	Generally measured at amortised cost

Financial liabilities held-for-trading and financial liabilities designated at FVTOB are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. For financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive revenue and expense. Transaction costs are expensed as they are incurred.

Other financial liabilities 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 27: Financial Instruments (continued)

Classification of financial assets and financial liabilities

Financial instruments are measured at either fair value or amortised cost. Changes in the fair value of an instrument may be reported in the statement of financial performance or directly in other comprehensive revenue and expense depending on its measurement.

Financial assets

	Note	Actual 30 June 2020 $m	30 June 2019 $m
By class			
Cash and cash equivalents		21,927	20,248
Reinsurance, trade and other receivables	13	6,393	5,553
Long-term deposits	14	5,443	4,355
Derivatives in gain	14	7,166	4,585
Marketable securities	14	45,858	32,349
IMF financial assets	14	2,538	2,327
Share investments	15	33,791	39,552
Investments in controlled enterprises	15	4,220	3,688
Kiwi Group Holdings loans and advances	16	22,189	20,411
Student loans	16	10,395	10,731
Small business cashflow loans	16	737	-
Other advances	16	4,308	2,548
Total financial assets		**164,965**	**146,347**
By valuation methodology			
Amortised cost		60,030	55,060
Fair value			
Fair value through the operating balance		103,844	90,533
Fair value through the other comprehensive revenue and expenses		1,091	754
Total financial assets at fair value		**104,935**	**91,287**
Total financial assets		**164,965**	**146,347**

As at 30 June 2020, the carrying value of financial assets that had been pledged as collateral was $2,322 million (2019: $1,250 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 2020 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 27: Financial Instruments (continued)

Financial liabilities

	Note	Actual 30 June 2020 $m	30 June 2019 $m
By class			
Issued currency		8,022	6,813
Accounts payable	19	11,928	10,449
Borrowings:	20		
Government bonds		64,363	56,874
Kiwi Group Holdings customer deposits		20,583	18,231
Settlement deposits with Reserve Bank		23,027	6,891
Derivatives in loss		5,567	3,939
Treasury bills		11,269	3,455
Finance lease liabilities		1,495	1,328
Government retail stock		242	169
Public private partnership liability		3,082	2,556
Other borrowings		23,089	16,805
Total borrowings		**152,717**	**110,248**
Total financial liabilities		**172,667**	**127,510**
By valuation methodology			
Amortised cost		163,066	119,485
Fair value			
Held for trading		5,567	3,939
Fair value through the operating balance		4,034	4,086
Total financial liabilities at fair value		**9,601**	**8,025**
Total financial liabilities		**172,667**	**127,510**

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 measured at both fair value through the operating balance and fair value through other comprehensive revenue and expense. 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 27: Financial Instruments (continued)

Fair Value Financial Instruments by Measurement Hierarchy

	Actual 30 June 2020 $m	Actual 30 June 2019 $m
Financial assets		
Quoted market price	53,492	48,334
Observable market inputs	32,800	25,854
Significant non-observable inputs	18,643	17,099
Total financial assets at fair value	**104,935**	**91,287**
Financial liabilities		
Quoted market price	30	44
Observable market inputs	9,415	7,800
Significant non-observable inputs	156	181
Total financial liabilities at fair value	**9,601**	**8,025**
Net financial instruments at fair value	**95,334**	**83,262**

Significant non observable inputs

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

	Actual 30 June 2020 $m	Actual 30 June 2019 $m
Financial assets	18,643	17,099
Financial liabilities	156	181
Net financial instruments	**18,487**	**16,918**
Opening balance	16,918	15,163
Total gains/(losses) recognised in the statement of financial performance	13	360
Total gains/(losses) recognised in the statement of comprehensive revenue and expense	31	(112)
Purchases	1,467	772
Sales	(13)	(428)
Issues	38	51
Settlements	(348)	(380)
Concessionary Loan movement during the year (Refer Note 15 Advances)	401	802
Transfers into and out of non-observable inputs	(20)	690
Closing balance	**18,487**	**16,918**

Note 27: 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.

	Carrying Value As at 30 June 2020			Carrying Value As at 30 June 2019		
	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 contracts	1,755	580	1,175	931	514	417
Cross currency swaps	977	898	79	637	592	45
Interest rate swaps	2,474	3,134	(660)	2,147	2,124	23
Futures	36	19	17	22	22	-
Other derivatives	1,924	936	988	848	687	161
Total derivatives	**7,166**	**5,567**	**1,599**	**4,585**	**3,939**	**646**

The notional value is a reference to the calculation base, not a reflection of the counterparty exposure.

	Notional Value As at 30 June 2020			Notional Value As at 30 June 2019		
	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 contracts	68,372	33,600	101,972	51,019	32,514	83,533
Cross currency swaps	8,982	10,121	19,103	9,084	7,803	16,887
Interest rate swaps	39,019	50,763	89,782	41,599	48,819	90,418
Futures	5,322	6,509	11,831	4,423	7,189	11,612
Other derivatives	19,298	13,246	32,544	9,427	9,670	19,097
Total derivatives	**140,993**	**114,239**	**255,232**	**115,552**	**105,995**	**221,547**

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 27: 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.

Derivatives liquidity analysis

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

As at 30 June 2020	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	116,718	104,503	1,642	5,531	5,034	8
- outflow	(115,832)	(103,343)	(1,598)	(5,603)	(5,281)	(7)
Total settled gross	886	1,160	44	(72)	(247)	1
Derivatives in loss settled net	3,622	1,176	691	1,277	296	182

As at 30 June 2019	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	98,520	87,122	1,398	5,364	4,414	222
- outflow	(98,335)	(86,677)	(1,418)	(5,291)	(4,690)	(259)
Total settled gross	185	445	(20)	73	(276)	(37)
Derivatives in loss settled net	2,711	764	520	1,015	323	89

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 27: Financial Instruments (continued)

Foreign currency risk

The Government undertakes transactions denominated in foreign currencies, and therefore is exposed to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters utilising derivatives such as 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 before and after the impact of derivatives are as follows:

	30 June 2020 $m	30 June 2019 $m
Financial Assets (excluding derivatives)		
New Zealand Dollar	62,959	57,843
United States Dollar	34,030	38,406
Yen	13,006	11,343
Euro	9,938	9,745
Other	37,866	24,425
Total financial assets (excluding derivatives)	**157,799**	**141,762**
Financial Liabilities (excluding derivatives)		
New Zealand Dollar	152,477	112,458
United States Dollar	9,719	5,890
Yen	1,257	1,118
Euro	1,203	902
Other	2,444	3,203
Total financial liabilities (excluding derivatives)	**167,100**	**123,571**
Derivatives in gain/(loss)		
New Zealand Dollar	56,286	54,589
United States Dollar	(21,906)	(25,980)
Yen	(13,085)	(10,735)
Euro	(9,369)	(8,181)
Other	(10,327)	(9,047)
Total derivatives	**1,599**	**646**
Net Financial Assets/(Liabilities)		
New Zealand Dollar	(33,232)	(26)
United States Dollar	2,405	6,536
Yen	(1,336)	(510)
Euro	(634)	662
Other	25,095	12,175
Net Financial Assets/(Liabilities)	**(7,702)**	**18,837**

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 27: 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 at 30 June 2020, the fair value of collateral held that could be sold or repurchased was $25,183 million (2019: $20,356 million). The majority of this relates to Kiwi Group Holdings, 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.

Kiwi Group Holdings 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 2020	Total $m	AAA $m	AA $m	A $m	Other $m	Non-rated $m
Cash and cash equivalents	**21,927**	691	10,685	10,432	44	75
Trade and other receivables	**6,393**	11	386	1,559	1,182	3,255
Long-term deposits	**5,443**	1	4,047	1,262	85	48
Derivatives in gain	**7,166**	-	3,085	3,710	97	274
Marketable securities	**45,858**	18,301	15,690	4,005	3,763	4,099
IMF financial assets	**2,538**	-	-	-	2,538	-
Share investments	**33,791**	801	2,602	7,413	9,216	13,759
Investments in controlled enterprises	**4,220**	-	-	-	-	4,220
Kiwi Group Holdings loans and advances	**22,189**	-	-	-	-	22,189
Student loans	**10,395**	-	-	-	-	10,395
Small business cashflow loans	**737**	-	-	-	-	737
Other advances	**4,308**	121	361	729	742	2,355
Total credit exposure by credit rating	**164,965**	**19,926**	**36,856**	**29,110**	**17,667**	**61,406**

As at 30 June 2019	Total $m	AAA $m	AA $m	A $m	Other $m	Non-rated $m
Cash and cash equivalents	**20,248**	2,861	7,465	9,840	36	46
Trade and other receivables	**5,553**	28	373	350	726	4,076
Long-term deposits	**4,355**	-	3,540	685	100	30
Derivatives in gain	**4,585**	-	2,477	1,837	63	208
Marketable securities	**32,349**	10,829	12,153	3,055	3,140	3,172
IMF financial assets	**2,327**	-	-	-	2,327	-
Share investments	**39,552**	766	4,602	9,252	9,825	15,107
Investments in controlled enterprises	**3,688**	-	-	-	-	3,688
Kiwi Group Holdings loans and advances	**20,411**	-	-	-	-	20,411
Student loans	**10,731**	-	-	-	-	10,731
Other advances	**2,548**	1	48	122	162	2,215
Total credit exposure by credit rating	**146,347**	**14,485**	**30,658**	**25,141**	**16,379**	**59,684**

Note 27: Financial Instruments (continued)

	30 June 2020 $m	30 June 2019 $m
Financial Assets		
Concentration of credit exposure by geographical area		
New Zealand	65,892	57,757
USA	34,358	32,074
Europe	20,677	17,554
Japan	13,956	11,365
Australia	12,815	12,199
Other	17,267	15,398
Total financial assets	**164,965**	**146,347**
Concentration of credit exposure by industry		
Individuals	32,905	31,497
Sovereign issuers	35,502	26,023
New Zealand banking	16,006	10,487
Foreign banking	16,800	15,318
Supranational	4,852	3,724
Other	58,900	59,298
Total financial assets	**164,965**	**146,347**

At 30 June 2020, 15.6% (2019: 15.4%) 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 2020 $m	30 June 2019 $m
Less than 1 year	93,667	57,923
1-2 years	5,380	17,125
2-5 years	38,703	19,982
5-10 years	24,508	30,680
More than 10 years	26,370	18,823
Total contractual cash flows	**188,628**	**144,533**
Total carrying value	**167,100**	**123,571**

Note 27: Financial Instruments (continued)

There are loan commitments of $4,867 million (2019: $4,225 million) which primarily all have contractual cash flows of less than 5 years.

In addition to the above financial liabilities, there are various financial guarantees and indemnities totalling $263 million (2019: $190 million) which create an exposure to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 26. For all these guarantees, the earliest period payment would be required if the guarantees are called upon is less than one year.

The total unused financing facilities at 30 June 2020 was $1,206 million (2019: $1,424 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 financial assets and liabilities to changes in interest rates, NZ exchange rate and share prices are shown below. Any change would impact the operating balance and net worth of these financial statements.

	Impact on operating balance		Impact on net worth	
	2020 $m	2019 $m	2020 $m	2019 $m
Increase in NZ interest rates by 1% (100 basis points)	(239)	(476)	(223)	(530)
Decrease in NZ interest rate by 1% (100 basis points)	224	701	206	765
NZ dollar exchange rate strengthens by 10%	(1,381)	(1,421)	(1,378)	(1,431)
NZ dollar exchange rate weakens by 10%	1,577	1,597	1,582	1,611
Share prices strengthen by 10%	3,790	4,285	3,790	4,285
Share prices weaken by 10%	(3,790)	(4,285)	(3,790)	(4,285)

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 the operating balance. There is no 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 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 measured at fair value through the other comprehensive revenues and expenses 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 27: 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 financial results as outlined in the table above.

The sensitivity to interest rates has decreased 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 (note 12 and note 21 for sensitivity information for these long-term liabilities).

Exchange rate sensitivity

The sensitivity to exchange rates has reduced during the current period. This change is largely in relation to financial instrument portfolios held by the Treasury, NZS Fund and ACC.

The sensitivity analysis above does not include the impact on prices of goods and services purchased or sold in foreign currencies.

Share price 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 99.7% of the Government's total share investments (2019: 99.1%).

The sensitivity to share prices has decreased from the prior year in line with a decrease in the level of share investments held.

Note 28: Restatement of Comparative Figures

These financial statements have adopted the new accounting standards PBE IPSAS 35 *Consolidated Financial Statements* and PBE IPSAS 39 *Employee Benefits* as at 1 July 2019. As a result, the comparatives at 30 June 2019 have been restated.

PBE IPSAS 35: Consolidated Financial Statements

From 1 July 2019, the NZS Fund is consolidated as an investment entity in accordance with PBE IPSAS 35 *Consolidated Financial Statements.* Consequently, any controlling interests the NZS Fund has invested in are reported on a fair value basis and shown as a single line 'Investments in controlled enterprises' in the statement of financial position, rather than consolidated on the previous line-by-line basis. In addition to this reclassification impact, the measurement of a single investment on a fair value basis may differ from the sum of individual assets and liabilities of that same controlled interest.

The impact on the reported net worth at 1 July 2018 was an increase of $333 million as a result of adopting this standard.

PBE IPSAS 39: Employee Benefits

The Crown adopted PBE IPSAS 39 *Employee Benefits* from 1 July 2019 (updating the existing standard PBE IPSAS *25: Employee Benefits*). The new standard has two impacts on the financial statements:

- it requires a liability to be reported for the obligation to pay Veteran Disability entitlements, and
- it changes the presentation of the defined benefit scheme of the GSF.

The impact on the reported net worth at 1 July 2018 was a reduction of $2,503 million as a result of adopting this standard.

Veterans Disability Entitlements

The Veterans Support Act 2014 provides for a number of entitlements for eligible veterans (and their spouses, partners, and dependants) who suffer service-related injuries or illnesses. Previously these obligations had been classified as social benefits, and were recognised as payments became due. PBE IPSAS 39 *Employee Benefits* clarifies that as these obligations arise due to illness or injury from qualifying operational service, a liability should be recognised from that date (reflecting the lifetime entitlement amounts, discounted to today's dollars). The accounting policy for Veterans disability entitlements has therefore changed these financial statements to be the same as for other employee defined benefits and the new liability recognised from 1 July 2018.

Presentation impacts

PBE IPSAS 39 also impacts the way all defined benefits, including the GSF defined benefit pension scheme is presented in the financial statements, with actuarial gains/losses now being presented in the Statement of Comprehensive Revenue and Expenses (and accumulated in a new revaluation reserve) rather than presented as a gain or loss in the Statement of Financial Performance. The new standard also means the investment return on the scheme's assets above the risk-free rate of return is now classified as actuarial gains and losses (meaning the amount previously included in operating balance is now included in comprehensive revenues and expenses).

The new standard does not affect the way the GSF defined benefit liability is calculated overall, and therefore it does not affect the Crown's total Net Worth. From 1 July 2018, cumulative GSF actuarial gains and losses will accumulate in the new revaluation reserve 'Defined benefit plan revaluation reserve', rather than in Taxpayers' Funds.

The following tables shows impact of the restatements to 30 June 2019 Actuals and to 2020 Forecast as published in the *Budget 2019*.

Note 28: Restatement of Comparative Figures (continued)

Statement of Financial Performance

	Actual				2020 Forecast at Budget 2019			
	Published 30 June 2019 $m	Restatements IPSAS 35 $m	Restatements IPSAS 39 $m	Restated 30 June 2019 $m	Published Budget 2019 $m	Restatements IPSAS 35 $m	Restatements IPSAS 39 $m	Restated Budget 2019 $m
Revenue								
Taxation revenue	85,723	-	-	85,723	88,541	-	-	88,541
Other sovereign revenue	6,028	-	-	6,028	6,027	-	-	6,027
Total sovereign revenue	**91,751**	**-**	**-**	**91,751**	**94,568**	**-**	**-**	**94,568**
Sales of goods and services	19,885	(89)	-	19,796	19,117	(76)	-	19,041
Interest revenue	2,685	(39)	-	2,646	2,748	-	-	2,748
Other revenue	4,972	(23)	-	4,949	4,397	-	-	4,397
Total revenue earned through operations	**27,542**	**(151)**	**-**	**27,391**	**26,262**	**(76)**	**-**	**26,186**
Total revenue (excluding gains)	**119,293**	**(151)**	**-**	**119,142**	**120,830**	**(76)**	**-**	**120,754**
Expenses								
Transfer payments and subsidies	28,190	-	(104)	28,086	29,794	-	(104)	29,690
Personnel expenses	25,983	-	(50)	25,933	25,802	-	(91)	25,711
Depreciation	4,557	(3)	-	4,554	5,218	(1)	-	5,217
Other operating expenses	42,774	(81)	-	42,693	49,009	3	-	49,012
Interest expenses	4,059	-	239	4,298	3,906	-	275	4,181
Insurance expenses	5,876	(64)	-	5,812	5,547	-	-	5,547
Forecast new operating spending	-	-	-	-	1,266	-	-	1,266
Top-down expense adjustment	-	-	-	-	(1,400)	-	-	(1,400)
Total expenses (excluding losses)	**111,439**	**(148)**	**85**	**111,376**	**119,142**	**2**	**80**	**119,224**
Net gains/(losses) on financial instruments	4,397	47	-	4,444	3,215	75	-	3,290
Net gains/(losses) on non-financial instruments	(14,348)	14	2,759	(11,575)	(71)	-	-	(71)
Total gains/(losses)	**(9,951)**	**61**	**2,759**	**(7,131)**	**3,144**	**75**	**-**	**3,219**
Minority interests share of the operating balance	(461)	9	-	(452)	(372)	-	-	(372)
Net surplus from associates and joint ventures	284	(78)	-	206	220	53	-	273
Operating balance (excluding minority interests)	**(2,274)**	**(11)**	**2,674**	**389**	**4,680**	**50**	**(80)**	**4,650**
Operating balance consists of:								
Operating balance (excluding minority interests)	(2,274)	(11)	2,674	389	4,680	50	(80)	4,650
Minority interests share of operating balance	461	(9)	-	452	372	-	-	372
Operating balance (including minority interests)	**(1,813)**	**(20)**	**2,674**	**841**	**5,052**	**50**	**(80)**	**5,022**

Note 28: Restatement of Comparative Figures (continued)

Statement of Cash Flows

	Actual				2020 Forecast at Budget 2019			
	Published 30 June 2019	Restatements IPSAS 35	IPSAS 39	Restated 30 June 2019	Published Budget 2019	Restatements IPSAS 35	IPSAS 39	Restated Budget 2019
	$m	$m	$m	$m	$m	$m	$m	$m
Cash Flows From Operations								
Cash was provided from								
Taxation receipts	83,018	(1)	-	83,017	87,567	-	-	87,567
Other sovereign receipts	5,187	-	-	5,187	4,827	-	-	4,827
Sales of goods and services	19,817	(53)	-	19,764	19,153	(78)	-	19,075
Interest receipts	2,562	(34)	-	2,528	2,444	-	-	2,444
Other operating receipts	4,586	(23)	-	4,563	4,450	-	-	4,450
Total cash provided from operations	**115,170**	**(111)**	**-**	**115,059**	**118,441**	**(78)**	**-**	**118,363**
Cash was disbursed to								
Personnel and operating payments	72,177	(98)	-	72,079	76,094	-	-	76,094
Other cash disbursed to operations	32,007	-	-	32,007	33,766	-	-	33,766
Total cash disbursed to operations	**104,184**	**(98)**	**-**	**104,086**	**109,860**	**-**	**-**	**109,860**
Net cash flows from operations	**10,986**	**(13)**	**-**	**10,973**	**8,581**	**(78)**	**-**	**8,503**
Cash Flows From Investing Activities								
Cash was provided from								
Sale of physical assets	305	(10)	-	295	179	-	-	179
Sale of shares and other securities	104,587	(2,160)	-	102,427	118,836	-	-	118,836
Other cash provided from investing activities	2,549	-	-	2,549	1,808	-	-	1,808
Total cash provided from investing activities	**107,441**	**(2,170)**	**-**	**105,271**	**120,823**	**-**	**-**	**120,823**
Cash was disbursed to								
Purchase and construction of physical assets	8,830	(71)	-	8,759	10,293	(80)	-	10,213
Purchase of shares and other securities	100,642	(2,019)	-	98,623	120,418	175	-	120,593
Other cash disbursed to investing activities	5,106	-	-	5,106	4,772	-	-	4,772
Total cash disbursed to investing activities	**114,578**	**(2,090)**	**-**	**112,488**	**135,483**	**95**	**-**	**135,578**
Net cash flows from investing activities	**(7,137)**	**(80)**	**-**	**(7,217)**	**(14,660)**	**(95)**	**-**	**(14,755)**
Net cash flows from operating and investing activities	**3,849**	**(93)**	**-**	**3,756**	**(6,079)**	**(173)**	**-**	**(6,252)**
Cash Flows From Financing Activities								
Cash was provided from								
Issue of foreign currency borrowings	1,877	(1)	-	1,876	15	-	-	15
Other cash provided from financing activities	25,153	-	-	25,153	25,412	-	-	25,412
Total cash provided from financing activities	**27,030**	**(1)**	**-**	**27,029**	**25,427**	**-**	**-**	**25,427**
Cash was disbursed to								
Total cash disbursed to financing activities	**29,675**	**-**	**-**	**29,675**	**20,155**	**-**	**-**	**20,155**
Net cash flows from financing activities	**(2,645)**	**(1)**	**-**	**(2,646)**	**5,272**	**-**	**-**	**5,272**
Net movement in cash	**1,204**	**(94)**	**-**	**1,110**	**(807)**	**(173)**	**-**	**(980)**
Opening cash balance	19,340	(446)	-	18,894	22,214	(446)	-	21,768
Foreign-exchange gains/(losses) on opening cash	348	(104)	-	244	5	-	-	5
Closing cash balance	**20,892**	**(644)**	**-**	**20,248**	**21,412**	**(619)**	**-**	**20,793**

Note 28: Restatement of Comparative Figures (continued)

Statement of Financial Position

	Actual				2020 Forecast at Budget 2019			
	Published 30 June 2019	Restatements IPSAS 35	IPSAS 39	Restated 30 June 2019	Published Budget 2019	Restatements IPSAS 35	IPSAS 39	Restated Budget 2019
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Cash and cash equivalents	20,892	(644)	-	20,248	21,412	(619)	-	20,793
Receivables	24,287	(960)	-	23,327	22,046	(729)	-	21,317
Marketable securities, deposits and derivatives in gain	44,453	(837)	-	43,616	39,395	(774)	-	38,621
Share investments	40,615	(1,063)	-	39,552	42,584	(961)	-	41,623
Investments in controlled enterprises	-	3,688	-	3,688	-	3,777	-	3,777
Advances	33,057	633	-	33,690	33,612	495	-	34,107
Inventory	1,519	(2)	-	1,517	1,752	(1)	-	1,751
Other assets	2,887	(59)	-	2,828	2,972	(109)	-	2,863
Property, plant & equipment	178,025	(400)	-	177,625	169,639	(488)	-	169,151
Equity accounted investments	16,109	(1,459)	-	14,650	16,414	(1,483)	-	14,931
Intangible assets and goodwill	3,912	(1)	-	3,911	4,376	(1)	-	4,375
Forecast new capital spending	-	-	-	-	924	-	-	924
Top-down capital adjustment	-	-	-	-	(2,200)	-	-	(2,200)
Total assets	**365,756**	**(1,104)**	**-**	**364,652**	**352,926**	**(893)**	**-**	**352,033**
Liabilities								
Issued currency	6,813	-	-	6,813	6,807	-	-	6,807
Payables	17,723	(981)	-	16,742	13,892	(1,045)	-	12,847
Deferred revenue	2,523	-	-	2,523	2,428	-	-	2,428
Borrowings	110,477	(229)	-	110,248	118,125	(120)	-	118,005
Insurance liabilities	58,364	(148)	-	58,216	50,637	(27)	-	50,610
Retirement plan liabilities	13,179	-	-	13,179	10,832	-	139	10,971
Provisions	10,364	-	3,228	13,592	9,457	-	3,228	12,685
Total liabilities	**219,443**	**(1,358)**	**3,228**	**221,313**	**212,178**	**(1,192)**	**3,367**	**214,353**
Total assets less total liabilities	**146,313**	**254**	**(3,228)**	**143,339**	**140,748**	**299**	**(3,367)**	**137,680**
Net Worth								
Taxpayer funds	33,278	517	171	33,966	39,966	560	(1,711)	38,815
Property, plant and equipment revaluation reserve	106,502	(7)	-	106,495	94,640	(37)	-	94,603
Defined benefit retirement plan revaluation reserve	-	-	(2,615)	(2,615)	-	-	(872)	(872)
Veterans disability entitlements reserve	-	-	(784)	(784)	-	-	(784)	(784)
Other reserves	(34)	(79)	-	(113)	124	(40)	-	84
Total net worth attributable to the Crown	**139,746**	**431**	**(3,228)**	**136,949**	**134,730**	**483**	**(3,367)**	**131,846**
Net worth attributable to minority interests	6,567	(177)	-	6,390	6,018	(184)	-	5,834
Total net worth	**146,313**	**254**	**(3,228)**	**143,339**	**140,748**	**299**	**(3,367)**	**137,680**

Note 29: Related Parties

Related parties 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.

Universities and Wānanga, joint ventures and the GSF 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 SOE’s, receipt of grants from, or the purchase from 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.

There were no related party transactions to be separately disclosed.

Note 30: Events Subsequent to Balance Date

August Outbreak of the COVID-19 pandemic

As at 30 June 2020, New Zealand was at COVID-19 Alert Level 1, where the disease was considered to be contained in New Zealand, and economic activity continued without restrictions except for border entry measures to minimise the risk of importing COVID-19 cases. Subsequently, on 12 August 2020, following the discovery of a cluster of cases in Auckland, the Auckland region moved to Alert Level 3, where people are instructed to stay home in their bubble other than for essential personal movement, and the rest of New Zealand moved to Alert Level 2, where physical distancing measures are in place. On 7 October 2020, Auckland returned to Alert Level 1, while the rest of New Zealand had returned to Alert Level 1 on 23 September 2020.

Economic activity is forecast to be constrained by approximately 25% at level 3, and 10% to 15% at level 2 and 5% at Level 1. Therefore, this outbreak increases the downside risk to economic forecasts that were used in assumptions to estimate fair values and recoverable amounts of assets as at 30 June in these financial statements.

New Zealand Aluminium Smelter announcement

On 9 July 2020, New Zealand Aluminium Smelter (NZAS) announced it plans to wind-down its operation at Tīwai Point. There is a significant amount of uncertainty as to the impact the NZAS exit will have on the electricity sector, with the primary impact likely to be on the value of property, plant and equipment and their associated revaluation reserves. There are other impacts on the valuation and classification of derivatives. Further information is included in the annual reports of Mercury NZ Limited, Meridian Energy Limited and Genesis Energy Limited.

Expansion of Large Scale Asset Purchase Programme

On 23 September 2020 the Reserve Bank of New Zealand announced that it would increase the potential government and local government funding authority debt repurchases from $60 billion to $100 billion. The LSAP programme allows for the RBNZ to purchase specified government debt under the program until 30 June 2022 as an approach to manage inflation and employment in New Zealand.

Other than the events noted in these financial statements, there have been no material events subsequent to balance date.

Statement of Unappropriated Expenditure

for the year ended 30 June 2020

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 via an Appropriation Bill in the following year.

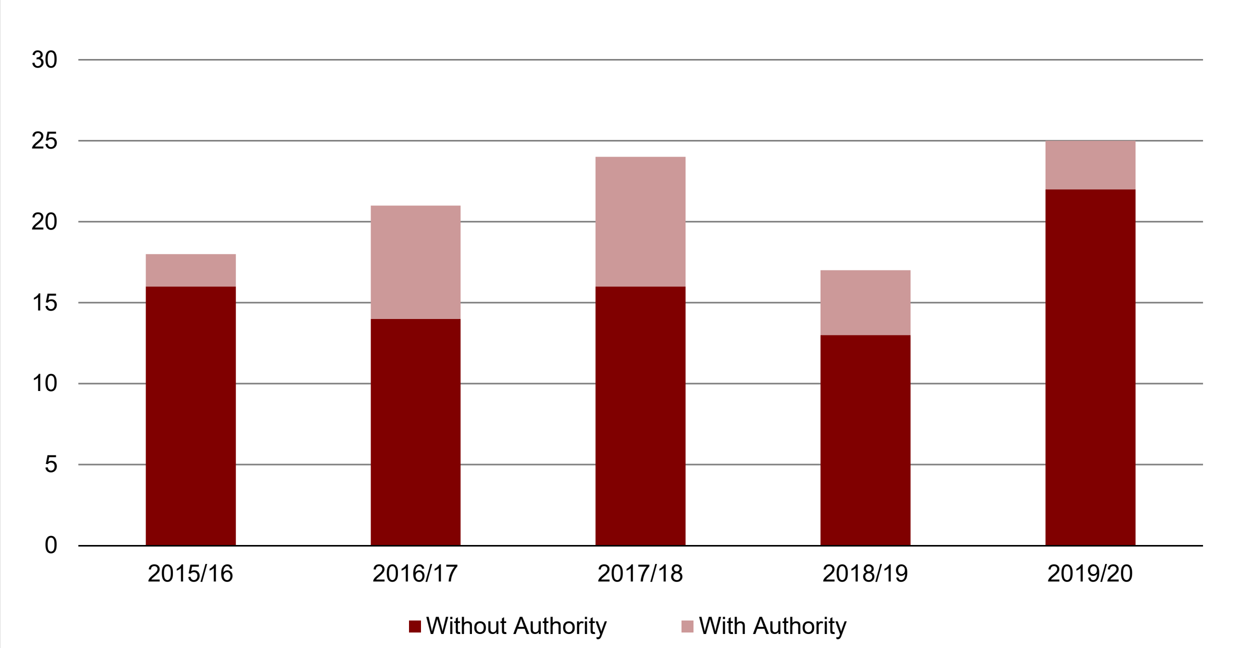
<table>
<tr><th>Category of unappropriated expenditure</th><th>Reporting requirements to Parliament under the Act</th></tr>
<tr><td>(A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989</td><td>Where the amount in excess (but within the scope) of an existing appropriation 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 graph shows the number of unappropriated items by category of unappropriated expenditure over the last five years.



In 2019/20, there were a total of 881 appropriations (2019: 840). There were 25 instances of expenditure (2019: 17) that either exceeded the amount appropriated or did not have an appropriation.

There has been more unappropriated expenditure due to the COVID-19 pandemic with 7 of the instances this year having been in relation to expenditure for the Government's COVID-19 pandemic response.

Unappropriated Expenditure by Category

30 June 2020 Number	30 June 2019 Number			30 June 2020 $m	30 June 2019 $m
		By category			
1	4	Approved by the Minister of Finance	A	-	11
2	-	Cabinet authority to use imprest supply but in excess of appropriation	B	15	-
-	-	Cabinet authority to use imprest supply but without appropriation	C	-	-
13	4	Without Cabinet authority and in excess of appropriation	D	701	161
2	3	Without Cabinet authority and outside scope	E	1	7
7	6	Without Cabinet authority and without appropriation	F	198	27
25	**17**	**Total unappropriated expenditure**		**915**	**206**

Both the table and the graph above show unappropriated expenditure in the year that this relates to and not the year that this was reported. In 2019/20, $0.449m of expenditure was incurred under category A, but the table above shows $0 million due to rounding.

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation Name	Authority at the time of breach $000	Amount without or exceeding appropriation $000
(A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989			
Crown Law Office			
Vote Attorney-General	*Departmental Output Expenses*		
	Legal Advice and Representation	23,000	449

Crown Law Office incurred expenses in excess of the *Legal Advice and Representation* appropriation to support the Government's response to the COVID-19 pandemic. The response led to the provision of increased legal advice and representation, and increased expenditure in the last quarter of the financial year.

(B) Cabinet authority to use imprest supply but in excess of appropriation prior to the end of the financial year

Department of Conservation			
Vote Conservation	*Non-Departmental Other Expenses*		
	Payment of Rates on Properties for Concessionaires	839	32

The Department of Conservation incurred additional expenses in excess of appropriation prior to the end of the financial year. This was the result of an increased number of concessionary agreements over time and increased rates costs.

Inland Revenue Department			
Vote Revenue	*Non-Departmental Other Expenses*		
	Initial Fair Value Write-Down Relating to Student Loans	491,000	15,118

In 2019/20, increases to the appropriation, *Initial Fair Value Write-Down Relating to Student Loans* and authority for those increases to be incurred under imprest supply were approved as part of the Government's commitment to ensure continuity and adequacy of student support from the impacts of the COVID-19 pandemic. These changes were not included in the Supplementary Estimates 2019/20.

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

Department of Conservation			
Vote Conservation	*Departmental Output Expenses*		
	Management of Historic Heritage	6,142	344

The Department of Conservation incurred expenses in excess of authority in the *Management of Historic Heritage* appropriation due to more work being required than budgeted for.

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation Name	Authority at the time of breach $000	Amount without or exceeding appropriation $000
(D) Expenses and capital expenditure incurred, and capital injections made, in excess of appropriation other authority and without prior Cabinet authority to use imprest supply (continued)			
Department of Conservation			
Vote Conservation	*Non-Departmental Other Expenses*		
	Payment to facilitate the transfer of assets as part of a Treaty of Waitangi Settlement	2,000	2,000
An expense of $4 million was incurred in 2019/20 for the *Payment to Facilitate the Transfer of Assets as Part of a Treaty of Waitangi Settlement*, which was $2 million greater than the appropriation.			
Department of the Prime Minister and Cabinet			
Vote Prime Minister and Cabinet	*Non-Departmental Other Expenses*		
	COVID-19: Civil Defence Emergency Management Group Welfare Costs	25,000	3,794
An appropriation was established to achieve the provision of government financial support to local authorities and Civil Defence Emergency Management groups for costs they incurred that were attributable to the COVID-19 pandemic in providing urgent welfare support to people who required assistance, and in supporting community-based organisations. $30 million was appropriated, $25 million for 2019/20 and $5 million for 2020/21. Claims for support provided for the year to 30 June 2020 were in excess of the 2019/20 appropriation by $3.794 million.			
Inland Revenue Department			
Vote Revenue	*Benefits or Related Expenses*		
	Paid Parental Leave Payments	417,000	5,146
	Non-Departmental Other Expenses		
	Impairment of Debt and Debt Write-Offs	680,000	676,751
Inland Revenue Department obtained Cabinet approval to increase the amounts of the two appropriations but did not seek authority to use imprest supply.			

Statement of Unappropriated Expenditure (continued)

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

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

Ministry for Culture and Heritage			
Vote Arts Culture and Heritage	*Non-Departmental Other Expenses*		
	Development and Maintenance of War Graves, Historic Graves and Monuments	949	6,713
	Depreciation on Crown Owned Assets	1,000	2,275

During February 2020 the Carillon Tower, part of the National War Memorial, was identified as earthquake-prone and closed to the public. The asset has been assessed as impaired. The impairment charge of $2.333 million resulted in actual costs exceeding those appropriated by $2.275 million. In addition, a provision for seismic strengthening of the structure has resulted in actual maintenance costs exceeding those appropriated by $6.713 million.

Ministry for the Environment			
Vote Environment	*Non-Departmental Other Expenses*		
	Environmental Legal Assistance	650	158

The Ministry for the Environment incurred expenses in excess of authority in the *Environmental Legal Assistance* appropriation, due to higher volumes of grant applicants than anticipated.

Ministry of Business, Innovation, and Employment			
Vote Building and Construction	*Multi Category Appropriation*		
	Policy Advice and Related Outputs		
	Departmental Output Expenses		
	Policy Advice – Building and Construction	823	558

In June 2019, the Ministry of Business, Innovation, and Employment requested an in-principle transfer of $1.300 million from 2018/19 to 2019/20 for the *Policy Advice Building and Related Outputs* multi-category appropriation (MCA). However, Ministers confirmed and authorised the expense transfer in November 2019. At this point, the Ministry of Business, Innovation, and Employment had already incurred $1.381 million against the MCA with $0.558 million of this in excess of the authority in place at the time.

Ministry of Justice			
Vote Justice	*Non-Departmental Other Expenses*		
	Impairment of Legal Aid Debt	9,531	2,510

The annual actuarial valuation of Legal Aid Debt for the financial year ended 30 June 2020 resulted in an impairment of the debt greater than the appropriated impairment expense.

Statement of Unappropriated Expenditure (continued)

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

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

New Zealand Customs Service			
Vote Customs	Capital Injection	2,603	139

The New Zealand Customs Service (Customs) had authority of $2.742 million for a capital injection in 2018/19 for the Drug Smuggling Networks: Strategic Disruption programme. This capital injection was not used by 30 June 2019 and Customs requested an approval to transfer the authority into 2019/20. The payment of the capital was made prior to approval for the transfer being received.

New Zealand Defence Force			
Vote Defence Force	*Benefits or Related Expenses*		
	Assessments, Treatment and Rehabilitation	9,128	136
	Benefits or Related Expenses		
	Veterans Support Entitlement	63,988	1,523

New Zealand Defence Force incurred expenses in excess of appropriations with no authority sought for this increase.

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation Name		Amount without or exceeding appropriation $000

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

Ministry for Culture and Heritage			
Vote Arts Culture and Heritage	*Multi Category Appropriation*		
	COVID-19: Media Sector Response and Recovery		
	Non-Departmental Other Expenses		
	Grants and Subsidies		121

In response to the impact of the COVID-19 pandemic the Government agreed to provide payments in advance to local media businesses for advertising that will be placed during 2020/21. The advances will reduce during 2020/21 as advertising is placed and paid for. The advance payments are interest free and accounted for as concessionary loans. The accounting adjustments to recognise the fair value of the loan agreements were outside of the scope of the *Grants and Subsidies* category of the *COVID-19: Media Sector Response and Recovery* multi-category appropriation.

Ministry for the Environment			
Vote Environment	*Non-Departmental Other Expenses*		
	Waste Disposal Levy Disbursements to Territorial Local Authorities	2019/20	1,347
		2018/19	1,707
		2017/18	51
		2016/17	14
		2015/16	14

The Ministry for the Environment pays 50% of the Waste Disposal Levy collected by territorial authorities quarterly, to fund activities in their waste management and minimisation plans (WMMP). In order to be eligible for payment, territorial authorities must have reviewed their WMMPs in accordance with statutory requirements, including necessary timeframes. Over the last five financial years, The Ministry for the Environment has made payments to territorial authorities where they have not reviewed their WMMPs in accordance with all these requirements. Given the timespan, it is difficult to accurately quantify with certainty the amount of unappropriated expenses prior to the 2015/16 financial year.

Statement of Unappropriated Expenditure (continued)

Department **Vote**	***Expense type*** **Appropriation Name**	**Amount without or exceeding appropriation** **$000**

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

Department of the Prime Minister and Cabinet

Prime Minister and Cabinet	*Non-Departmental Output Expenses*	18,000

Following the COVID-19 pandemic arising in NZ, a COVID-19 All of Government Response Coordination team was established within the Department of the Prime Minister and Cabinet. One function of this team was to lead the “Unite against COVID-19” publicity campaign. However, at the time of committing to this expenditure the Department of the Prime Minister and Cabinet did not hold an appropriation to allow for this expenditure.

Department of Corrections

Vote Corrections	*Departmental Other Expenses* Transfer of Auckland Prison Wastewater Assets	9,077

In March 2019, Cabinet approved an in-principle transfer of up to $9.100 million from 2018/19 to 2019/20 to allow for any changes in the timing of the transfer of the Department of Correction’s wastewater assets to Watercare Services Limited. In 2019/20, the Department of Corrections transferred the asset prior to authorisation being received in November 2019.

Ministry of Business, Innovation, and Employment

Vote Business Science and Innovation	*Non-Departmental Output Expenses* Energy and Resources: Oil Field Decommissioning	151,841

On 6 December 2019, the operator of the Tui Oil Field, Tui Taramind Taranaki Limited went into liquidation at which point the Crown had a constructive obligation to appropriately decommission the oil field to avoid harm the marine environment. There was no appropriation in place for the obligation as at 6 December 2019. Subsequently, a new non-departmental other expense appropriation *Energy and Resources: Oil Field Decommissioning* for $151.841 million was established and approved by Cabinet on 24 February 2020.

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation Name		Amount without or exceeding appropriation $000

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

Ministry of Business, Innovation, and Employment

Vote Business Science and Innovation	*Non-Departmental Output Expenses*		
	Science and Innovation: Repayable Grants for Start-Ups		669

The Ministry of Business, Innovation, and Employment received approval for an in-principle expense transfer from 2018/19 to 2019/20 for the appropriation Science and Innovation: Repayable Grants for Start-Ups. The transfer related to an underspent multi-year appropriation that expired on 30 June 2019 and was intended to support increased activity for such grants in 2019/20. Ministers confirmed and authorised the expense transfer in November 2019. In addition, in July 2020, Cabinet approved a funding transfer that reduced the authority of the appropriation Science and Innovation: Repayable Grants for Start-Ups and at the same time removed Cabinet's authority for expenditure to be incurred under imprest supply. As a result, the Ministry of Business, Innovation, and Employment incurred unappropriated expenditure between 29 July and 23 September 2019 that was in advance of appropriation and without authority from Cabinet to use imprest supply.

Ministry of Defence

Vote Defence	*Non-Departmental Other Expenses*		1,354

The Ministry of Defence incurred additional costs on capital infrastructure projects during the COVID-19 pandemic lockdown period. The costs that were incurred are required to be treated as an expense rather than capitalised as part of the project. The Ministry of Defence did not have an appropriation to allow for this expenditure.

Ministry of Education

Vote Tertiary Education	*Multi Category Appropriation* Stewardship of the Tertiary Education System MCA: *Departmental Output Expenses*		
	Research, Data Analysis and Monitoring	2018/19	816
		2017/18	3,214
		2016/17	908
		2015/16	9

Since 1 July 2015, a change was made to pay directly from the Export Education Levy Fund the payments for international students following the collapse of private training establishments. However, there was no appropriation in Vote Tertiary Education at the time, so there was no authority for this expenditure. During 2019/20, the Ministry of Education sought additional authority through an appropriation to make these payments.

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation Name		Amount without or exceeding appropriation $000

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

Ministry of Foreign Affairs and Trade			
Vote Foreign Affairs	*Non-Departmental Capital Expenditure*		
	Consular Loans	2019/20	2,179
		2018/19	12
		2017/18	1
		2016/17	12
		2015/16	4

As part of the Ministry of Foreign Affairs and Trade's consular services, it has provided recoverable financial assistance to New Zealanders in distress overseas for many years. The Ministry of Foreign Affairs and Trade had been treating these payments as Non-Departmental expenditure. This year, it has been deemed that all recoverable financial consular assistance constitutes lending. The Ministry of Foreign Affairs and Trade had no capital expenditure authority for these payments. Given the timespan, it is difficult to accurately quantify with certainty the amount of unappropriated expenses prior to the 2015/16 financial year. On 22 June 2020, the establishment of two appropriations effective from 1 July 2020 (a non-departmental capital appropriation for the loan capital and a non-departmental other expenses appropriation for the foregone interest on the loan and the write-off of any uncollectable loans) was approved.

Ministry of Housing and Urban Development			
Vote Housing and Urban Development	*Non-Departmental Capital Expenditure*		14,843

During the 2019/20 year, for sales of land to developers under the Land for Housing Programme, the Ministry of Housing and Urban Development offered deferred settlement terms of up to 360 days from the date of title transfer. The Ministry of Housing and Urban Development had authority to incur operating expenditure relating to these arrangements. However, deferred settlements terms greater than 90 days constitute lending and therefore, an authority to incur capital expenditure for the loan capital was required but had not been sought.

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2020

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 an emergency is declared 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.

As part of the Government's response to the COVID-19 pandemic, it invoked emergency provisions under section 25 of the Public Finance Act 1989 on 27 March 2020. There was no expenditure incurred under this provision.

Statement of Trust Money

for the year ended 30 June 2020

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 2020

Department Trust Account	**As at 30 June 2019** **$000**	**Contributions** $000	**Distributions** $000	**Revenue** $000	**Expenses** $000	**As at 30 June 2020** **$000**
Department of Conservation						
Bonds/Deposits Trust	7,280	977	(209)	168	-	8,216
Conservation Project Trust	1,433	575	(746)	13	-	1,275
National Parks Trust	210	2	(7)	2	-	207
Walkways Trust	12	-	-	-	-	12
Wildlife and Reserves Trusts [1]	-	-	-	-	-	-
Department of Corrections						
Prisons Trust	2,123	20,900	(21,178)	-	-	1,845
Crown Law Office						
Legal Claims Trust	5	112	(112)	-	-	5
Ministry of Business, Innovation and Employment						
Coal and Minerals Deposits Trust	316	148	-	-	-	464
Criminal Assets Management and Enforcement Regulators Association Trust	-	-	-	-	-	-
Employment Relations Service Trust	735	499	(510)	7	-	731
Employment Relations Act Security of costs Trust [1]	-	-	-	-	-	-
New Zealand Immigration Service Trust	469	7	(105)	4	-	375
Official Assignee's Office Trust	22,476	22,630	(19,767)	259	(11,369)	14,229
Radio Spectrum Auction Trust Account [2]	-	-	-	-	-	-
Patent Co-operation Treaty Fees Trust	105	761	(762)	1	-	105
Petroleum Deposits Trust	80	-	-	-	-	80
Crimminal Proceeds (Recovery) Trust (formerly Proceeds of Crime Trust)	166,611	37,952	(15,439)	2,969	(7,921)	184,172
Residential Tenancies Bond Trust Account	587,690	292,291	(246,838)	21,619	(21,619)	633,143
Residential Tenancies Penalties Trust [2]	-	-	-	-	-	-
Weathertight Services Financial Assistance Trust	-	9,495	(9,495)	-	-	-
Ministry for Culture and Heritage						
New Zealand Historical Atlas Trust	106	-	-	3	(64)	45
New Zealand History Research Trust	1,328	-	(28)	34	-	1,334
New Zealand Oral History Awards Trust	630	-	(104)	15	-	541
War History Trust	21	-	(5)	1	-	17
New Zealand Customs Services						
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	54,970	12,755	(11,431)	-	-	56,294
Health Promotion Agency Trust	857	12,835	(12,925)	-	-	767
Heavy Engineering Research Association Trust	172	1,840	(1,900)	-	-	112
New Zealand Customs Service IBM MSA Trust [1]	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	477	11,827	(12,065)	-	-	239
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	59	12,740	(12,790)	-	-	9

1 Inoperative trust account

2 New trust account

Statement of Trust Money (continued)

for the year ended 30 June 2020

Department Trust Account	As at 30 June 2019 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2020 $000
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	5,209	4,892	(5,517)	32	(1,206)	3,410
Conferences Trust [1]	-	-	-	-	-	-
Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund Board Trust	1,121	268	-	33	(210)	1,212
Capital Works Construction Funds Trust [1]	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade						
Afghanistan New Zealand Aid Programme Trust	3	-	-	-	-	3
Cook Island Trust	327	2,013	(2,237)	15	(118)	-
Government Administration Building, Niue Trust	34	-	-	1	-	35
Egna Electrification Project, Papua New Guinea Trust	6,347	3,207	-	55	-	9,609
New Zealand/France Friendship Trust	52	73	(121)	-	(1)	3
Niue Development Assistance Trust	5,348	1,298	(2,000)	43	-	4,689
Ministry of Health						
Medicines Review Objectors Deposit Trust [1]	-	-	-	-	-	-
Inland Revenue Department						
Child Support Agency Trust	23,295	285,316	(291,108)	-	-	17,503
KiwiSaver Returned Transactions Trust	135	106,281	(106,102)	-	-	314
KiwiSaver Employer Trust [1]	-	-	-	-	-	-
Reciprocal Child Support Agreement Trust	515	14,150	(14,252)	-	-	413
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust	32	1,226	(600)	-	-	658
Interloan Billing System Trust	42	-	-	212	(216)	38
Macklin Bequest Fund Trust [1]	-	-	-	-	-	-
Retention Trust Account	365	307	(368)	-	-	304
Market Place Trust Account	-	-	-	79	(79)	-
New Zealand 1990 Scholarship Trust [1]	-	-	-	-	-	-
Ministry of Justice						
Courts Law Trust	20,953	26,490	(26,341)	-	-	21,102
Election Candidates Deposit Trust [1]	-	-	-	-	-	-
Employment Court Trust	290	288	(297)	-	-	281
Fines Trust	44,291	230,217	(237,750)	-	-	36,758
Foreign Currency Euro Fund Trust [1]	-	-	-	-	-	-
Foreign Currency United States Dollar Trust [1]	-	-	-	-	-	-
Legal Complaints Review Officer Trust [1]	-	-	-	-	-	-
Maori Land Court Trust	61	59	-	-	-	120
Supreme Court Trust	116	136	(90)	-	-	162
Victims' Claims Trust	269	582	(353)	-	-	498

1 Inoperative trust account

2 New trust account

Statement of Trust Money (continued)

for the year ended 30 June 2020

Department Trust Account	As at 30 June 2019 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2020 $000
Land Information New Zealand						
Crown Forestry Licences Trust	1,107	5,626	(5,031)	-	-	1,702
Deposits Trust [1]	-	-	-	-	-	-
Endowment Rentals Trust	55	295	(348)	-	-	2
Hunter Gift for the Settlement of Discharged Soldiers Trust	58	-	-	-	-	58
New Zealand Police						
Bequests, Donations and Appeals Trust	8	-	(6)	-	-	2
Found Money Trust	195	218	(300)	-	-	113
Money in Custody Trust	15,184	12,603	(9,060)	-	-	18,727
Reparation Trust	1	-	-	-	-	1
Money forfeited to Crown	201	8,614	(8,683)	-	-	132
Ministry for Primary Industries						
MAF Overfishing Account Trust	2,607	7,540	(945)	60	-	9,262
MAF Fish Forfeit Property Trust	829	246	(26)	8	-	1,057
Meat Board Levies Trust	-	63,304	(63,303)	13	(7)	7
National Animal Identification Tracing Trust	135	2,343	(2,478)	-	-	-
Seized Timber Trust [1]	-	-	-	-	-	-
Department of the Prime Minister and Cabinet						
Christchurch Cathedral Restoration Trust	1	-	-	-	-	1
Ministry of Social Development						
Australian Dollar Embargoed Arrears Trust	852	8,369	(8,478)	7	-	750
Australian Recovery Debt Trust	-	7	(7)	-	-	-
Maintenance Trust	32	432	(433)	2	-	33
Netherlands Recovery Debt Trust	15	207	(204)	-	-	18
Overseas Debt Recovery Trust [1]	-	-	-	-	-	-
Ministry of Oranga Tamariki						
CYF Custody Trust Account	7	-	-	-	-	7
WR Wallace Trust	525	43	(24)	14	-	558
The Treasury						
Genesis Share Offer Trust	1	-	-	-	-	1
Mighty River Share Offer Trust	1	-	-	-	-	1
Trustee Act 1956 Trust	15,515	3,867	(327)	113	(107)	19,061
Total	**994,299**	**1,228,863**	**(1,153,205)**	**25,782**	**(42,917)**	**1,052,822**

1 Inoperative trust account

2 New trust account

Additional Financial Information

Fiscal Indicator Analysis

for the year ended 30 June 2020

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 41 to 166) and the fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

The fiscal analysis comprises three statements: operating balance before gains and losses (OBEGAL), core Crown residual cash and debt.

Operating Balance before Gains and Losses

OBEGAL represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown Entities, but does not include any gains or losses from market driven activities of the Government reporting 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.

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.

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 – Operating balance before gains and losses

for the year ended 30 June 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Operating Balance Calculation		
120,754	114,403	Total revenue	116,003	119,142
119,224	142,684	Less Total expenses	138,916	111,376
3,219	(7,391)	Total gains/(losses)	(8,722)	(7,131)
(372)	38	Minority interests share of operating balance	402	(452)
273	143	Net surplus from associates and joint ventures	1,193	206
4,650	**(35,491)**	**Operating balance[1]**	**(30,040)**	**389**
		OBEGAL Reconciliation to Operating Balance		
4,650	**(35,491)**	**Operating balance[1]**	**(30,040)**	**389**
		Less:		
-	(1,624)	Net gains/(losses) on large scale asset purchases	(3,258)	-
3,290	(4,470)	Net gains/(losses) on financial instruments	1,908	4,444
(71)	(1,297)	Net gains/(losses) on non-financial instruments	(7,372)	(11,575)
3	50	Minority interests share of total gains/(losses)	546	(115)
273	143	Net surplus from associates and joint ventures	1,193	206
1,155	**(28,293)**	**OBEGAL**	**(23,057)**	**7,429**

[1] Operating balance excluding minority interests

The OBEGAL reconciliation above shows how OBEGAL is constructed from the Statement of Financial Performance. All of the numbers used to calculate OBEGAL are in the Statement of Financial Performance. The OBEGAL measure is not a Generally Accepted Accounting Practice measure but is a constructed measure to improve international comparability and to allow clear communication of performance against the Governments fiscal strategy.

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2020

2020 Forecast at Budget 2019 $m	Budget 2020 $m		Actual 30 June 2020 $m	30 June 2019 $m
		Core Crown Cash Flows from Operations		
89,427	82,001	Tax receipts	84,310	83,716
941	1,540	Other sovereign receipts	1,226	1,359
600	456	Interest receipts	428	712
3,390	3,465	Sale of goods & services and other receipts	3,243	3,200
(31,065)	(43,946)	Transfer payments and subsidies	(43,916)	(28,910)
(55,367)	(57,958)	Personnel and operating costs	(56,583)	(50,591)
(3,137)	(3,038)	Finance costs	(3,016)	(3,450)
(1,266)	(5,357)	Forecast for future new operating spending	-	-
1,400	1,075	Top-down expense adjustment	-	-
4,923	**(21,762)**	**Net core Crown operating cash flows**	**(14,308)**	**6,036**
(3,703)	(3,226)	Net purchase of physical assets	(2,955)	(3,002)
(799)	(2,530)	Net repayment/(issue) of advances	(1,798)	(86)
(3,636)	(3,891)	Net purchase of investments	(3,171)	(2,658)
(1,460)	(1,460)	Contribution to NZS Fund	(1,460)	(1,000)
(466)	(212)	Forecast for future new capital spending	-	-
950	1,050	Top-down capital adjustment	-	-
(9,114)	**(10,269)**	**Net Core Crown capital cash flows**	**(9,384)**	**(6,746)**
(4,191)	**(32,031)**	**Residual cash surplus/(deficit)**	**(23,692)**	**(710)**
		Residual cash is (invested)/funded as follows:		
		Debt programme cash flows		
		Market:		
10,387	27,752	Issue of government bonds	31,951	8,372
(6,627)	(5,380)	Repayment of government bonds	(5,380)	(11,908)
(345)	6,540	Net issue/(repayment) of short-term borrowing[1]	8,415	(730)
3,415	**28,912**	**Total market debt cash flows**	**34,986**	**(4,266)**
		Non market:		
-	-	Repayment of government bonds	-	-
-	-	Net issue/(repayment) of short-term borrowing	-	-
-	**-**	**Total non-market debt cash flows**	**-**	**-**
3,415	**28,912**	**Total debt programme cash flows**	**34,986**	**(4,266)**
		Other borrowing cash flows		
(24)	18,829	Net (repayment)/issue of other New Zealand dollar borrowing	15,928	(2,239)
6	(3,101)	Net (repayment)/issue of foreign currency borrowing	1,121	1,547
(18)	**15,728**	**Total other borrowing cash flows**	**17,049**	**(692)**
		Investing cash flows		
591	(7,691)	Other net sale/(purchase) of marketable securities and deposits	(33,884)	5,163
198	339	Issues of circulating currency	1,209	437
5	(5,257)	Decrease/(increase) in cash	4,332	68
794	**(12,609)**	**Total investing cash flows**	**(28,343)**	**5,668**
4,191	**32,031**	**Residual cash (invested) / funded**	**23,692**	**710**

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

Fiscal Indicator Analysis – Debt

as at 30 June 2020

2020 Forecast at Budget 2019 $m	2020 Forecast at Budget 2020 $m		Actual 30 June 2020 $m	Actual 30 June 2019 $m
		Gross and net core Crown debt analysis:		
118,005	**164,799**	Total borrowings	**152,717**	**110,248**
37.2%	*55.0%*	*As a percentage of GDP*	*49.5%*	*36.3%*
		Net core Crown debt:		
95,199	138,751	Core Crown borrowings[1]	126,820	91,833
(2,595)	(4,522)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(2,675)	(903)
92,604	**134,229**	**Gross sovereign-issued debt[2]**	**124,145**	**90,930**
89,351	100,994	Less core Crown financial assets[3]	102,169	90,715
3,253	**33,235**	**Net core Crown debt (including NZS Fund)[4]**	**21,976**	**215**
47,929	41,337	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	46,843	43,676
51,182	**74,572**	**Net core Crown debt (excluding NZS Fund)[4]**	**68,819**	**43,891**
13,513	14,363	Advances	14,556	13,845
64,695	**88,935**	**Net core Crown debt (excluding NZS Fund and advances)[6]**	**83,375**	**57,736**
20.4%	*29.7%*	*As a percentage of GDP*	*27.0%*	*19.0%*
		Gross debt:		
92,604	134,229	Gross sovereign-issued debt[2]	124,145	90,930
(7,359)	(36,402)	Less Reserve Bank settlement cash and bank bills	(23,488)	(8,081)
1,600	1,600	Add back changes to Government borrowing due to settlement cash[7]	1,600	1,600
86,845	**99,427**	**Gross sovereign-issued debt excluding settlement cash and bank bills**	**102,257**	**84,449**
27.4%	*33.2%*	*As a percentage of GDP*	*33.2%*	*27.8%*

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.

Air New Zealand and KiwiRail Holdings Limited (both for-profit entities that report under NZ IFRS) apply a different valuation basis in their own financial statements for the aircraft and the rail network asset, respectively, compared to the Crown's accounting policies. Aircraft are valued at historical cost less accumulated depreciation and impairment losses in Air New Zealand's financial statements and are reported at fair value in the Financial Statements of the Government. For Crown reporting purposes, the rail network is valued using an Optimised Depreciated Replacement Cost method and is valued at the recoverable amount in KiwiRail Holdings Limited's financial statements (note 17).

Except for Universities and Wānanga the Crown has line-by-line consolidated all SOEs and CEs.

The Crown has equity accounted 100% of the net assets of Universities and Wānanga on the basis that, in the event of disestablishment of a University or Wānanga (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 higher education to the public of New Zealand (note 18).

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%	47.69%
Genesis Energy	48.61%	46.54%
Meridian Energy	48.99%	46.22%
Mercury NZ	47.44%	44.41%

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 2020. The entities listed below have differing reporting dates due to legislative requirements or to align with operational years:

Crown entities	Balance date	Information reported to
New Zealand Symphony Orchestra	31 December	30 June 2020
School boards of trustees	31 December	31 December 2019
New Zealand Institute of Skills and Technology	31 December	30 June 2020
Universities and Wānanga	31 December	30 June 2020

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 2020				30 June 2019			
	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions $m	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions $m
State-owned Enterprises								
Airways Corporation of New Zealand Limited	209	239	(30)	8	229	205	24	12
AsureQuality Limited	256	237	20	17	254	233	27	7
Landcorp Farming Limited	256	225	(15)	5	242	231	(12)	5
New Zealand Post Limited	932	1,046	(104)	-	923	1,029	(71)	-
KiwiRail Holdings Limited	932	1,150	(206)	-	826	(1,741)	2,569	-
Transpower New Zealand Limited	992	804	234	165	1,035	832	262	165
Kordia Group Limited	228	219	10	-	201	200	-	3
Kiwi Group Holdings Limited	1,168	1,124	55	11	1,217	1,105	110	22
New Zealand Railways Corporation	-	-	3	-	-	-	(1)	-
Other State-owned enterprises	107	98	6	1	104	99	2	2
Total State-owned Enterprises	**5,080**	**5,142**	**(27)**	**207**	**5,031**	**2,193**	**2,910**	**216**
Air New Zealand Limited	4,956	5,237	(1,307)	123	5,821	5,690	214	247
Genesis Energy Limited	2,570	2,527	48	176	2,730	2,629	59	172
Meridian Energy Limited	3,405	3,010	233	546	3,492	3,145	339	500
Mercury NZ Limited	1,707	1,536	206	214	1,967	1,812	379	208
Less minority interests	-	-	382	(479)	-	-	(187)	(504)
Total mixed ownership companies	**12,638**	**12,310**	**(438)**	**580**	**14,010**	**13,276**	**804**	**623**
Intra-segmental eliminations	(318)	671	124	-	(405)	(383)	23,910	-
Total SOE segment	**17,400**	**18,123**	**(341)**	**787**	**18,636**	**15,086**	**27,624**	**839**
Crown entities								
Accident Compensation Corporation	5,729	7,885	(5,946)	-	5,828	6,902	(8,657)	-
Crown Infrastructure Partners	83	140	(55)	-	47	138	(54)	-
Crown Research Institutes	816	786	30	-	806	788	16	-
Callaghan Innovation	390	380	9	-	353	352	1	-
District Health Boards	16,763	17,678	(915)	-	15,636	16,704	(1,068)	-
Earthquake Commission	549	705	(154)	-	974	559	414	-
New Zealand Fire Service Commission	625	606	17	-	610	573	37	-
Housing New Zealand Corporation	385	379	(1)	-	1,475	1,341	48	-
Kainga Ora - Homes and Communities	1,236	1,168	(58)	-	-	-	-	-
Museum of New Zealand Te Papa	70	75	(6)	-	68	79	(11)	-
New Zealand Lotteries Commission	1,311	978	333	-	1,116	855	261	-
New Zealand Transport Agency	3,131	3,451	(720)	-	2,958	2,858	(160)	-
Otakaro Limited	113	150	(41)	-	84	89	(7)	-
Public Trust	67	60	6	-	69	64	5	-
Schools	8,780	8,838	(60)	-	8,251	8,170	76	-
Southern Response Earthquake Services	2	43	(42)	-	(1)	(23)	22	-
Tamaki Regeneration Limited	69	84	(14)	7	77	105	(28)	13
Tertiary Education Commission	4,497	4,498	(1)	-	3,136	3,131	4	-
New Zealand Institute of Skills and Technology	95	-	(158)	20	-	-	-	-
Universities and Wānangas	-	-	1,179	-	-	-	167	-
Television New Zealand	312	339	(27)	-	312	307	3	4
Other Crown entities	2,537	2,717	86	33	2,332	2,059	283	-
Total Crown entities	**47,560**	**50,960**	**(6,538)**	**60**	**44,131**	**45,051**	**(8,648)**	**17**
Intra-segmental eliminations	(955)	(302)	(658)	-	(856)	(321)	66,252	-
Total Crown entities segment	**46,605**	**50,658**	**(7,196)**	**60**	**43,275**	**44,730**	**57,604**	**17**

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

	30 June 2020						30 June 2019
	Purchase of PPE $m	Total PPE $m	Total assets $m	Borrow-ings $m	Total liabilities $m	Equity $m	Equity $m
State-owned Enterprises							
Airways Corporation of New Zealand Limited	27	172	272	60	96	176	144
AsureQuality Limited	7	38	141	19	55	86	82
Landcorp Farming Limited	31	1,207	1,699	312	343	1,356	1,427
New Zealand Post Limited	17	79	1,586	218	452	1,134	1,212
KiwiRail Holdings Limited	708	7,497	8,115	266	625	7,490	6,968
Transpower New Zealand Limited	394	4,625	5,739	3,644	4,393	1,346	1,361
Kordia Group Limited	10	58	169	6	71	98	88
Kiwi Group Holdings Limited	14	54	25,430	23,688	23,780	1,650	1,625
New Zealand Railways Corporation	11	3,779	3,781	-	-	3,781	3,517
Other State-owned enterprises	4	20	78	13	35	43	39
Total State-owned Enterprises	**1,223**	**17,529**	**47,010**	**28,226**	**29,850**	**17,160**	**16,463**
Air New Zealand Limited	485	4,493	6,633	2,804	5,337	1,296	2,750
Genesis Energy Limited	76	3,603	4,485	1,415	2,424	2,061	2,133
Meridian Energy Limited	43	8,522	9,498	2,065	4,433	5,065	5,441
Mercury NZ Limited	214	5,848	6,833	1,545	3,090	3,743	3,541
Total mixed ownership companies	**818**	**22,466**	**27,449**	**7,829**	**15,284**	**12,165**	**13,865**
Intra-segmental eliminations	1	(167)	(1,456)	(53)	(209)	(1,247)	(1,400)
Total SOE segment	**2,042**	**39,828**	**73,003**	**36,002**	**44,925**	**28,078**	**28,928**
Crown entities							
Accident Compensation Corporation	7	20	51,766	818	67,725	(15,959)	(10,013)
Crown Infrastructure Partners	-	-	837	21	63	774	732
Crown Research Institutes	87	585	949	4	259	690	664
Callaghan Innovation	17	64	261	-	146	115	97
District Health Boards	708	7,286	9,144	89	4,271	4,873	5,467
Earthquake Commission	2	11	864	-	1,553	(689)	(535)
New Zealand Fire Service Commission	87	1,071	1,343	62	223	1,120	1,061
Housing New Zealand Corporation	306	-	-	-	-	-	22,923
Kainga Ora - Homes and Communities	1,302	30,656	32,910	6,560	8,943	23,967	-
Museum of New Zealand Te Papa	7	1,416	1,443	-	10	1,433	1,392
New Zealand Lotteries Commission	3	14	187	2	133	54	33
New Zealand Transport Agency	1,917	54,170	55,004	3,339	4,197	50,807	48,946
Otakaro Limited	147	376	554	81	195	359	282
Public Trust	1	4	394	322	321	73	67
Schools	214	1,650	3,651	242	1,149	2,502	2,529
Southern Response Earthquake Services	-	1	149	-	172	(23)	(22)
Tamaki Regeneration Limited	19	1,893	1,960	-	14	1,946	1,858
Tertiary Education Commission	1	4	1,807	21	1,667	140	141
New Zealand Institute of Skills and Technology	15	2,030	2,902	142	434	2,468	-
Universities and Wānangas	-	-	12,637	-	-	12,637	13,466
Television New Zealand	3	156	293	-	63	230	250
Other Crown entities	63	308	2,051	35	523	1,528	1,337
Total Crown entities	**4,906**	**101,715**	**181,106**	**11,738**	**92,061**	**89,045**	**90,675**
Intra-segmental eliminations	-	(206)	(1,422)	(627)	(1,059)	(363)	(301)
Total Crown entities segment	**4,906**	**101,509**	**179,684**	**11,111**	**91,002**	**88,682**	**90,374**

Glossary of Terms

Commercial sector

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

Comparatives (Budget 2019 and Budget 2020)

Comparatives referred to as Budget 2019 were forecasts published in the *2019 Budget Economic and Fiscal Update* while comparatives referred to as Budget 2020 were forecasts published in *the 2020 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 (page 55).

Core Crown expenses

The day-to-day expenditure (eg, public servants' salaries, welfare benefit payments, and finance costs 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).

Expected Credit Loss (ECL)

Is the difference between all contractual cash flows of financial instruments that are due to the Crown and cash flows that the Crown expects to receive discounted to its present value by using the effective interest rate.

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 new 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 new 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 GSF. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the statement of financial performance.

Gross domestic product (GDP)

A measure of the value of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured as the actual dollar value of goods and services at today's prices (nominal GDP), or excluding the effects of price changes over time (real GDP).

Gross debt (or Gross sovereign-issued debt)

Represents debt issued by sovereign (core Crown) and includes Government stock held by NZS Fund, Accident Compensation Corporation, and the Earthquake Commission. It does not include debt issued by State-owned Enterprises and Crown Entities.

Investments in controlled enterprises

NZS Fund, in their role of investment entity, gains control over certain entities. These entities are held solely for the purpose of receiving returns from capital appreciation, investment revenue, or both and are reported on a fair value basis as a financial asset.

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.

Monetary policy

The policies that the Reserve Bank uses to regulate the supply of money in New Zealand. In the past, the Reserve Bank has primarily used the Official Cash Rate (OCR) to implement monetary policy decisions. Recently, increased focus has been given to alternative monetary policy responses, such as the Large Scale Asset Purchases programme. These measures are all designed to maintain stability in the rate of CPI inflation within a defined target range and to support maximum sustainable employment.

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 can provide a useful measure of how strong the Government's finances are, including its resilience to fiscal shocks such as natural disasters or significant deterioration in the global economy.

Net worth attributable to the Crown

Represents the Crowns share of total assets and liabilities and excludes minority interest's share of those assets and liabilities.

Operating balance

Represents total revenue and expenses 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 deposits

This is the amount of money deposited with the Reserve Bank by local and overseas financial institutions. It ensures there is sufficient liquidity available in the New Zealand banking system to facilitate the efficient settlement of payment obligations by exchange settlement deposit holders. The Reserve Bank manages settlement deposits to meet the economic objectives specified in the Reserve Bank of New Zealand Act 1989 to achieve and maintain stability in the general level of prices over the medium term, and to support maximum sustainable employment.

Social sector

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

Taxpayer funds

The accumulation of past operating surpluses and deficits.

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 (which are listed on pages 55 to 57). Also known as the Government Reporting Entity.

Transfer payments

An expense where income and wealth are being redistributed rather than a goods or service being provided, such as a social welfare entitlement or subsidy.