Financial Statements of the Government of New Zealand

for the year ended 30 June 2021

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Ministerial Statement

The 2020/21 accounts show New Zealand's economy is continuing to perform strongly and better than expected during the economic shock caused by the COVID-19 pandemic. This year's results show a lower deficit, higher tax take and lower net debt than forecast by the Treasury in *Budget 2021.* This means New Zealand is well placed to handle the on-going impact of this shock on the economy and is in a strong position to rebuild from COVID-19.

New Zealand went into this pandemic in a strong fiscal position. Although there remains volatility in the global outlook, New Zealand is in a good position to deal with any uncertainties.

The Government's financial results show the operating balance before gains and losses (OBEGAL) was a deficit of $4.6 billion (1.3% of GDP) in 2020/21. While the deficit was expected due to the impact of COVID-19, it was $10.6 billion better than what the Treasury forecast in *Budget 2021,* largely owing to the economy continuing to exceed Treasury forecasts.

Core Crown tax revenue of $98 billion was $6.4 billion higher than forecast in *Budget 2021*. With the country being in lower Alert Levels for most of the year, economic conditions were better than forecast and both labour market conditions and consumption have driven the increase in tax revenue.

Core Crown expenditure of $107.8 billion was $3 billion lower than forecast but on a similar level to last year's expenditure. Last year the COVID Response and Recovery Fund (CRRF) was established with $50 billion signalled for funding the Government's response. As at 30 June 2021, the majority of the CRRF had been allocated with $4.7 billion remaining to be allocated to support future health and economic responses needed in the case of further COVID-19 resurgences such as the recent delta outbreak.

Net core Crown debt was 30% of GDP at 30 June, below the 34% forecast in the *Budget 2021* which is significantly lower than other countries around the world.

Investment in infrastructure continues to grow with the Crown infrastructure investment this year being $9.4 billion, $0.4 billion higher than in the previous year. Core Crown capital investment was $12.7 billion during the year, $3.3 billion higher than the previous year and included $2.1 billion invested into the Super Fund to help cover future retirement costs. The core Crown residual cash deficit was $13.8 billion, compared to a forecast deficit of $25.3 billion at the *Budget 2021*. This lower cash deficit meant less cash needed to be borrowed and resulted in a lower net debt position than forecast.

The COVID-19 pandemic will continue to have an effect on the New Zealand and global economies, with the most recent delta outbreak in New Zealand likely to affect next year's results. However, the 2020/21 Crown accounts on the back of a solid result in 2019/20 put New Zealand in a strong position to support social and economic recovery and development.

Hon Grant Robertson
Minister of Finance

30 September 2021

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

30 September 2021

I accept responsibility for the integrity of these financial statements and that the information they contain complies with the Public Finance Act 1989.

In my opinion, these financial statements fairly reflect the financial position of the Crown as at 30 June 2021 and its operations for the year ended on that date.

Hon Grant Robertson
Minister of Finance

30 September 2021

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, consistent with the debt and operating balance objectives.

Operating expenses

Ensure operating expenses support a responsible and proportionate role for the Government in maintaining a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.

Operating balance

Use fiscal policy to secure the economic recovery for New Zealand and reduce deficits over the forecast period as economic conditions allow. Run an operating balance consistent with meeting the long-term debt objective.

2021 FINANCIAL RESULTS

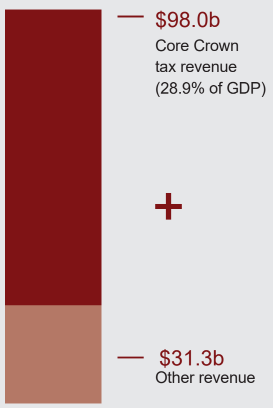
Total Crown

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

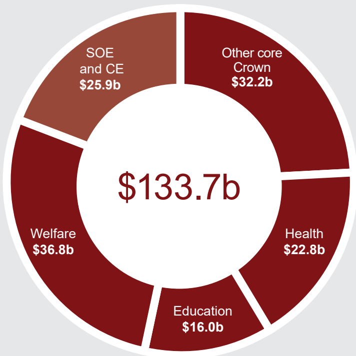
$129.3b TOTAL REVENUE − $133.7b TOTAL EXPENSES = ($4.6b) OBEGAL (excluding minority interests)

- minority interests $0.2b

Revenue



Expenses



- Core Crown expenses (31.7% of GDP)
- SOE and Crown Entities

Gains and losses

$16.2b
Operating balance surplus
(excluding minority interests)

Net worth

$115.9b Opening net worth

$16.2b Operating balance

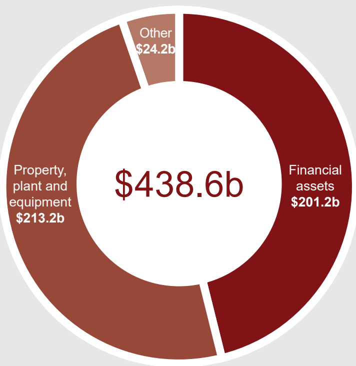
$25.3b Revaluations

($0.2b) Other movements

$157.2b
Closing net worth

=

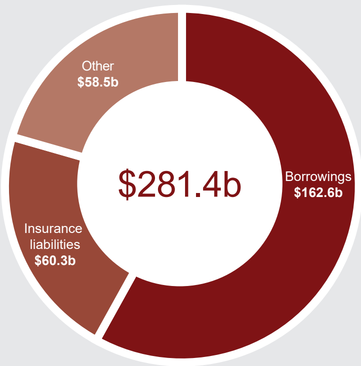
Assets



- Financial assets
- Property, plant and equipment
- Other

−

Liabilities



- Borrowings
- Insurance liabilities
- Other

Numbers may not add due to rounding.

Net worth

Use the Crown's net worth to fight COVID-19, cushion its impact and position New Zealand for recovery. Use the Crown's net worth to maintain a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.

Debt

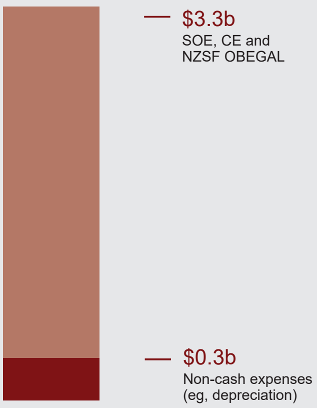
Allow the level of net core Crown debt to rise in the short term to fight COVID-19, cushion its impact and position New Zealand for recovery. Stabilise net core Crown debt as a percentage of GDP by the mid-2020s and then reduce it as conditions permit (subject to any significant shocks).

Core Crown

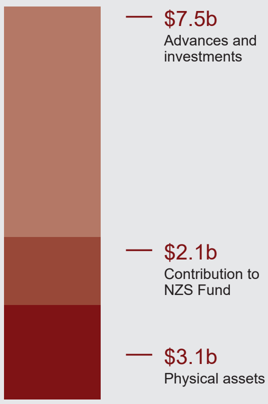
Moving from total Crown accrual measure to core Crown cash measure

Movement in net core Crown debt

+ ($4.6b) OBEGAL + **$3.6b** NON-RESIDUAL CASH ITEMS − **$12.7b** CAPITAL ITEMS = **($13.8b)** RESIDUAL CASH DEFICIT



($1.0b)
Core Crown operating cash flows



Net core Crown debt

$83.4b
Opening net core Crown debt

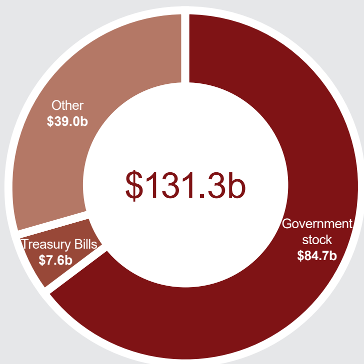
$13.8b
Residual cash deficit

$4.9b
Other movements

$102.1b
Closing net core Crown debt
30.1% of GDP

=

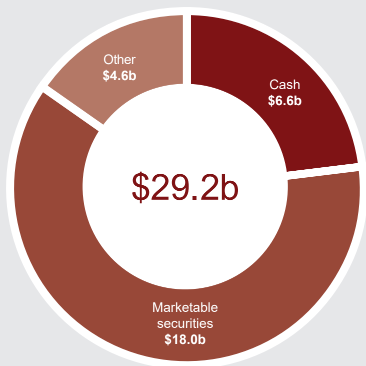
Gross sovereign issued debt



- Government stock
- Treasury Bills
- Other

−

Core Crown financial assets



- Cash
- Marketable securities
- Other

Excluding NZS Fund and advances.

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 2021: Securing Our Recovery* published with the Government's budget on 20 May 2021.

Table 1 – Fiscal strategy indicators

Year ended 30 June						**Forecast 30 June 2021**	
$ millions	**Actual 2017**	**Actual 2018**	**Actual 2019[1]**	**Actual 2020**	**Actual 2021**	**Budget 2020**	**Budget 2021**
Core Crown tax revenue	75,644	80,224	86,468	85,102	97,983	80,079	91,543
Core Crown expenses	76,339	80,576	86,959	108,832	107,764	113,529	110,745
Residual cash	2,574	1,346	(710)	(23,692)	(13,767)	(43,313)	(25,277)
Gross sovereign-issue debt[2]	92,620	95,437	90,930	124,145	131,256	203,673	136,919
Gross debt[3]	87,141	88,053	84,449	102,257	102,435	138,136	97,028
Net core Crown debt[4]	59,480	57,495	57,736	83,375	102,080	129,489	113,655
Net core Crown debt (incl. FLP)	59,480	57,495	57,736	83,375	99,021	129,489	109,115
Total borrowings	111,806	115,652	110,248	152,717	162,560	238,164	173,227
OBEGAL[5]	4,069	5,534	7,429	(23,057)	(4,560)	(29,599)	(15,127)
Operating balance[5]	12,317	8,396	389	(30,040)	16,159	(29,326)	1,274
Net worth attributable to the Crown	110,532	129,644	136,949	110,320	151,469	71,019	111,990
Total net worth	116,472	135,637	143,339	115,943	157,193	76,490	117,263
% of GDP[6]							
Core Crown tax revenue	27.4%	27.1%	27.9%	26.8%	28.9%	27.2%	27.4%
Core Crown expenses	27.7%	27.2%	28.0%	34.3%	31.7%	38.6%	33.1%
Residual cash	0.9%	0.5%	(0.2)%	(7.5)%	(4.1)%	(14.7)%	(7.6)%
Gross sovereign-issue debt[2]	33.6%	32.2%	29.3%	39.1%	38.6%	69.2%	40.9%
Gross debt[3]	31.6%	29.7%	27.2%	32.2%	30.2%	47.0%	29.0%
Net core Crown debt[4]	21.6%	19.4%	18.6%	26.3%	30.1%	44.0%	34.0%
Net core Crown debt (incl. FLP)	21.6%	19.4%	18.6%	26.3%	29.2%	44.0%	32.6%
Total borrowings	40.5%	39.1%	35.5%	48.1%	47.9%	81.0%	51.8%
OBEGAL[5]	1.5%	1.9%	2.4%	(7.3)%	(1.3)%	(10.1)%	(4.5)%
Operating balance[5]	4.5%	2.8%	0.1%	(9.5)%	4.8%	(10.0)%	0.4%
Net worth attributable to the Crown	40.1%	43.8%	44.1%	34.8%	44.6%	24.1%	33.5%
Total net worth	42.2%	45.8%	46.2%	36.5%	46.2%	26.0%	35.1%

Source: The Treasury

1 The 'Actual 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 2020 Financial Statements of Government for more details.

2 Gross sovereign-issued debt including Reserve Bank of New Zealand (Reserve Bank) settlement cash and Reserve Bank bills.

3 Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills.

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

5 Excluding minority interests.

6 GDP is updated to reflect the most recently published numbers (Source: Stats NZ).

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 2021 against the Government's short-term fiscal intentions set at *Budget 2021*

Fiscal Strategy Report 2021	Fiscal Position 2021
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.	**Debt** Net core Crown debt (excluding NZS Fund and advances) increased from 26.3% of GDP in 2020 to 30.1% of GDP as at 30 June 2021, in line with the Government's short-term intention.
Operating balance The intention is to use fiscal policy to secure the economic recovery for New Zealand and reduce deficits over the forecast period as economic conditions allow.	**Operating balance** The operating balance (before gains and losses) has reduced from a deficit of 7.3% of GDP in 2020 to a deficit of 1.3% of GDP for the year ended 30 June 2021, in line with the Government's short-term intention.
Expenses The intention is to ensure expenses are consistent with the operating balance objective.	**Expenses** Total expenses for the year ended 30 June 2021 were 39.4% of GDP, a reduction from 43.8% of GDP in 2020. The reduction in expenses leads to a reduction in operating balance deficits, which is in line with the Government's short-term intention for the operating balance.
Revenues The intention is to ensure revenue is consistent with the operating balance objective.	**Revenues** Total revenue for the year ended 30 June 2021 were 38.1% of GDP, an increase from 36.6% of GDP in 2020. The increase in revenue leads to a reduction in operating balance deficits, which is in line with the Government's short-term intention for the operating balance.
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.	**Net worth** Total Crown net worth as at 30 June 2021 was 46.2% of GDP an increase from 36.5% in 2020.

Source: The Treasury

Fiscal Indicators

OBEGAL (Operating Balance before Gains and Losses)

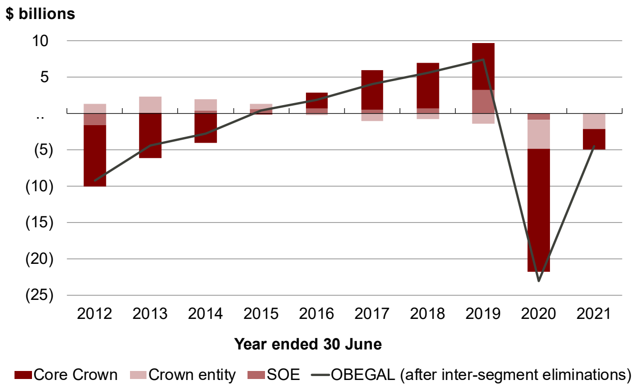
The OBEGAL deficit of $4.6 billion for 2020/21 represents an improvement of $18.5 billion from the OBEGAL deficit recognised last year. This is largely a reflection of an increase in core Crown revenue as the economy rebounded from the initial impact of the COVID-19 pandemic and a reduction in core Crown costs. In addition, Crown entities and State-owned Enterprises (SOE's) have reduced their deficits (see Figure 1).

The improvement in the economy has driven an increase in core Crown tax revenue of $12.9 billion in the year to 30 June 2021. Core Crown expenses have remained relatively consistent, being $1.0 billion lower than the prior year at $107.8 billion. The changing response to the COVID-19 pandemic has seen a reduction in social security and welfare expenses after the large increase in 2019/20 and an increase in health and transport spending. When this is combined with the improved results from Crown entities and SOEs, there is an improvement in the OBEGAL deficit. The changes in revenue and expenses are discussed further on pages 15 to 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 $2.8 billion, an improvement of $14.1 billion from the deficit reported last year. This is largely attributable to the rise in core Crown tax revenue discussed further on page 15.

The Crown entity segment reported a deficit of $2.1 billion, $2.0 billion less than the previous year's deficit of $4.1 billion. The primary driver of this is higher recoveries from reinsurance with a reduction in insurance expense and underwriting costs recognised by the Earthquake Commission (EQC). The remainder of the improvement is across a number of entities.

Figure 1 – Components of OBEGAL by segment



Source: The Treasury

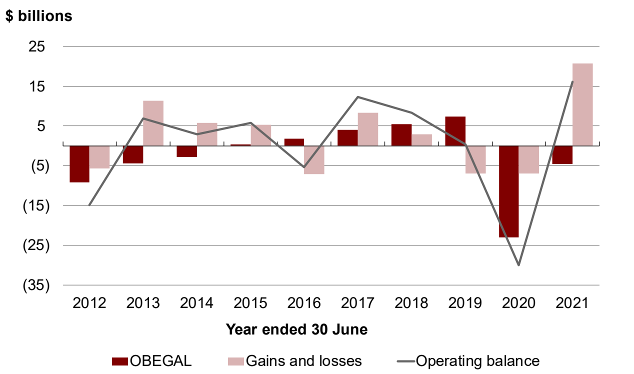
For the year ended 30 June 2021, the SOE segment reported a deficit of $0.1 billion, an improvement of $0.8 billion from the $0.9 billion deficit last year. The current year deficit is partly owing to there being lower impairment expenses in the current year.

The OBEGAL deficit of $4.6 billion is also an improvement on the OBEGAL deficit of $15.1 billion forecast in *Budget 2021*. The variance against *Budget 2021* is primarily owing to core Crown tax and other revenue, which have been higher than forecast and core Crown expenses which have been lower than forecast (discussed further on pages 27 and 28).

Operating Balance

Overall, the operating balance for the year was a surplus of $16.2 billion (see Figure 2), largely owing to $8.2 billion of actuarial gains on ACC outstanding claims and net gains on financial instruments of $18.1 billion, mostly from the NZS Fund and ACC investment activities. Partially offsetting these gains are losses of $4.0 billion recognised relating to the Large-Scale Asset Purchase (LSAP) programme (refer to page 19), and $1.5 billion of losses in relation to the Emissions Trading Scheme (ETS). A large portion of these gains and losses are non-cash valuation changes. These movements are discussed further on page 21. It is expected that future interest savings over time will largely offset the losses of the LSAP programme. A reconciliation of the operating balance and OBEGAL can be seen on page 157.

Figure 2 – Operating balance (excluding minority interests)



Source: The Treasury

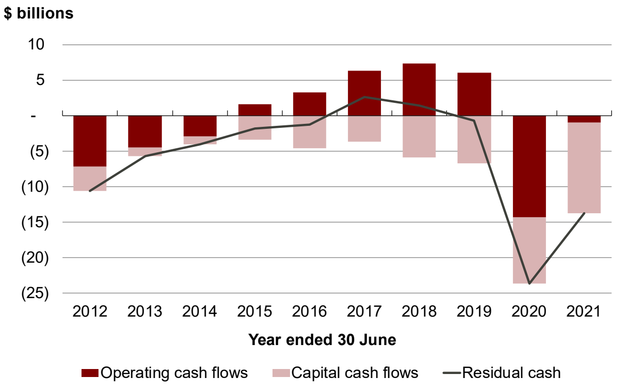
Fiscal Indicators (continued)

Core Crown Residual Cash

For the year ended 30 June 2021, there was a residual cash deficit of $13.8 billion. This was the result of a net core Crown operating cash flow deficit of $1.1 billion, combined with a $12.7 billion deficit in net cash flows from core Crown capital spending. This is a $9.9 billion improvement in the residual cash deficit from last year (see Figure 3).

Tax receipts were $96.6 billion, an increase of $12.3 billion on the year to 30 June 2020. The increase in tax receipts is broadly in line with the increase in core Crown tax revenue (discussed on page 15) and largely reflects the improvement in economic conditions in the year to 30 June 2021.

Figure 3 – Core Crown residual cash



Source: The Treasury

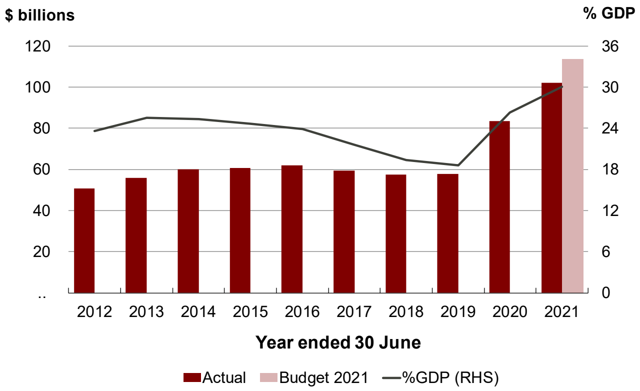
Core Crown capital spending for 2020/21 totalled $12.7 billion, an increase of $3.3 billion from the previous year. Advances by the core Crown have increased primarily as the Funding for Lending Programme (FLP) commenced, being $3.1 billion of lending, partially offset by a reduction in lending via the Small Business Cashflow Scheme. Other components of the increase in capital spending include an additional $0.7 billion invested in the NZS Fund and an additional $0.5 billion invested in the Ngāpuhi Investment Fund, Crown Regional Holdings and City Rail Link.

Net Core Crown Debt

Net core Crown debt has increased by $18.7 billion from $83.4 billion in 2019/20 to $102.1 billion in 2020/21. As a share of the economy, net core Crown debt increased to 30.1% of GDP (compared to 26.3% of GDP a year earlier) (see Figure 4). The residual cash shortfall of $13.8 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 as the level of the increase in settlement deposits with Reserve Bank is greater than the reduction in government bonds borrowing backed out on consolidation (as discussed on page 19).

Figure 4 – Net core Crown debt



Source: The Treasury

The net core Crown debt balance at 30 June 2021 was $11.6 billion below forecast at *Budget 2021*, mainly driven by the residual cash deficit being $11.5 billion lower than forecast at *Budget 2021*.

Gross Sovereign-Issued Debt

Gross sovereign-issued debt (GSID) has increased by $7.1 billion to $131.3 billion to fund cash deficits that could not be funded from assets already available. As a percentage of the economy, GSID decreased to 38.6% of GDP (39.1% of GDP a year earlier).

GSID at $131.3 billion was $5.7 lower than forecast at *Budget 2021*, largely due to the Reserve Bank borrowings being below forecast, relating to variances in the system liquidity management requirements.

Financial Statements Summary

The Financial Statements of the Government reflects a stronger than expected recovery to the initial shock of the COVID-19 pandemic which has been a key factor in the Government's fiscal performance and position during the 2020/21 fiscal year. This is shown in a return to surplus in the operating balance and a significant increase in net worth attributable to the Crown. These results are stronger than forecast in *Budget 2021*.

- Core Crown tax revenue was $12.9 billion higher than last year and higher than the *Budget 2021* forecast by $6.4 billion (page 15).
- Core Crown expenses were $1.0 billion lower than last year and $3.0 billion lower than the *Budget 2021* forecast (page 16).
- The operating balance was a surplus of $16.2 billion largely a result of higher core Crown revenue of $13.0 billion along with gains on financial and non-financial instruments being $30.5 billion greater than last year (page 21).
- Net worth has increased by $41.3 billion to $157.2 billion (page 22) largely as a result of the operating balance surplus and significant upward property, plant and equipment revaluations.

These financial statements contain the audited results for the financial year ended 30 June 2021. The results are compared against the previous year and against forecasts for the 2020/21 year:

- *Budget 2020* refers to the *2020 Budget Economic and Fiscal Update* published in May 2020, and
- *Budget 2021* refers to the *2021 Budget Economic and Fiscal Update* published in May 2021.

A comparison of the year end results against *Budget 2020* is included on pages 13 to 14 and against *Budget 2021* is included on pages 27 to 28.

The Financial Statements of the Government received an unmodified auditor's opinion for the year ended 30 June 2021.

This commentary should be read in conjunction with the audited financial statements on pages 41 to 153.

Table 3 – Key financial results

Year ended 30 June						Forecast 30 June 2021	
$ millions	**Actual 2017**	**Actual 2018**	**Actual 2019[1]**	**Actual 2020**	**Actual 2021**	**Budget 2020**	**Budget 2021**
Total revenue	103,422	109,973	119,142	116,003	129,335	110,067	121,187
Total expenses	99,007	104,014	111,376	138,916	133,722	139,585	136,202
Operating balance[2]	12,317	8,396	389	(30,040)	16,159	(29,326)	1,274
Total net worth	116,472	135,637	143,339	115,943	157,193	76,490	117,263
Total assets	313,609	339,932	364,652	393,400	438,596	432,739	406,952
Total liabilities	197,137	204,295	221,313	277,457	281,403	356,249	289,689
Total borrowings	111,806	115,652	110,248	152,717	162,560	238,164	173,227
% of GDP							
Total revenue	37.5%	37.2%	38.4%	36.6%	38.1%	37.4%	36.2%
Total expenses	35.9%	35.1%	35.9%	43.8%	39.4%	47.4%	40.7%
Operating balance[2]	4.5%	2.8%	0.1%	(9.5)%	4.8%	(10.0)%	0.4%
Total net worth	42.2%	45.8%	46.2%	36.5%	46.2%	26.0%	35.1%
Total assets	113.7%	114.8%	117.5%	124.0%	129.1%	147.1%	121.7%
Total liabilities	71.5%	69.0%	71.3%	87.5%	82.9%	121.1%	86.6%
Total borrowings	40.5%	39.1%	35.5%	48.1%	47.9%	81.0%	51.8%

Source: The Treasury

1 The 'Actual 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 2020 Financial Statements of Government for more details.

2 Excluding minority interests.

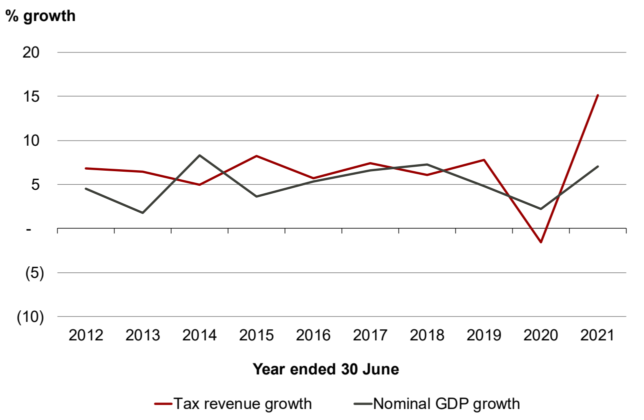
Financial Statements Summary (continued)

A strong economic recovery from the initial shock of the COVID-19 pandemic has led to an increase in core Crown tax revenue…

The economy has recovered from the initial impacts of the first COVID-19 lockdown, with strong economic growth since 30 June 2020. In 2020 New Zealand had two quarters of negative GDP growth and unemployment was expected to rise. Since then the economy has shown strong signs of recovery, with Stats NZ reporting GDP growth of 5.1% over the June 2021 year.

Unemployment for the 2021 June year came in slightly below (-0.1%) the previous year. In addition, the annual increase in the working-age population (0.8%), number of people employed (1.7%) and average wage rates (2.1%) in the year to the June 2021 quarter was stronger than expected. The stronger than expected economic conditions have contributed to an increase in core Crown tax revenue, which is up $12.9 billion from last year to $98.0 billion (see Figure 5). There have been significant improvements in most forms of tax revenue. Of particular note, GST revenue has increased by $3.8 billion as household consumption and residential investment increased. Corporate and other persons' tax have increased by $3.7 billion and $1.8 billion respectively indicating higher taxable profits for these groups as the economy recovered from the initial impact of the COVID-19 pandemic.

Figure 5 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

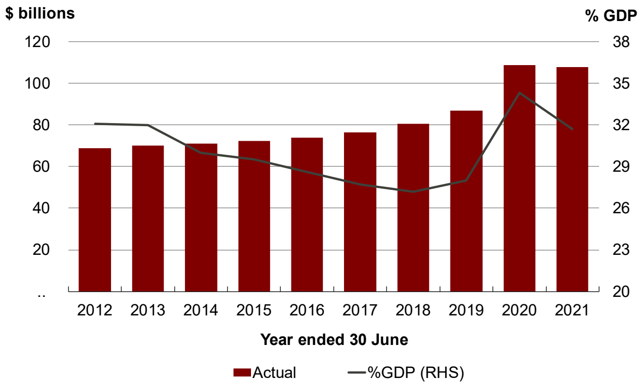
...while core Crown expenses remain consistent with the prior year...

While costs are largely consistent with the prior year, there is a change in the mix of expenditure reflecting new budget decisions and changes in the Government's response to the COVID-19 pandemic.

Of the changes in core Crown expenses (see Figure 6), the most significant growth was in health expenditure of $2.9 billion as a result of *Budget 2020* decisions and the on-going pandemic response. Transport expenditure has also increased by $2.5 billion and includes costs associated with the COVID-19 pandemic.

The largest reduction in core Crown expenses was in social security and welfare costs which were lower by $7.3 billion, largely owing to a reduction in wage subsidy costs of $10.9 billion during the financial year (see box on pages 18 to 20). Lower interest rates during 2020/21 were the main driver behind lower core Crown finance costs of $1.3 billion.

Figure 6 – Core Crown expenses



Source: The Treasury

As a share of the economy, core Crown expenses reduced to 31.7% of GDP (34.3% of GDP in 2020); in nominal terms, core Crown expenses are relatively consistent at $107.8 billion, a slight reduction of $1.0 billion on the prior year.

Financial Statements Summary (continued)

…the operating results from Crown entities and SOEs have improved…

Crown entities and SOEs have recorded a $2.2 billion operating balance deficit, a change of $2.8 billion from the $5.0 billion deficit the previous year.

A number of Crown entities and SOEs are showing stronger results than the prior year and one-off costs that occurred in the prior year are not being incurred in the current year. Reductions in insurance expenditure has also positively impacted the operating balance.

…and substantial net gains have positively impacted the operating balance…

Overall, total net gains for 2020/21 were $21.0 billion. This is largely owing to $18.1 billion of gains on financial instruments, primarily NZS Fund and ACC investment gains, and the ACC outstanding claims liability being valued downwards by $8.2 billion. Offsetting these gains were losses in relation to the LSAP programme of $4.0 billion and losses on ETS obligations of $1.5 billion.

...resulting in an operating balance surplus…

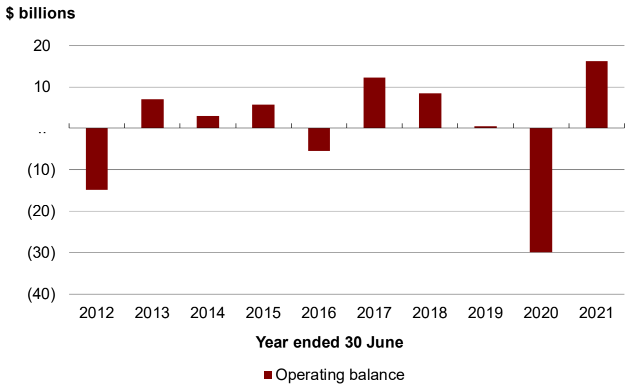
All of the factors outlined above led to an operating balance surplus of $16.2 billion for the year ended 30 June 2021 (see Figure 7).

...and an increase in net worth as the growth in assets exceeds that in liabilities

The increase in net worth has been largely driven by property, plant and equipment asset revaluations of $22.1 billion. The defined benefit plans and veterans' disability entitlement liabilities were revalued downward by $2.8 billion, which also increased net worth.

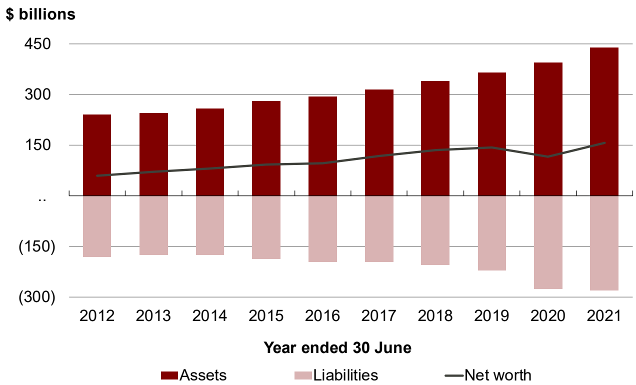
When these revaluations are combined with the operating balance surplus of $16.2 billion and minority interest transactions, net worth increased to $157.2 billion, an increase of $41.3 billion (see Figure 8).

Figure 7 – Operating balance (excluding minority interests)



Source: The Treasury

Figure 8 – Net worth



Source: The Treasury

Total assets grew by $45.2 billion in the 2020/21 year to reach $438.6 billion, while at the same time liabilities increased by $3.9 billion to reach $281.4 billion.

Of the increase in assets, property, plant and equipment increased the most by $26.7 billion (including revaluation uplifts of $22.1 billion) and financial assets grew by $17.9 billion. Of the increase in liabilities, borrowings increased by $9.8 billion, which was offset by insurance liabilities decreasing by $6.4 billion.

Year End Results Compared to *Budget 2020*

The forecast for 30 June 2021 in *Budget 2020* were prepared at a time of heightened uncertainty…

The Treasury's *Budget 2020* fiscal forecast for the 30 June 2021 fiscal year was released on 14 May 2020. At the time of finalising these forecasts there was a high degree of uncertainty around how the COVID-19 pandemic would impact on the economy and the Government's finances. Since *Budget 2020*, New Zealand has had low levels of COVID-19 in the general population throughout the 2020/21 fiscal year (page 20). In addition, the Government has secured COVID-19 vaccines for all New Zealanders and commenced a vaccine rollout. Overall, economic activity has fared much better than anticipated at *Budget 2020*, which is the main reason that all key fiscal indicators are significantly better than expected when compared to the fiscal forecasts from *Budget 2020*.

Table 4 – Key variances compared to *Budget 2020*

Year ended 30 June	Actual 2021 $ millions	Budget 2020 $ millions	Variance to Budget 2020 $ millions	Variance to Budget 2020 %
Core Crown tax revenue	97,983	80,079	17,904	22.4
Core Crown expenses	107,764	113,529	(5,765)	(5.1)
Operating balance (excluding minority interests)	16,159	(29,326)	45,485	155.1
Total assets	438,596	432,739	5,857	1.4
Total liabilities	281,403	356,249	(74,846)	(21.0)
Total borrowings	162,560	238,164	(75,604)	(31.7)
Net worth	157,193	76,490	80,703	105.5

Source: The Treasury

…but economic activity has turned out to be stronger than expected, resulting in higher tax revenue…

At *Budget 2020*, the Treasury was expecting nominal GDP growth for 2020/21 to stay flat and the unemployment rate to be 7.6%. New Zealand's strategy to manage the COVID-19 pandemic, coupled with the Government's fiscal support measures has allowed a stronger than anticipated recovery. GDP has grown by 5.1% for the 2020/21 fiscal year, while the unemployment rate was 4.0% in the June 2021 quarter. The stronger than expected economic activity during 2020/21 fiscal year was the main driver for core Crown tax revenue being $17.9 billion higher than forecast. Source deductions were higher by $3.3 billion mainly owing to stronger employment and wage growth. Both other persons' tax and corporate tax were higher than forecast, mainly owing to the improved outlook for businesses taxable profits. GST was $5.5 billion higher than forecast, mainly owing to stronger growth in private consumption and residential investments.

Table 5 – Change in core Crown tax revenue compared to Budget 2020

Year ended 30 June	$ billions
Budget 2020 core Crown tax revenue	**80.1**
Corporate tax	5.9
GST	5.5
Source deductions	3.3
Other persons' tax	2.3
Other taxes	0.9
2021 core Crown tax revenue	**98.0**

Source: The Treasury

…and lower spending on some benefit types…

The higher levels of economic activity have also meant that the Government's spending on some benefit types has been lower than forecast at *Budget 2020*. In particular, with the unemployment rate being lower than expected Jobseeker support and emergency benefit payments were $1.3 billion lower than forecast.

…while the expansion of the Large-Scale Asset Purchase programme has reduced finance costs…

Since finalising the *Budget 2020* fiscal forecasts, the Reserve Bank significantly expanded their LSAP programme from $33.0 billion to a $100.0 billion limit. As at 30 June 2021 the Reserve Bank had purchased around $57.5 billion of assets under the programme, compared to a forecast of around $33.0 billion. The increase in the LSAP programme has the benefit of lowering borrowing costs 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. Overall, finance costs are lower than forecast by $1.0 billion, in addition to the impact from the expansion of the LSAP programme the lower borrowing requirements for this year have also contributed to lower finance costs.

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

…which both contribute to lower core Crown expenses…

Overall core Crown expenses were $5.7 billion lower than forecast. A large part of this variance is owing to lower benefit payments and finance costs mentioned above. The remaining part of this variance is partly due to delays in spending, particularly from expenditure that was set aside in tagged contingencies at *Budget 2020*. Although there was a high level of uncertainty around the amount and timing of the Government's COVID-19 fiscal support measures, the forecast assumption broadly aligns to the actual expenditure incurred. For the 2020/21 fiscal year the Treasury forecast that $9.8 billion of the COVID-19 Response and Recovery Fund (CRRF) would be allocated and spent. The actual funding allocated from the CRRF has been mainly spent in the following functional classifications:

Table 6 – Change in core Crown expenses by functional classification compared to Budget 2020

Year ended 30 June	$ billions
Budget 2020 core Crown expenses	**113.5**
Health	1.9
Transport and communications	1.6
Economic and industrial services	1.1
Finance costs	(1.0)
Reduction CRRF	(9.8)
Other movements	0.5
2021 core Crown expenses	**107.8**

Source: The Treasury

- **Health expenses** – mainly relating to the public health response, isolation and quarantine management and COVID-19 vaccine
- **Transport expense** – mainly relating to supporting the aviation and transport sector and funding for infrastructure reference group (IRG) shovel ready projects
- **Social security and welfare expenses** – mainly relating to payments under the wage subsidy scheme, and
- **Economic and industrial services** – mainly relating to supporting business (including the tourism industry) and funding for IRG shovel ready projects.

…while stronger market conditions also contributed to an improvement in the operating balance and net worth...

Investment markets and interest rates have recovered strongly in 2020/21. As a result, valuation gains recognised in the Statement of Financial Performance totalled $21.0 billion and were $20.8 billion higher than forecast at *Budget 2020*. Gains on the Government's financial instrument portfolio were $15.6 billion higher than forecast, largely driven by a strong investment market leading to gains for the NZS Fund and ACC. While gains on non-financial instruments were $7.0 billion higher than forecast. This was mainly owing to a reduction in the ACC outstanding claims liability as increasing yields on Government bonds have led to an increase in discount rates used to value this liability. These gains have been partially offset by higher than forecast losses from the LSAP programme owing to its expansion. When the higher gains are added to the improvement in the operating results, the operating balance improved by $45.5 billion compared to forecast. In addition, the valuation gains on physical assets were $22.1 billion more than forecast, largely a result of increased property prices over 2020/21. The stronger starting position for net worth from the 2019/20 fiscal year of around $9.9 billion coupled with the improvement in the operating balance has led to net worth attributable to the Crown being $80.5 billion higher than forecast.

…as a result, when compared to forecast, the value of assets was higher and liabilities were lower

Total assets were higher than forecast by $5.9 billion. The value of property, plant and equipment was $22.4 billion higher than forecast largely owing to the valuation gains of physical assets mentioned above. Although stronger market conditions have increased the value of some financial assets compared to forecast, this has been more than offset by the use of a higher level of financial assets to fund cash deficits, which is neutral to the balance sheet as it has meant the Government has needed to borrow less. Overall, the value of financial assets was $16.7 billion lower than forecast.

Total liabilities were lower than forecast by $74.8 billion, with lower borrowings of $75.6 billion contributing to most of this difference. The stronger than expected economic recovery and spending delays has reduced the need for borrowing to cover cash deficits and a higher level of financial assets were used to fund cash deficits instead.

Revenue

Total Crown revenue was $129.3 billion, an increase of $13.3 billion from last year largely owing to increases in core Crown tax revenue.

Table 7 – Breakdown of revenue

Year ended 30 June						Forecast 30 June 2021	
$ millions	**Actual 2017**	**Actual 2018**	**Actual 2019**	**Actual 2020**	**Actual 2021**	**Budget 2020**	**Budget 2021**
Core Crown tax revenue	75,644	80,224	86,468	85,102	97,983	80,079	91,543
Core Crown other revenue	6,138	6,554	7,006	6,821	6,985	6,944	6,399
Core Crown revenue	81,782	86,778	93,474	91,923	104,968	87,023	97,942
Crown entities, SOEs and eliminations (other)	21,640	23,195	25,668	24,080	24,367	23,044	23,245
Total Crown revenue	**103,422**	**109,973**	**119,142**	**116,003**	**129,335**	**110,067**	**121,187**
% of GDP							
Core Crown tax revenue	27.4%	27.1%	27.9%	26.8%	28.9%	27.2%	27.4%
Core Crown other revenue	2.2%	2.2%	2.3%	2.2%	2.1%	2.4%	1.9%
Core Crown revenue	29.6%	29.3%	30.1%	29.0%	30.9%	29.6%	29.3%
Crown entities, SOEs and eliminations (other)	7.8%	7.8%	8.3%	7.6%	7.2%	7.8%	6.9%
Total Crown revenue	**37.5%**	**37.2%**	**38.4%**	**36.6%**	**38.1%**	**37.4%**	**36.2%**

Source: The Treasury

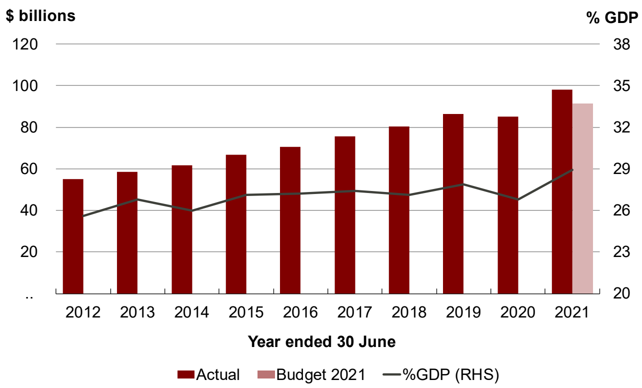
Core Crown Tax Revenue

Core Crown tax revenue was $98.0 billion, up $12.9 billion (15.1%) from the year before. The increase in core Crown tax revenue was broadly as a result of the economic rebound since the initial outbreak of the COVID-19 pandemic in the first half of 2020 (see Figure 9).

Most major tax types have increased over the year with four tax types making up most of the movement (see Table 8):

- Goods and Services Tax (GST) was $3.8 billion (17.5%) higher than last year, mostly owing to stronger private consumption and residential investment.
- Corporate tax and other persons' tax revenue increased by $3.7 billion (29.3%) and $1.8 billion (31.4%) respectively. This reflects the strength in taxable profits since the initial impact of the COVID-19 pandemic.
- Source deductions increased by $3.2 billion (9.2%). This increase was owing to wage increases and an increase in the number of people employed.
- Other tax types were relatively static compared to 2019/20.

Figure 9 – Core Crown tax revenue



Source: The Treasury

Table 8 – Increase in core Crown tax revenue

Year ended 30 June	$ billions
2020 core Crown tax revenue	**85.1**
GST	3.8
Corporate tax	3.7
Source deductions	3.2
Other persons' tax	1.8
Other movements	0.4
2021 core Crown tax revenue	**98.0**

Source: The Treasury

Expenses

Total Crown expenses were $133.7 billion in the current year, $5.2 billion less than last year. Core Crown expenses remained relatively static, decreasing by $1.0 billion. There has been increased funding from the Government for Crown entities, however a large portion of the expenditure by Crown entities is yet to be incurred (for example funding to Crown Infrastructure Partners).

Table 9 – Breakdown of expenses

Year ended 30 June $ million	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 30 June 2021 Budget 2020	Forecast 30 June 2021 Budget 2021
Social security and welfare	25,294	25,999	28,740	44,028	36,759	37,170	37,411
Health	16,223	17,159	18,268	19,891	22,784	20,919	23,837
Education	13,281	13,629	14,293	16,322	16,039	16,301	16,326
Core government services	3,957	4,670	5,166	6,083	5,754	5,317	6,161
Law and order	3,882	4,184	4,625	4,911	5,202	5,238	5,450
Other core Crown expenses	13,702	14,935	15,867	17,597	21,226	28,584	21,560
Core Crown expenses	**76,339**	**80,576**	**86,959**	**108,832**	**107,764**	**113,529**	**110,745**
Crown entities, SOEs and eliminations (other)	22,668	23,438	24,417	30,084	25,958	26,056	25,457
Total Crown expenses	**99,007**	**104,014**	**111,376**	**138,916**	**133,722**	**139,585**	**136,202**
% of GDP							
Social security and welfare	9.2%	8.8%	9.3%	13.9%	10.8%	12.6%	11.2%
Health	5.9%	5.8%	5.9%	6.3%	6.7%	7.1%	7.1%
Education	4.8%	4.6%	4.6%	5.1%	4.7%	5.5%	4.9%
Core government services	1.4%	1.6%	1.7%	1.9%	1.7%	1.8%	1.8%
Law and order	1.4%	1.4%	1.5%	1.5%	1.5%	1.8%	1.6%
Other core Crown expenses	5.0%	5.0%	5.0%	5.6%	6.3%	9.7%	6.4%
Core Crown expenses	**27.7%**	**27.2%**	**28.0%**	**34.3%**	**31.7%**	**38.6%**	**33.1%**
Crown entities, SOEs and eliminations (other)	8.2%	7.9%	7.9%	9.5%	7.7%	8.9%	7.6%
Total Crown expenses	**35.9%**	**35.1%**	**35.9%**	**43.8%**	**39.4%**	**47.4%**	**40.7%**

Source: The Treasury

Core Crown Expenses

Core Crown expenses are largely comparable to the prior year, being $107.8 billion in the year to 30 June 2021, $1.0 billion less than the prior year (see Table 10). As a share of the economy, core Crown expenses were 31.7% of GDP, down from 34.3% of GDP last year.

While core Crown expenses are largely the same as the prior year, the functional mix has changed.

The wage subsidy scheme had net expenditure of $1.2 billion in the current year, a reduction of $10.9 billion when compared to the prior year. The current year expense includes refunds of $0.4 billion from recipients of the wage subsidy scheme, which has the effect of reducing the overall expense recognised.

Table 10 – Movement in core Crown expenses

Year ended 30 June	$ billions
2020 core Crown expenses	**108.8**
Wage subsidy scheme	(10.9)
Finance costs	(1.3)
Health expenditure	2.9
Transport expenditure	2.5
Superannuation costs	1.0
Other movements (including other *Budget 2020* decisions)	4.8
2021 core Crown expenses	**107.8**

Source: The Treasury

Additionally, core Crown finance costs have reduced by $1.3 billion from the prior year reflecting the lower interest rate environment.

Partially offsetting this decrease are new costs associated with the Government's response to the COVID-19 pandemic, that include costs related to managed isolation and quarantine, and purchasing and roll out of the vaccine.

Expenses (continued)

Overall, health expenditure increased by $2.9 billion, primarily driven by the COVID-19 pandemic costs mentioned above, but also as a result of additional funding received for industry cost pressures that were agreed through *Budget 2020*.

Transport costs have increased by $2.5 billion as funding has been provided to maintain air transport links and contracts have been renegotiated.

New Zealand Superannuation costs were higher than last year by $1.0 billion. This was owing to an increase in recipient numbers due to an ageing population and increasing payment rates.

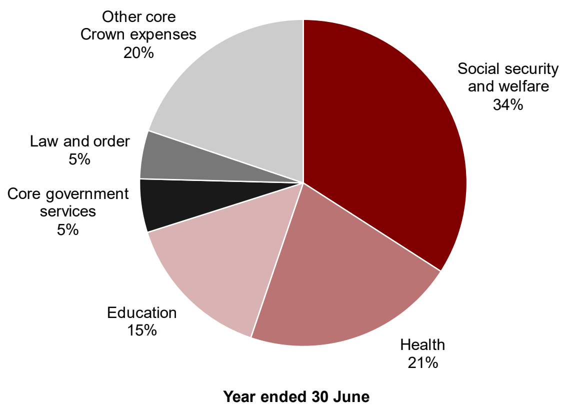
Figure 10 shows the composition of core Crown expenses by key areas of Government spending. The three spending areas of social security and welfare, health and education expenses make up 70% of all core Crown spending. Other core Crown expenses (20%) includes other areas of functional spending (eg, transport, economic and industrial services, defence, environmental protection and finance costs).

Other Expenses

The Crown entity segment expenditure increased by $1.5 billion when compared to last year, with the largest increase being District Health Boards, with an increase of $1.3 billion.

The SOE segment expenditure has decreased by $1.4 billion in the current year, largely relating to Air New Zealand, as impairments recorded last year have not been incurred in the current year and result in a reduction in overall expenditure.

Figure 10 – Composition of core Crown expenses



Source: The Treasury

Impact of the COVID-19 pandemic

New Zealand has been relatively successful in limiting the spread of COVID-19 during the 2020/21 year. With only a few shifts in alert levels, most sectors in the economy were able to operate with minimal disruption and as such, there was not the need for as much direct support to businesses when compared to the 2019/20 year. Instead, there was more of a focus on the health response to the COVID-19 pandemic during 2020/21. This box identifies the key impacts of the COVID-19 response on the financial performance and fiscal position of the Government.

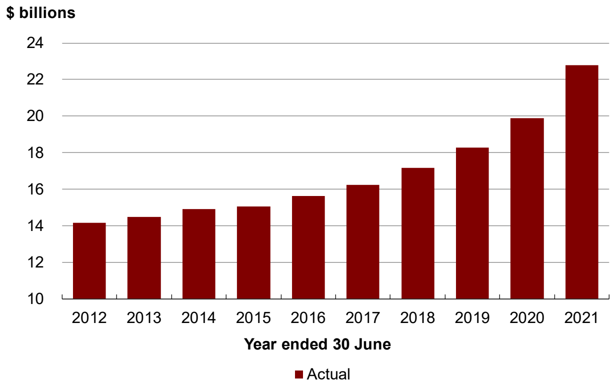
Health response

A significant focus of fiscal support, in response to the COVID-19 pandemic during 2020/21, has been on New Zealand's health response. During the 2020/21 financial year, core Crown health expenses were $22.8 billion, an increase of $2.9 billion (14.5%).

The 14.5% increase in core Crown health expenses is significantly higher than historic trends (see Figure 11), with the average annual increase in core Crown health expenses being only 7.9% over the last five years.

The most fiscally material aspects of the health response during 2020/21 relate to the COVID-19 vaccination programme ($0.4 billion), testing and laboratory capacity ($0.3 billion), personal protection equipment ($0.1 billion) and managed isolation and quarantine expenses ($0.8 billion). Further details are provided in note 3 of the financial statements (pages 62 to 66).

Figure 11 – Core Crown health expenses



Source: The Treasury

Managed isolation and quarantine (MIQ) measures have been an important part of the border restrictions aimed at keeping COVID-19 out of New Zealand. In August 2020, fees were introduced for some users of the MIQ facilities with the aim of sharing some of the costs of MIQ with the Government. At 30 June 2021, fee revenue recognised totalled $0.1 billion.

Direct business support

Significant fiscal measures have supported the economy during the COVID-19 pandemic. While most direct business support measures commenced in the previous fiscal year, for many, their impacts are ongoing and continue to impact the Government's fiscal performance and fiscal position for the year ended 30 June 2021.

The Government introduced the wage subsidy scheme in March 2020 to support employers adversely affected by the COVID-19 pandemic. Payments under the scheme totalled $1.2 billion in 2020/21 (2020: $12.1 billion).

The Small Business Cashflow (Loan) Scheme was introduced in May 2020 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 lending is concessionary, both with interest rate and repayment terms. Lending in 2020/21 was $0.3 billion (2020: $1.4 billion) with the concessionary element estimated at $0.1 billion (2020: $0.7 billion).

The Resurgence Support Payments (RSP) is a payment to help support viable and ongoing businesses or organisations due to a COVID-19 alert level increase to level 2 or higher. Payments of $0.2 billion have been made during 2020/21.

The Business Finance Guarantee Scheme (BFGS) was established in March 2020 to support small and medium businesses to access credit for cashflow, capital assets and projects related to, responding to, or recovering from, the impacts of COVID-19. Of the loans provided, 80% of the value of the loans are indemnified. As at 30 June 2021, a total of $2.9 billion had been made available by banks and non-bank lenders using the scheme. The value of the indemnity fee foregone by providing the indemnity without charge is estimated at $0.1 billion (2020: $20 million). The BFGS closed to new applicants on 30 June 2021.

Impact of the COVID-19 pandemic (continued)

Wider sector support

The Government has provided significant levels of funding to various sectors impacted by the COVID-19 pandemic. This includes but is not limited to transport, tourism and construction sectors.

When COVID-19 alert levels are increased, travel tends to reduce and as such, New Zealanders spend less on fuel or road user charges. Consequently, this reduces land transport revenue from petrol excise duty and road user charges. To address the revenue shortfall associated with COVID-19, the Government agreed to several measures to support the National Land Transportation Fund (NLTF). For more details refer to note 3 in the financial statements.

In March 2020 the Government set up a COVID-19 support package to support aviation. During 2020/21, $0.3 billion was spent on the International Air Freight Capacity (IAFC) scheme. A new scheme, Maintaining International Air Connectivity (MIAC), was set up to support air services through to the end of October 2021, with the potential to extend to March 2022, spending on the MIAC totalled $48 million during 2020/21. The Crown loan facility made available to Air New Zealand in March 2020 has also been extended to a facility of up to $1.5 billion, available to September 2023. At 30 June 2021, $0.4 billion of this facility had been drawn down.

The Strategic Tourism Assets Protection Programme (STAPP) was set up to protect tourism assets to ensure their survival through disruption caused by COVID-19 and as at 30 June 2021, this totalled $0.1 billion. A Worker Redeployment Package was formed to fund projects in regions to keep people working, this totalled $0.1 billion at 30 June 2021. In addition, the Regional Events Fund was created to stimulate domestic tourism and travel between regions through holding events. As at 30 June 2021, this totalled $24 million.

The Government established the IRG to work with local councils and businesses to identify a pipeline of projects to support the economy during the COVID-19 rebuild. Government funding provided to Crown Infrastructure Partners for the IRG shovel ready projects during 2020/21 has totalled $1.0 billion.

Monetary policy measures

During 2020/21, the Reserve Bank continued to use monetary policy measures to ensure that the domestic recovery is sustained. This includes keeping the Official Cash Rate (OCR) at a low level and continuing to employ alternative monetary policies to inject money into the economy to lower borrowing costs to households and businesses.

The Large-Scale Asset Purchase (LSAP) programme was introduced in March 2020. While the repurchase of Government bonds on the secondary market reduces borrowing costs as the fixed coupon interest expense is replaced with the floating OCR interest rate, the LSAP repurchases themselves have resulted in losses of $4.0 billion recognised during 2020/21 (2020: $3.3 billion). It is expected that future interest savings will largely offset the losses of the programme. The Reserve Bank halted additional asset purchases under the LSAP programme on 23 July 2021. Details of the LSAP programme, including the amount of Government bonds repurchased, are discussed further in note 3 of the financial statements.

The Funding for Lending Programme (FLP) is one of the tools used by the Reserve Bank to help maintain low and stable inflation and support full employment. The Reserve Bank offers to lend funds to banks at the prevailing level of the OCR for a term of three years. The loans issued under the FLP totalled $2.6 billion during 2020/21; there is a corresponding increase in the settlement deposits liability with Reserve Bank to fund the FLP.

The Term Lending Facility (TLF) has been available to eligible counterparties since May 2020. The TLF aimed to ensure access to funding for banks at low interest rates for up to five years' duration and at 30 June 2021; a total of $1.8 billion has been borrowed through the facility. The TLF closed following the final scheduled facility window on 28 July 2021.

Economic conditions

In addition to the response impact, COVID-19 has affected economic conditions that impact directly on the government's financial results and position.

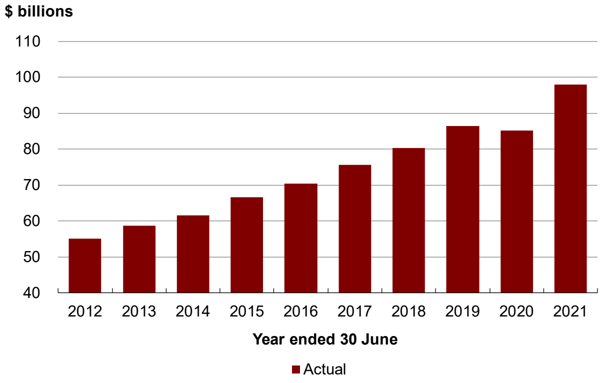
As a result of COVID-19 New Zealand had a technical recession with two quarters of negative GDP growth and unemployment expected to rise. Since then the economy has shown strong signs of recovery, with Stats NZ reporting average annual GDP growth of 5.1% through the year to June 2021 and the unemployment rate falling to 4.0% in the June 2021 quarter.

The value of some items in the reported financial statements are underpinned by the prevailing economic conditions. For example, the level of economic activity is a significant driver of the amount of tax revenue reported in any given year.

Impact of the COVID-19 pandemic (continued)

The recovery in economic activity has influenced number of tax types in the 2020/21 fiscal year. Figure 12 shows the increase in core Crown tax revenue compared to recent years. Increases in private consumption and residential investment has impacted GST revenue, higher than expected taxable income for businesses has impacted on corporate and other persons tax, and growth in wages and employment has impacted source deductions revenue.

Figure 12 – Core Crown tax revenue



Source: The Treasury

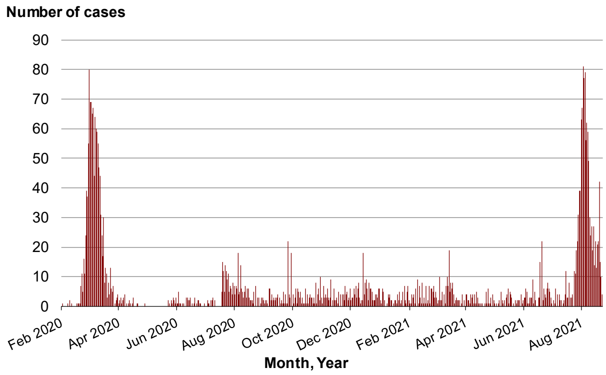
In contrast to tax revenue increases, the extensive travel and border restrictions which remain in place continue to have significant impacts on the revenues of Air New Zealand and a number of other travel related services provided by the Government (eg, passports, border security). Overall, revenue from the provision of services was $6.5 billion, a decrease of $2.0 billion from the 2019/20 financial year.

Risk and uncertainty

Despite the relative containment of COVID-19 during the 2020/21 financial year in New Zealand, risk and uncertainty remains going forward. This is particularly relevant given the August 2021 delta outbreak of COVID-19 in the community, which can be seen through the increase in daily case numbers in Figure 13.

On 17 August 2021, all of New Zealand moved to COVID-19 Alert Level 4. This remained in place for a period of two weeks, before a shift to Alert Level 3 was put in place for areas south of Auckland. During this time, the COVID-19 wage subsidy payments were reinstated, and resurgence support payments became available. Along with business support the outbreak has led to increased demand on MIQ and health facilities and a surge in vaccinations across the country. The costs associated with the August delta outbreak have occurred after the 2021 financial year-end, so will be reflected in the Government's financial results for the 2021/22 year.

Figure 13 – Daily confirmed COVID-19 cases in New Zealand (including cases detected at the border and in MIQ facilities)



Source: EpiSurv database (administered by ESR)

The global outlook is highly uncertain, particularly with the challenge of the delta variant of COVID-19. Whilst significant progress has been made in terms of vaccination roll-outs around the world, many countries still grapple with impacts of COVID-19 with high levels of hospitalisations and deaths each day, along with varying levels of social and travel restrictions. The unknown path of withdrawal from the COVID-19 emergency fiscal and monetary measures that have been introduced internationally, adds to the uncertainty.

It is likely therefore that the COVID-19 pandemic will continue to influence the Government's fiscal performance and fiscal position over several years. The Government has set aside a budgetary envelope to manage this risk.

At Budget 2020, the Government signalled funding of $62.1 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 $12.1 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 since March 2020 and at 30 June 2021, $4.7 billion of the CRRF remained unallocated.

Since then, with the onset of the delta outbreak, the CRRF has been topped up. On 16 September 2021, the Government announced that the CRRF would be increased by an extra $7.0 billion, with an additional $3.0 billion available to spend from amounts previously allocated from the fund but not spent. Further details on decisions that have been charged against the CRRF can be found at: http://www.treasury.govt.nz/publications/budgets/covid-19-funding-allocation-expenditure.

Operating Balance

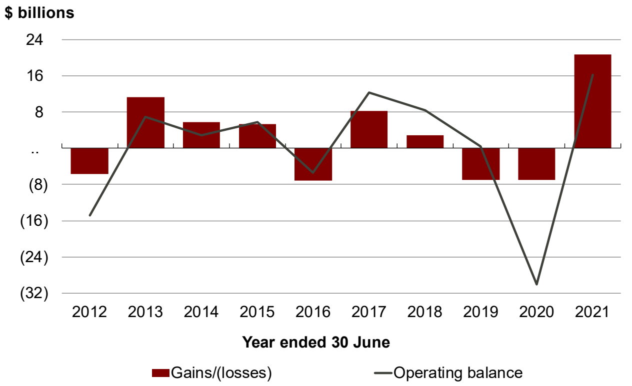
Operating Balance

The operating balance represents the net position of total Crown revenues, expenses, gains and losses.

Figure 14 shows when overall net gains are combined with total Crown revenue and expenses, the operating balance (excluding minority interests) was a surplus of $16.2 billion.

Gains on financial instruments of $18.1 billion in the year have increased significantly from the $1.9 billion recognised last year. This reflects the economic rebound in the investment returns after the initial shock of the COVID-19 pandemic (primarily in NZS Fund and ACC portfolios). This has also driven the student loan valuation increase of $0.7 billion.

Figure 14 – Operating balance (excluding minority interests)



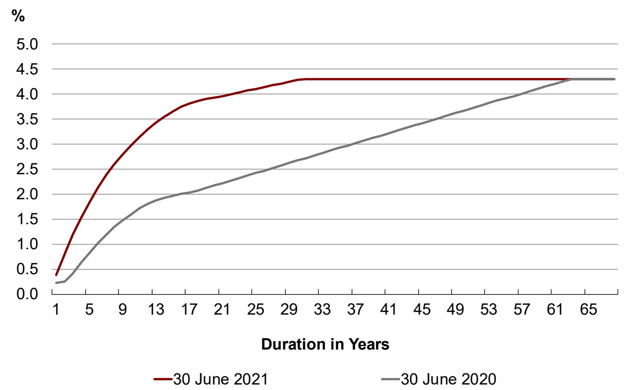
Source: The Treasury

Gains on non-financial instruments of $6.9 billion (compared to $7.4 billion of losses last year) largely consisted of actuarial gains on the ACC long term liability, offset by losses on ETS obligations. The ACC liability had a favourable valuation movement of $8.2 billion primarily as a result of increases in discount rates compared to the prior year. The ETS loss was as a result of an increase in the carbon price (from $32.10 last year to $43.45 this year) used to value the ETS liability. Liabilities with long durations such as ACC outstanding claims are particularly sensitive to discount rate movements. If discount rates increase, the liability in today's dollar reduces.

Figure 15 illustrates the increase in risk free discount rates used in the valuation of the ACC liability and GSF liability over the last year.

Total losses of $4.0 billion have been recognised relating to the LSAP programme. The losses arise as repurchased bonds are bought back at the current market bond prices, which have been generally higher than when the bonds were originally issued. It is expected that future interest savings will largely offset the losses of the programme.

Figure 15 – Discount rates



Source: The Treasury

Total Crown Balance Sheet

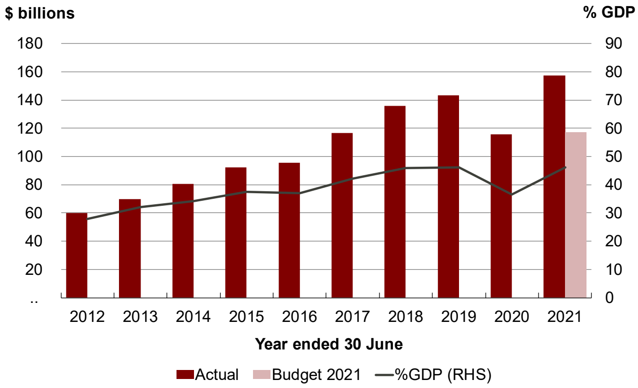
Net Worth

Net worth is the difference between total Crown assets (what the government owns) and total Crown 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 $157.2 billion as at 30 June 2021, an increase of $41.3 billion from a year earlier (see Figure 16).

The increased net worth has more than recovered from the reduction in 2019/20, primarily as a result of the operating surplus of $16.2 billion and revaluation uplifts of physical assets of $22.1 billion. Also, favourable revaluations of liabilities, in particular the Government Superannuation Fund and veterans' disability entitlements resulted in $2.8 billion of additional increases, which are presented directly in net worth (not in the operating balance like ACC valuation gains).

Figure 16 – Net worth



Source: The Treasury

As a share of the economy, net worth increased 9.7% from 36.5% of GDP in 2019/20 to 46.2% of GDP in the current year.

Table 11 – *Net worth*

Year ended 30 June $ millions	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 30 June 2021 Budget 2020	 Budget 2021
Net worth attributable to the Crown	110,532	129,644	136,949	110,320	151,469	71,019	111,990
Net worth attributable to minority interests	5,940	5,993	6,390	5,623	5,724	5,471	5,273
Total net worth	**116,472**	**135,637**	**143,339**	**115,943**	**157,193**	**76,490**	**117,263**
Net worth as a % of GDP	**42.2%**	**45.8%**	**46.2%**	**36.5%**	**46.2%**	**26.0%**	**35.1%**

Source: The Treasury

Total Crown Balance Sheet (continued)

Total Crown Balance Sheet

Total Crown assets were $438.6 billion at 30 June 2021, a $45.2 billion increase, with significant increases in financial assets and property, plant and equipment. Total Crown liabilities have increased by a much lower amount, by $3.9 billion from the previous year to reach a total of $281.4 billion, the increase primarily owing to increased borrowings, offset by reductions in insurance liabilities.

The combination of the movements above and the removal of minority interests has resulted in an overall increase in total net worth attributable to the Crown of $41.1 billion in the year to 30 June 2021.

Table 12 – Composition of the total Crown balance sheet

Year ended 30 June $ millions	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 30 June 2021 Budget 2020	 Budget 2021
Financial assets	147,050	157,520	164,121	183,315	201,236	217,974	192,503
Property, plant and equipment	144,550	159,018	177,625	186,502	213,216	190,846	191,557
Other assets	22,009	23,394	22,906	23,583	24,144	23,919	22,892
Total assets	**313,609**	**339,932**	**364,652**	**393,400**	**438,596**	**432,739**	**406,952**
Borrowings	111,806	115,652	110,248	152,717	162,560	238,164	173,227
Insurance liabilities	42,786	45,294	58,216	66,690	60,336	61,952	58,529
Other liabilities	42,545	43,349	52,849	58,050	58,507	56,133	57,933
Total liabilities	**197,137**	**204,295**	**221,313**	**277,457**	**281,403**	**356,249**	**289,689**
Total net worth	**116,472**	**135,637**	**143,339**	**115,943**	**157,193**	**76,490**	**117,263**
Minority interests	(5,940)	(5,993)	(6,390)	(5,623)	(5,724)	(5,471)	(5,273)
Net worth attributable to the Crown	**110,532**	**129,644**	**136,949**	**110,320**	**151,469**	**71,019**	**111,990**

Source: The Treasury

Financial Assets

Financial assets at $201.2 billion were $17.9 billion higher than last year.

The following key areas contributed to the increase:

- The financial asset portfolios managed by ACC and NZS Fund grew by $17.2 billion reflecting strong 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.
- The introduction of the Funding for Lending Programme and Term Lending Facility by the Reserve Bank, which has increased advances by $4.4 billion.
- Growth in Kiwi Group Holdings advances of $3.0 billion primarily through additional mortgage lending.
- Tax receivables have increased by $1.4 billion reflecting increases in tax revenue in the current year.
- Increases in student loan lending of $0.4 billion primarily as a result of revaluations.
- Offsetting these increases is a reduction in marketable securities of $0.3 billion held by Kāinga Ora as the proceeds from prior year's borrowings were used in developing social housing.

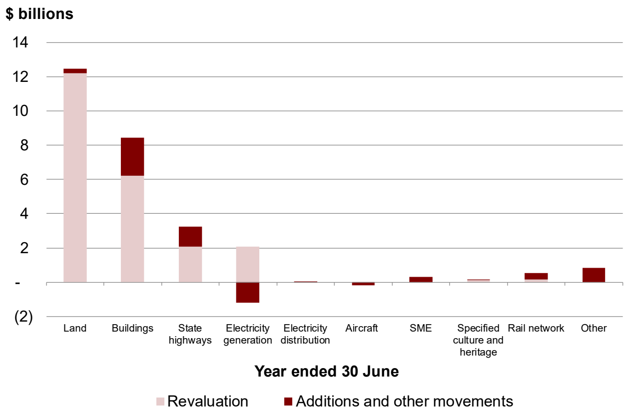
Total Crown Balance Sheet (continued)

Property, Plant and Equipment

The $26.7 billion increase in property, plant and equipment (PPE) was as a result of movements across a number of asset classes such as land, buildings, state highways, electricity generation assets and the rail network (see Figure 17). The increase is mainly a combination of additions and revaluation changes.

The land and building asset classes have seen the most significant increases in value over the twelve-months to 30 June 2021, with average residential property values rising across New Zealand.

Figure 17 – Movements in PPE by asset classes



Source: The Treasury

Figure 18 shows, per CoreLogic's quarterly property market & economic update, the national average value of housing stock has risen by 22.8% over the past year. While REINZ has reported an increase in the value of housing stock of 29.8% over the year to 30 June 2021. Figure 19 shows how this is reflected in the Crown's land and buildings revaluation, largely driven by the level of social housing stock held.

Of the increase in land revaluation, $5.8 billion is owing to social housing land held by Kāinga Ora and Tāmaki Regeneration and represents 47.5% of the overall land revaluation uplift of $12.2 billion.

The largest movements in PPE related to the following:

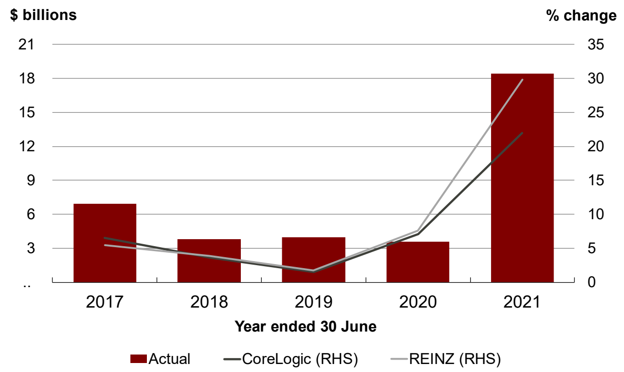
- The housing portfolio managed by Kāinga Ora and Tāmaki Regeneration, increased by $8.2 billion and $0.6 billion respectively, across both land and buildings. Of the increase in Kāinga Ora, $6.9 billion is owing to revaluation uplifts at 30 June 2021 and represents 21.2% of their total land and buildings value.

- The carrying amount of state highways (including public private partnerships) increased by $3.3 billion, reflecting valuation increases of $2.1 billion and additions of $1.8 billion partially offset by depreciation and other movements. The value of state highway corridor land has increased by $3.7 billion which is mainly owing to revaluation of the land at 30 June 2021, reflecting market movements.

- Land and buildings, in relation to the Education portfolio, have been revalued upwards by $3.5 billion. The valuation uplift represents a 15.6% increase on the prior year. In addition to the revaluation movement, a further $1.5 billion has been invested in school buildings.

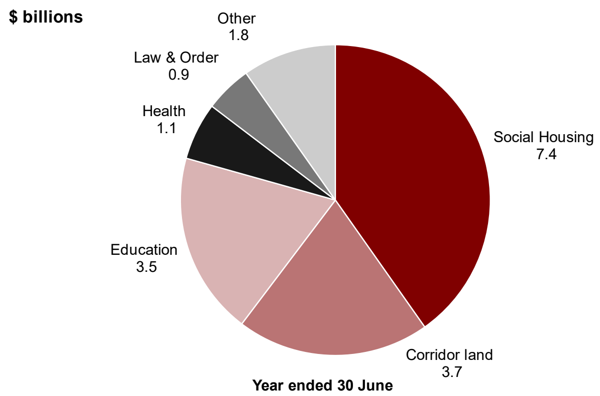
- New Zealand Defence Force land and buildings have increased in value by $0.8 billion, primarily as a result of increases in residential property values and cost pressures associated with construction for those assets that are valued on an optimised depreciated replacement cost. In addition, a further $0.7 billion of military assets have been added primarily due to the completion of the HMNZS Aotearoa.

Figure 18 – Land and buildings revaluation



Sources: The Treasury, CoreLogic and REINZ

Figure 19 – Land and buildings revaluation by component



Source: The Treasury

Total Crown Balance Sheet (continued)

The valuation of property, plant and equipment used to deliver Government services is an estimate of the value to replace the existing assets used by the Government. The increase in value indicates an increased cost to replace or expand existing facilities when compared to the prior year. As assets, in particular, land and buildings are largely used to deliver social services, the increase in their value generally does not represent an investment gain or increased future cash flows.

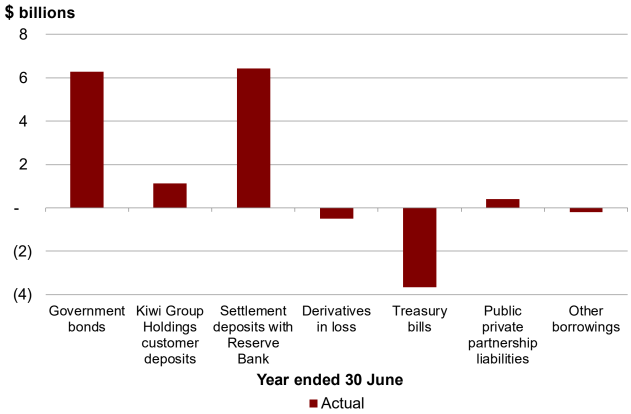
Borrowings

Total borrowings represent the borrowings undertaken by the core Crown, Crown entities and SOEs. Borrowings at $162.6 billion were $9.8 billion more than last year.

The overall increase is driven by a combination of factors as seen in Figure 20:

- Settlement deposits with the Reserve Bank increased by $6.4 billion, mainly owing to the LSAP programme and the Funding for Lending 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.

Figure 20 – Increase in borrowings by types



Source: The Treasury

- Government bonds have increased by $6.3 billion compared to the previous year. As discussed in the Crown's borrowing programme box on page 26, $48.5 billion of Government bonds were issued in the year offset by $11.1 billion of Government bond repayments. This has been further offset by the Reserve Bank large scale asset purchases which reduces the level of Government bonds held by third parties, as discussed above.

- Treasury bills decreased by $3.7 billion, owing to changes in the Crown's borrowing programme. In 2020 short term borrowing was issued to manage immediate liquidity needs.

- Public private partnership (PPP) liabilities have increased by $0.4 billion as work continues to be completed on PPP assets, primarily in the construction of the state highway network and prisons.

- Other borrowings have decreased by $0.2 billion. There has been decreased issuances of European-Commercial Paper (ECP) through the Crown's borrowing programme, repayments of 3rd party debt by SOEs and reduced outstanding settlements at year end, for ACC and New Zealand Superfund.

- Kiwi Group Holdings borrowings (eg, customer deposit held) increased by $1.1 billion, which partially offsets the increase in Kiwi Group Holdings advances (eg, mortgages) discussed on page 23.

- Derivatives in loss reduced by $0.5 billion as a result of market movements, particularly relating to favourable interest rate movements.

The Crown's borrowing programme

As at 30 June 2021, the total outstanding borrowings (denominated in Government Bonds, Treasury Bills and Euro-Commercial Paper) issued by the Treasury was $28.9 billion higher than at 30 June 2020. The cash proceeds in the year totalled $33.3 billion (see Table 13), which funded the core Crown cash deficit and the increase in the cash buffer.

Table 13 – Cash proceeds from debt programme

Year ended 30 June						Forecast 30 June 2021	
	Actual	**Actual**	**Actual**	**Actual**	**Actual**	**Budget**	**Budget**
$ millions	**2017**	**2018**	**2019**	**2020**	**2021**	**2020**	**2021**
Issue of government bonds	7,847	7,043	8,372	31,951	48,497	65,605	49,487
Repayment of government bonds	(6,080)	(6,828)	(11,908)	(5,380)	(11,059)	(11,059)	(11,059)
Net issue/(repayment) of short-term borrowing[1]	160	100	(730)	8,415	(4,148)	490	(5,441)
Total market debt cash flows	**1,927**	**315**	**(4,266)**	**34,986**	**33,290**	**55,036**	**32,987**
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	(830)	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	-	-	-	-	-	-	-
Total non-market debt cash flows	(830)	-	-	-	-	-	-
Total debt programme cash flows	**1,097**	**315**	**(4,266)**	**34,986**	**33,290**	**55,036**	**32,987**

Source: The Treasury

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

Insurance and Retirement Liabilities

ACC's insurance liability decreased this year by $5.8 billion from $64.9 billion to $59.1 billion. Government Superannuation Fund (GSF) liabilities also decreased by $3.0 billion from $14.0 billion to $11.0 billion. The decreases were largely owing to valuation changes, which are influenced by changes in economic assumptions, such as discount rates and inflation.

As a result of the increases in the discount rate in the year to 30 June 2021, ACC's outstanding claims liability, being the majority of the ACC liability, decreased by $13.1 billion and GSF liability decreased by $2.1 billion. If discount rates increase, the liability in today's dollars decreases.

However, partially offsetting these gains, an increase in the inflation assumption in the year to 30 June 2021 resulted in ACC's outstanding claims liability increasing by $4.4 billion and the GSF liability increased by $0.7 billion.

Year End Results Compared to *Budget 2021*

The *Budget Economic and Fiscal Update 2021* (*Budget 2021*) was published on 20 May 2021.

Table 14 – Key variances compared to *Budget 2021*

Year ended 30 June	Actual 2021 $ million	Budget 2021 $ million	Variance to Budget 2021 $ million	Variance to Budget 2021 %[1]
Core Crown tax revenue	97,983	91,543	6,440	7.0
Core Crown expenses	107,764	110,745	(2,981)	(2.7)
Operating balance (excluding minority interests)	16,159	1,274	14,885	-
Total assets	438,596	406,952	31,644	7.8
Total liabilities	281,403	289,689	(8,286)	(2.9)
Total borrowings	162,560	173,227	(10,667)	(6.2)
Net worth	157,193	117,263	39,930	34.1

1 Percentage variances greater than 300% are presented as '-' as the variance is not meaningful.

Source: The Treasury

Core Crown Tax Revenue

Core Crown tax revenue was $6.4 billion (7.0%) higher than expected in *Budget 2021,* with the major differences as follows:

- Corporate tax revenue was $2.4 billion (17.4%) above forecast, mostly owing to higher than forecast provisional tax and Portfolio Investment Entity (PIE) tax and is indicative of higher than forecast corporate profits.

- Net other persons' tax revenue was $1.2 billion (18.9%) above forecast, mainly owing to above forecast provisional and terminal tax revenue. This indicates that unincorporated profits are higher than forecast.

Table 15 – Core Crown tax revenue compared to *Budget 2021*

Year ended 30 June	$ billions
Budget 2021 core Crown tax revenue	91.5
Corporate tax	2.4
Other persons' tax	1.2
Source deductions	1.1
GST	1.0
Other taxes	0.8
Actual 2021 core Crown tax revenue	**98.0**

Source: The Treasury

- Source deductions revenue was $1.1 billion (2.9%) above forecast, owing to a stronger than anticipated labour market. Statistics New Zealand's June 2021 quarterly labour force numbers showed continued improvement in levels of employment and signs of increasing wage growth.

- GST revenue was $1.0 billion (4.2%) above forecast, owing to stronger-than-expected growth in private consumption (9.0% vs a forecast of 6.2%) and residential investment (24.7% vs forecast of 22.0%).

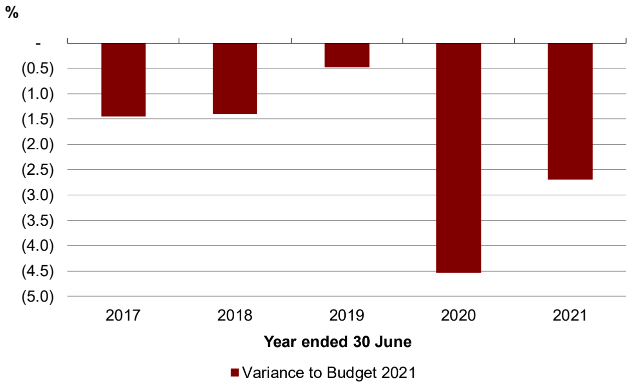
- Other taxes are primarily made up of resident withholding tax revenue (RWT) on interest and dividends which was $0.5 billion (21.9%) above forecast as a result of higher than forecast dividends.

Year End Results Compared to *Budget 2021* (continued)

Core Crown Expenses

Core Crown expenses of $107.8 billion is $3.0 billion (2.7%) below forecast across a range of Government departments. Key drivers of the underspend are the COVID-19 pandemic initiatives being below forecast as well as other delays in spending, for example MIQ costs being below forecast and grants and subsidies being delayed.

Figure 21 – Core Crown expenses variance to *Budget 2021*



Source: The Treasury

Crown entity and SOE results

Crown entities reported an operating balance before gains and losses deficit which was $0.6 billion better than the forecast deficit, while SOE's reported a surplus in line with the *Budget 2021* forecast.

Operating Balance

The total Crown operating balance surplus of $16.2 billion was $14.9 billion greater than the surplus forecast in *Budget 2021*. This has been largely driven by favourable variances in core Crown tax revenue and core Crown expenses discussed above. In addition, favourable variances have been supported by larger than forecast net gains on financial instruments and lower than net forecast losses due to the LSAP programme. The gain recognised on financial instruments is $5.3 billion higher than the forecasted gain, primarily as a result of higher than forecast gains within the ACC and NZS Fund portfolios. The LSAP programme losses were $0.6 billion less than forecast. Gains on non-financial instruments were lower than forecast as unfavourable movements in assumptions increased the valuations of the associated liabilities.

Total Borrowings

Total borrowings at 30 June 2021 were $162.6 billion, which is $10.7 billion lower than the *Budget 2021* forecast. This variance is primarily a result of lower than expected settlement deposits with the Reserve Bank of $9.3 billion. Settlement deposits are below forecast as the LSAP programme and Funding for Lending programme which are funded via settlement deposits are below forecast. The LSAP programme being below forecast is a driver for Government bonds being above forecast by $2.1 billion.

Net Worth

Net worth was $39.9 billion higher than the *Budget 2021* forecast, mainly owing to revaluations of physical assets being $22.9 billion greater than budget. Further contributions to the variance are the operating balance surplus, being $14.9 billion above budget and the revaluation of the Government Superannuation Fund and veterans' disability entitlement of $2.1 billion favourable to forecast. Property, plant and equipment revaluations usually occur at 30 June and are not forecast. The largest revaluations were to the land and buildings, largely reflecting the increase in residential property values.

Historical Financial Information

Year ended 30 June $ millions	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual
Statement of financial performance										
Core Crown tax revenue	55,081	58,651	61,563	66,636	70,445	75,644	80,224	86,468	85,102	97,983
Core Crown other revenue	5,347	5,154	5,530	5,577	5,676	6,138	6,554	7,006	6,821	6,985
Core Crown revenue	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,923	104,968
Crown entities, SOE revenue and eliminations	22,321	21,873	21,443	21,592	21,295	21,640	23,195	25,668	24,080	24,367
Total Crown revenue	**82,749**	**85,678**	**88,536**	**93,805**	**97,416**	**103,422**	**109,973**	**119,142**	**116,003**	**129,335**
Social security and welfare	21,956	22,459	23,026	23,523	24,081	25,294	25,999	28,740	44,028	36,759
Health	14,160	14,498	14,898	15,058	15,626	16,223	17,159	18,268	19,891	22,784
Education	11,654	12,504	12,300	12,879	13,158	13,281	13,629	14,293	16,322	16,039
Core government services	5,428	4,294	4,502	4,134	4,102	3,957	4,670	5,166	6,083	5,754
Law and order	3,338	3,394	3,463	3,515	3,648	3,882	4,184	4,625	4,911	5,202
Other core Crown expenses	12,403	12,813	12,985	13,254	13,314	13,702	14,935	15,867	17,597	21,226
Core Crown expenses	68,939	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832	107,764
Crown entities, SOE expenses and eliminations	23,050	20,068	20,005	20,701	21,208	22,668	23,438	24,417	30,084	25,958
Total Crown expenses	**91,989**	**90,030**	**91,179**	**93,064**	**95,137**	**99,007**	**104,014**	**111,376**	**138,916**	**133,722**
OBEGAL (excluding minority interests)	**(9,240)**	**(4,414)**	**(2,802)**	**414**	**1,831**	**4,069**	**5,534**	**7,429**	**(23,057)**	**(4,560)**
Gains/(losses)	(5,657)	11,339	5,741	5,357	(7,200)	8,248	2,862	(7,040)	(6,983)	20,719
Operating balance (excluding minority interests)	**(14,897)**	**6,925**	**2,939**	**5,771**	**(5,369)**	**12,317**	**8,396**	**389**	**(30,040)**	**16,159**
Statement of financial position										
Property, plant and equipment	108,584	109,833	116,306	124,558	134,499	144,550	159,018	177,625	186,502	213,216
Financial assets	116,178	118,779	123,918	135,787	138,255	147,050	157,520	164,121	183,315	201,236
Other assets	15,556	15,804	16,600	18,869	19,925	22,009	23,394	22,906	23,583	24,144
Total assets	**240,318**	**244,416**	**256,824**	**279,214**	**292,679**	**313,609**	**339,932**	**364,652**	**393,400**	**438,596**
Borrowings	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,248	152,717	162,560
Other liabilities	80,004	74,318	72,708	74,398	83,202	85,331	88,643	111,065	124,740	118,843
Total liabilities	**180,538**	**174,405**	**176,127**	**186,978**	**197,158**	**197,137**	**204,295**	**221,313**	**277,457**	**281,403**
Net worth	**59,780**	**70,011**	**80,697**	**92,236**	**95,521**	**116,472**	**135,637**	**143,339**	**115,943**	**157,193**
Minority interests	432	1,940	5,211	5,782	6,155	5,940	5,993	6,390	5,623	5,724
Net worth attributable to the Crown	**59,348**	**68,071**	**75,486**	**86,454**	**89,366**	**110,532**	**129,644**	**136,949**	**110,320**	**151,469**
Cash position										
Core Crown residual cash	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)
Debt Indicators										
Net core Crown debt	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375	102,080
Net core Crown debt (including FLP advances)	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375	99,021
Gross debt	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449	102,257	102,435
Gross sovereign-issued debt	84,168	84,286	88,468	93,156	93,283	92,620	95,437	90,930	124,145	131,256

Historical Financial Information (continued)

Year ended 30 June as % of GDP	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual
Nominal GDP (revised)	214,977	218,814	236,954	245,567	258,738	275,871	296,004	310,306	317,247	339,603
Statement of financial performance										
Core Crown tax revenue	25.6%	26.8%	26.0%	27.1%	27.2%	27.4%	27.1%	27.9%	26.8%	28.9%
Core Crown other revenue	2.5%	2.4%	2.3%	2.3%	2.2%	2.2%	2.2%	2.2%	2.2%	2.0%
Core Crown revenue	28.1%	29.2%	28.3%	29.4%	29.4%	29.6%	29.3%	30.1%	29.0%	30.9%
Crown entities, SOE and elimination revenue	10.4%	10.0%	9.1%	8.8%	8.3%	7.9%	7.9%	8.3%	7.6%	7.2%
Total Crown revenue	**38.5%**	**39.2%**	**37.4%**	**38.2%**	**37.7%**	**37.5%**	**37.2%**	**38.4%**	**36.6%**	**38.1%**
Social security and welfare	10.2%	10.3%	9.7%	9.6%	9.3%	9.2%	8.8%	9.3%	13.9%	10.8%
Health	6.6%	6.6%	6.3%	6.1%	6.0%	5.9%	5.8%	5.9%	6.3%	6.7%
Education	5.4%	5.7%	5.2%	5.2%	5.1%	4.8%	4.6%	4.6%	5.1%	4.7%
Core government services	2.5%	2.0%	1.9%	1.7%	1.6%	1.4%	1.6%	1.7%	1.9%	1.7%
Law and order	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%	1.5%
Other core Crown expenses	5.8%	5.8%	5.4%	5.5%	5.2%	5.0%	5.0%	5.0%	5.6%	6.3%
Core Crown expenses	32.1%	32.0%	30.0%	29.5%	28.6%	27.7%	27.2%	28.0%	34.3%	31.7%
Crown entities, SOE and elimination expenses	10.7%	9.1%	8.5%	8.4%	8.2%	8.2%	7.9%	7.9%	9.5%	7.7%
Total Crown expenses	**42.8%**	**41.1%**	**38.5%**	**37.9%**	**36.8%**	**35.9%**	**35.1%**	**35.9%**	**43.8%**	**39.4%**
OBEGAL (excluding minority interests)	**(4.3%)**	**(2.0%)**	**(1.2%)**	**0.2%**	**0.7%**	**1.5%**	**1.9%**	**2.4%**	**(7.3%)**	**(1.3%)**
Gains/(losses)	(2.6%)	5.2%	2.4%	2.2%	(2.8%)	3.0%	0.9%	(2.3%)	(2.2%)	6.1%
Operating balance (excluding minority interests)	**(6.9%)**	**3.2%**	**1.2%**	**2.4%**	**(2.1%)**	**4.5%**	**2.8%**	**0.1%**	**(9.5%)**	**4.8%**
Statement of financial position										
Property, plant and equipment	50.5%	50.2%	49.1%	50.7%	52.0%	52.4%	53.7%	57.2%	58.8%	62.8%
Financial assets and sovereign receivables	54.0%	54.3%	52.3%	55.3%	53.4%	53.3%	53.2%	52.9%	57.8%	59.3%
Other assets	7.3%	7.2%	7.0%	7.7%	7.7%	8.0%	7.9%	7.4%	7.4%	7.0%
Total assets	**111.8%**	**111.7%**	**108.4%**	**113.7%**	**113.1%**	**113.7%**	**114.8%**	**117.5%**	**124.0%**	**129.1%**
Borrowings	46.8%	45.7%	43.6%	45.8%	44.0%	40.5%	39.1%	35.5%	48.1%	47.9%
Other liabilities	37.2%	34.0%	30.7%	30.3%	32.2%	31.0%	29.9%	35.8%	39.4%	35.0%
Total liabilities	**84.0%**	**79.7%**	**74.3%**	**76.1%**	**76.2%**	**71.5%**	**69.0%**	**71.3%**	**87.5%**	**82.9%**
Net worth	**27.8%**	**32.0%**	**34.1%**	**37.6%**	**36.9%**	**42.2%**	**45.8%**	**46.2%**	**36.5%**	**46.2%**
Minority interests	0.2%	0.9%	2.2%	2.4%	2.4%	2.1%	2.0%	2.1%	1.7%	1.6%
Net worth attributable to the Crown	**27.6%**	**31.1%**	**31.9%**	**35.2%**	**34.5%**	**40.1%**	**43.8%**	**44.1%**	**34.8%**	**44.6%**
Cash position										
Core Crown residual cash	(5.0%)	(2.6%)	(1.7%)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(7.5%)	(4.1%)
Debt Indicators										
Net debt (excluding FLP advances)	23.6%	25.5%	25.3%	24.7%	23.9%	21.6%	19.4%	18.6%	26.3%	30.1%
Net debt (including FLP advances)	23.6%	25.5%	25.3%	24.7%	23.9%	21.6%	19.4%	18.6%	26.3%	29.2%
Gross debt	37.0%	35.6%	34.6%	35.1%	33.6%	31.6%	29.7%	27.2%	32.2%	30.2%
Gross sovereign-issued debt	39.2%	38.5%	37.3%	37.9%	36.1%	33.6%	32.2%	29.3%	39.1%	38.6%

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 2021

I have audited the financial statements of the Government of New Zealand (the financial statements of the Government) for the year ended 30 June 2021 using my staff and resources and appointed auditors and their staff. The financial statements of the Government on pages 41 to 153 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2021, the statement of financial performance, 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 2021, and other explanatory information;
- a statement of unappropriated expenditure for the year ended 30 June 2021;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended 30 June 2021; and
- a statement of trust money administered by departments for the year ended 30 June 2021.

Opinion

In my opinion, the financial statements of the Government on pages 41 to 153:

- present fairly, in all material respects, the Government's:
  - financial position as at 30 June 2021;
  - financial performance and cash flows for the year ended on that date;
  - borrowings as at 30 June 2021;
  - unappropriated expenditure for the year ended 30 June 2021;
  - expenses or capital expenditure incurred in emergencies for the year ended 30 June 2021; and
  - trust money administered by departments for the year ended 30 June 2021; and
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity Accounting Standards.

My audit was completed on 30 September 2021 and this is the date on which my opinion is expressed.

The basis for my opinion is explained below, and I outline the key audit matters addressed in my audit. I outline the responsibilities of the Secretary to 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 and subsequent to 30 June 2021, Covid-19 significantly affected the Government. The effects have been disclosed in note 3 on pages 62 to 66 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.

Calculating the value of other persons and corporate tax revenue	How we addressed this matter
As disclosed in note 4 on page 67, the Government recognised other persons' tax revenue of $8.8 billion and corporate tax revenue of $15.8 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 Covid-19, 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 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, including the testing of estimations for large taxpayers. We considered the most important variables in the models used to estimate tax revenue and assessed their reasonableness, given the economic impact of Covid-19. 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. We satisfied ourselves that the macro-economic indicator used was reasonable. We also: - performed a retrospective review of the 2020 tax estimation to actual information received from taxpayers to assess the robustness of the methodology used for the estimation of tax revenue, noting that information is available up to the March 2020 tax year only and therefore there remains limited information for the period impacted by Covid-19; - reviewed the accounting adjustments to tax revenue processed by Inland Revenue; - reviewed the year-end procedures and testing performed by Inland Revenue for significant taxpayers, and any adjustments arising from this review by Inland Revenue; and - reviewed the relevant disclosures. I am satisfied that other persons and corporate tax revenue for the year ended 30 June 2021 are reasonable and that the disclosures are appropriate.

Valuing property, plant, and equipment	How we addressed this matter
As outlined in note 17 on page 88, the Government owns property, plant and equipment of $213.2 billion at 30 June 2021. 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 Covid-19 on significant estimates and judgements applied in the valuation process. These include economic indicators for interest rates and inflation, cash flow forecasts and any changes in levels of service due to re-prioritisation of capital funds and replacement costs. The property, plant and equipment identified below needed significant judgements and assumptions to determine their value.	
State highways As outlined on page 94, the state highways (excluding land) were valued at $42.7 billion at 30 June 2021 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.	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, considered the valuer's main assumptions, and assessed the valuation procedures. 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 Covid-19 into account and the effect of any estimation uncertainties on the final valuations. There has been no significant impact for the current year. I am satisfied that the value of the state highways at 30 June 2021 is reasonable and that the disclosures are appropriate.
Electricity generation assets As outlined on page 96, the electricity generation assets were valued at $18.0 billion at 30 June 2021. 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.	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 considered 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 the valuers took the economic impact of Covid-19 into account in the valuations and the effect of any estimation uncertainties on the value of electricity generation assets. There has been no significant impact for the current year. We also considered whether the valuers took into account the future of the New Zealand Aluminium Smelter at Tiwai Point to estimate the value of electricity generation assets. I am satisfied that the value of electricity generation assets at 30 June 2021 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 133, the Government had financial assets that were valued using significant non-observable inputs (that is, where market data is not available) of $20.5 billion at 30 June 2021. These financial assets include loans, investments and deposits, including student loans (as reported 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.	Based on a sample of investments, we reviewed the valuation techniques and tested the controls and inputs used to determine the value of financial assets where market data is not available. Taking into account the nature of the selected financial assets, the valuation techniques adopted, and the uncertainties in determining values, we: - tested the relevant internal controls over data entered into financial systems for these assets; - assessed 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 differences; and - assessed the appropriateness of the inputs used in the valuation where market data is not available. I am satisfied that the value of financial assets where market data is not available at 30 June 2021 is reasonable and that the disclosures are appropriate.
Student loans As outlined in note 16 on page 83, at 30 June 2021, the Government had advanced student loans with a value of $10.8 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 Covid-19 might affect student loan repayments.	For student loans we: - tested a sample of student loan applications during the year to ensure that loans 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 and the use of the risk-free discount rate and risk premium used to determine the fair value of loans, and adjustments for employment and overseas non-compliance due to Covid-19; - assessed the controls and valuation approaches applied by the valuer; - performed a retrospective review of the actual repayments of student loans in previous years against prior year cash flow forecasts to consider whether there was any estimation bias; and - reviewed the relevant disclosures. I am satisfied that the value of student loans at 30 June 2021 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 2021. Estimating the values of these liabilities is complicated, and there are inherent uncertainties in the valuations. Actuaries estimate the amounts, based on assumptions about the future (including the economic impact of Covid-19). The calculations use risk-free discount rates information and consumer price index (CPI) assumptions, which are made publicly available by the Treasury.	We engaged an independent expert to consider the appropriateness of the risk-free discount rates and CPI assumptions, that are published by the Treasury. This included assessing the: - appropriateness of the methodology including the reasonableness of the Treasury's conclusions related to the on-going reviews of selected aspects of the methodology; - application of the methodology in determining the risk-free discount rates and CPI assumptions; and - accuracy of the calculations. I am satisfied that the risk-free discount rates and CPI assumptions are appropriate for use in valuing these liabilities at 30 June 2021.
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 $55.4 billion at 30 June 2021, 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 78. 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. The impact of Covid-19 on these assumptions and estimation uncertainties was considered minimal. We tested the systems and controls and, in particular, tested the process for recording claims. 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 2021 is reasonable and that the disclosures are appropriate.

Valuing insurance liabilities, superannuation liabilities, and veterans' disability entitlements liabilities	How we addressed this matter
Government Superannuation Fund's unfunded liability	
As outlined in note 21 on page 107, 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 $11.0 billion at 30 June 2021, 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 pages 108 and 109. 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 and implementation of key controls over 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 2021 is reasonable and that the disclosures are appropriate.
Veterans' disability entitlements liability	
As outlined in note 22 on page 111, the Government recognised a veterans' disability entitlements liability of $3.0 billion at 30 June 2021. 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 112. 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. I am satisfied that the Government's veterans' disability entitlements liability at 30 June 2021 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 pages 110 to 111, the provision for employee entitlements includes a provision to comply with the Holidays Act 2003. Some public entities need to do more work 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. As outlined on page 111, the provision for district health boards could be between $1.4 billion and $1.5 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 125, if an obligation cannot be reasonably measured at 30 June 2021, 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 - considered the main assumptions and judgements made in calculating the provision, including the consideration of the impact of Covid-19 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 2021 is reasonable, and that where a liability cannot be reliably measured, the contingent liability disclosures are appropriate.

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

The Secretary to 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 Secretary to the Treasury is also responsible for establishing and maintaining internal controls as necessary, to enable the preparation of financial statements of the Government that are free from material misstatement, whether due to fraud or error. The Secretary to 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 Secretary to 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.

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

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 Secretary to 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 Secretary to the Treasury.

- I conclude on the appropriateness of using the going concern basis of accounting that has been used by the Secretary to 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 Secretary to 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 Secretary to 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 Secretary to the Treasury and Minister of Finance are responsible for the other information. The other information comprises the information included on pages 1 to 31 and pages 154 to 166.

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.

Other than these matters, and in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in the Government.

John Ryan
Controller and Auditor-General | Tumuaki o te Mana Arotake
Wellington, New Zealand

Audited Financial Statements of the Government of New Zealand

Statement of Financial Performance

for the year ended 30 June 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Note	Actual 30 June 2021 $m	Actual 30 June 2020 $m
		Revenue			
79,331	90,939	Taxation revenue	4	97,362	84,521
6,012	6,614	Other sovereign revenue	4	7,038	6,269
85,343	**97,553**	**Total sovereign revenue**		**104,400**	**90,790**
17,137	17,729	Sales of goods and services	5	18,500	18,437
2,513	2,015	Interest revenue	6	1,943	2,300
5,074	3,890	Other revenue	7	4,492	4,476
24,724	**23,634**	**Total revenue earned through operations**		**24,935**	**25,213**
110,067	**121,187**	**Total revenue (excluding gains)**		**129,335**	**116,003**
		Expenses			
35,712	35,836	Transfer payments and subsidies	8	35,427	42,607
28,563	29,313	Personnel expenses	9	29,817	27,775
5,714	5,634	Depreciation	17	5,566	5,294
50,154	57,832	Other operating expenses	10	53,802	52,583
3,615	2,527	Interest expenses	6	2,272	3,754
5,811	6,585	Insurance expenses	12	6,838	6,903
10,991	500	Forecast new operating spending		-	-
(975)	(2,025)	Top-down expense adjustment		-	-
139,585	**136,202**	**Total expenses (excluding losses)**		**133,722**	**138,916**
		Gains/(losses)			
(2,236)	(4,586)	Net gains/(losses) on large scale asset purchases	6	(3,976)	(3,258)
2,576	12,792	Net gains/(losses) on financial instruments	6	18,130	1,908
(139)	8,837	Net gains/(losses) on non-financial instruments	11	6,869	(7,372)
201	**17,043**	**Total gains/(losses)**		**21,023**	**(8,722)**
		Other interests			
67	(535)	Net surplus/(deficit) from associates and joint ventures		(360)	1,193
(76)	(219)	Less minority interests share of operating balance	23	(117)	402
(29,326)	**1,274**	**Operating balance (excluding minority interests)**		**16,159**	**(30,040)**
76	219	Minority interests share of operating balance	23	117	(402)
(29,250)	**1,493**	**Operating balance (including minority interests)**		**16,276**	**(30,442)**

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 2021

2021 Forecast at Budget 2020 $m	2021 Forecast at Budget 2021 $m		Note	Actual 30 June 2021 $m	Actual 30 June 2020 $m
(29,250)	**1,493**	**Operating balance (including minority interests)**		**16,276**	**(30,442)**
		Other comprehensive revenue and expense			
-	(340)	Revaluation of physical assets	17	22,318	4,674
-	-	Share of associates revaluation of physical assets	17	221	559
181	635	Net revaluations of defined benefit retirement plan schemes	21	2,325	(1,271)
-	-	Net revaluations of veterans disability entitlements	22	436	(311)
45	(151)	Transfers to/(from) reserves		(143)	(48)
(6)	(12)	(Gains)/losses transferred to the statement of financial performance		181	(75)
24	12	Foreign currency translation differences on foreign operations		8	2
17	42	Other movements		15	(58)
261	**186**	**Total other comprehensive revenue and expense**		**25,361**	**3,472**
(28,989)	**1,679**	**Total comprehensive revenue and expense**		**41,637**	**(26,970)**
		Attributable to:			
85	9	- minority interests		488	(341)
(29,074)	1,670	- the Crown		41,149	(26,629)
(28,989)	**1,679**	**Total comprehensive revenue and expense**		**41,637**	**(26,970)**

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 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Note	Actual Taxpayer funds $m	Actual Reserves $m	Actual Minority interests $m	Actual Total net worth $m
143,067	**143,339**	**Net worth at 30 June 2019**		**33,966**	**102,983**	**6,390**	**143,339**
(37,153)	(30,442)	Operating balance		(30,040)	-	(402)	(30,442)
600	5,233	Net revaluations	17	-	5,176	57	5,233
(257)	(1,271)	Revaluation defined benefit retirement plans	21	-	(1,271)	-	(1,271)
-	(311)	Revaluation veterans disability entitlements	22	-	(311)	-	(311)
332	(48)	Transfers to/(from) reserves		(692)	652	(8)	(48)
(33)	(75)	(Gains)/losses transferred to the statement of financial performance		-	(75)	-	(75)
(10)	2	Foreign currency translation differences on foreign operations		-	2	-	2
(20)	(58)	Other movements		(80)	10	12	(58)
(36,541)	**(26,970)**	**Total comprehensive revenue and expense**		**(30,812)**	**4,183**	**(341)**	**(26,970)**
(508)	(426)	Transactions with minority interests	23	-	-	(426)	(426)
106,018	**115,943**	**Net worth at 30 June 2020**		**3,154**	**107,166**	**5,623**	**115,943**
(29,250)	1,493	Operating balance		16,159	-	117	16,276
-	(340)	Net revaluations of physical assets	17	-	22,108	431	22,539
181	635	Revaluation defined benefit retirement plans	21	-	2,325	-	2,325
-	-	Revaluation veterans disability entitlements	22	-	436	-	436
45	(151)	Transfers to/(from) reserves		536	(614)	(65)	(143)
(6)	(12)	(Gains)/losses transferred to the statement of financial performance		-	181	-	181
24	12	Foreign currency translation differences on foreign operations		-	8	-	8
17	42	Other movements		8	2	5	15
(28,989)	**1,679**	**Total comprehensive revenue and expense**		**16,703**	**24,446**	**488**	**41,637**
(539)	(359)	Transactions with minority interests	23	-	-	(387)	(387)
76,490	**117,263**	**Net worth at 30 June 2021**		**19,857**	**131,612**	**5,724**	**157,193**

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

Statement of Cash Flows

for the year ended 30 June 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		Cash Flows From Operations		
		Cash was provided from		
76,576	89,621	Taxation receipts	95,382	83,156
5,288	6,473	Other sovereign receipts	6,424	5,294
17,165	16,830	Sales of goods and services	17,732	18,289
2,190	1,959	Interest receipts	1,670	2,307
5,101	4,264	Other operating receipts	4,814	4,544
106,320	**119,147**	**Total cash provided from operations**	**126,022**	**113,590**
		Cash was disbursed to		
35,966	35,885	Transfer payments and subsidies	35,515	42,945
80,272	88,737	Personnel and operating payments	84,256	77,192
4,519	3,793	Interest payments	3,147	3,849
10,991	500	Forecast new operating spending	-	-
(975)	(2,025)	Top-down expense adjustment	-	-
130,773	**126,890**	**Total cash disbursed to operations**	**122,918**	**123,986**
(24,453)	**(7,743)**	**Net cash flows from operations**	**3,104**	**(10,396)**
		Cash Flows From Investing Activities		
		Cash was provided from		
134	208	Sale of physical assets	330	616
119,546	197,139	Sale of shares and other securities	179,613	146,243
1	-	Sale of intangible assets	6	42
1,874	3,775	Repayment of advances	2,852	4,245
-	44	Sale of investments in associates	45	-
121,555	**201,166**	**Total cash provided from investing activities**	**182,846**	**151,146**
		Cash was disbursed to		
11,063	11,520	Purchase and construction of physical assets	9,723	9,687
172,210	185,580	Purchase of shares and other securities	175,424	160,392
913	944	Purchase of intangible assets	904	897
8,257	10,645	Advances made	8,515	5,535
622	445	Acquisition of investments in associates	437	286
1,990	-	Forecast new capital spending	-	-
(650)	(800)	Top-down capital adjustment	-	-
194,405	**208,334**	**Total cash disbursed to investing activities**	**195,003**	**176,797**
(72,850)	**(7,168)**	**Net cash flows from investing activities**	**(12,157)**	**(25,651)**
(97,303)	**(14,911)**	**Net cash flows from operating and investing activities**	**(9,053)**	**(36,047)**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
(97,303)	**(14,911)**	**Net cash flows from operating and investing activities**	**(9,053)**	**(36,047)**
		Cash Flows From Financing Activities		
		Cash was provided from		
215	397	Issue of circulating currency	234	1,209
65,605	50,787	Issue of Government bonds	48,497	31,951
1	3,966	Issue of foreign currency borrowings	7,069	2,310
67,716	42,346	Issue of other New Zealand dollar borrowings	36,575	43,730
133,537	**97,496**	**Total cash provided from financing activities**	**92,375**	**79,200**
		Cash was disbursed to		
11,059	52,890	Repayment and repurchases of Government bonds	47,339	24,353
107	6,786	Repayment of foreign currency borrowings	6,721	1,118
24,362	28,545	Repayment of other New Zealand dollar borrowings	30,728	16,364
549	239	Dividends paid to minority interests	373	479
36,077	**88,460**	**Total cash disbursed to financing activities**	**85,161**	**42,314**
97,460	**9,036**	**Net cash flows from financing activities**	**7,214**	**36,886**
157	**(5,875)**	**Net movement in cash**	**(1,839)**	**839**
31,496	21,927	Opening cash balance	21,927	20,248
(2)	(1,105)	Foreign-exchange gains/(losses) on opening cash	(1,333)	840
31,651	**14,947**	**Closing cash balance**	**18,755**	**21,927**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m	Reconciliation Between the Net Cash Flows from Operations and the Operating Balance	Actual 30 June 2021 $m	Actual 30 June 2020 $m
(24,453)	**(7,743)**	**Net Cash Flows from Operations**	**3,104**	**(10,396)**
		Gains/(losses) and other interests		
(2,236)	(4,586)	Net gains/(losses) on large scale asset purchases	(3,976)	(3,258)
2,576	12,792	Net gains/(losses) on financial instruments	18,130	1,908
(139)	8,837	Net gains/(losses) on non-financial instruments	6,869	(7,372)
67	(535)	Net surplus from associates and joint ventures	(360)	1,193
(76)	(219)	Minority interests share of operating balance	(117)	(402)
192	**16,289**	**Total gains/(losses) and other interests**	**20,546**	**(7,931)**
		Other Non-cash Items in Operating Balance		
(5,714)	(5,634)	Depreciation	(5,566)	(5,294)
(822)	(786)	Amortisation and impairment of non-financial assets	(1,198)	(2,375)
(636)	(934)	Cost of concessionary lending	(1,039)	(1,279)
(4)	(51)	Impairment of financial assets (excl receivables)	(1)	(53)
(1,420)	(1,308)	Change in accumulating insurance expenses	(1,868)	(2,351)
708	678	Change in accumulating pension expenses	733	(804)
(6)	-	Other non-cash items	149	453
(7,894)	**(8,035)**	**Total other non-cash items in operating balance**	**(8,790)**	**(11,703)**
		Movements in Working Capital		
3,012	675	Increase/(decrease) in receivables	1,481	631
1,202	1,391	Increase/(decrease) in accrued interest	1,126	21
33	302	Increase/(decrease) in inventories	421	254
(83)	60	Increase/(decrease) in prepayments	63	108
45	259	Decrease/(increase) in deferred revenue	40	(68)
(1,380)	(1,924)	Decrease/(increase) in payables/provisions	(1,832)	(956)
2,829	**763**	**Total movements in working capital**	**1,299**	**(10)**
(29,326)	**1,274**	**Operating balance (excluding minority interests)**	**16,159**	**(30,040)**

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

Statement of Financial Position

as at 30 June 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Note	Actual 30 June 2021 $m	30 June 2020 $m
		Assets			
31,651	14,947	Cash and cash equivalents		18,755	21,927
28,787	25,001	Receivables	13	26,829	24,743
74,510	57,741	Marketable securities, deposits and derivatives in gain	14	56,783	61,005
33,581	43,494	Share investments	15	48,539	33,791
5,693	4,276	Investments in controlled enterprises	15	4,718	4,220
43,752	47,044	Advances	16	45,612	37,629
1,616	2,075	Inventory		2,194	1,773
3,399	3,326	Other assets		3,928	3,610
190,846	191,557	Property, plant & equipment	17	213,216	186,502
14,205	14,162	Equity accounted investments	18	14,421	14,308
4,197	4,129	Intangible assets and goodwill		3,601	3,892
2,202	-	Forecast new capital spending		-	-
(1,700)	(800)	Top-down capital adjustment		-	-
432,739	**406,952**	**Total assets**		**438,596**	**393,400**
		Liabilities			
7,366	8,419	Issued currency		8,256	8,022
18,397	16,005	Payables	19	17,577	16,971
2,735	2,331	Deferred revenue		2,549	2,590
238,164	173,227	Borrowings	20	162,560	152,717
61,952	58,529	Insurance liabilities	12	60,336	66,690
12,264	12,725	Retirement plan liabilities	21	11,038	13,983
15,371	18,453	Provisions	22	19,087	16,484
356,249	**289,689**	**Total liabilities**		**281,403**	**277,457**
76,490	**117,263**	**Total assets less total liabilities**		**157,193**	**115,943**
		Net Worth			
(29,724)	4,600	Taxpayer funds		19,857	3,154
106,857	112,003	Property, plant and equipment revaluation reserve	17	134,003	112,334
(2,691)	(3,251)	Defined benefit retirement plan reserve	21	(1,560)	(3,886)
(3,500)	(1,095)	Veterans disability entitlements reserve		(659)	(1,095)
77	(267)	Other reserves		(172)	(187)
71,019	**111,990**	**Total net worth attributable to the Crown**		**151,469**	**110,320**
5,471	5,273	Net worth attributable to minority interests	23	5,724	5,623
76,490	**117,263**	**Total net worth**		**157,193**	**115,943**

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

Statement of Segments

Current Year Actual vs Estimated Actuals (Budget 2021)

	Core Crown		Crown entities		State-owned Enterprises		Inter-segment eliminations		Total Crown	
	Actual 2021 $m	Forecast Budget 2021 $m	Actual 2021 $m	Forecast Budget 2021 $m	Actual 2021 $m	Forecast Budget 2021 $m	Actual 2021 $m	Forecast Budget 2021 $m	Actual 2021 $m	Forecast Budget 2021 $m
Revenue										
Taxation revenue	97,983	91,543	-	-	-	-	(621)	(604)	97,362	90,939
Other sovereign revenue	2,745	2,260	6,220	6,155	-	-	(1,927)	(1,801)	7,038	6,614
Revenue from core Crown funding	-	-	36,138	37,263	761	371	(36,899)	(37,634)	-	-
Sales of goods and services	1,543	1,493	3,104	3,278	14,474	13,538	(621)	(580)	18,500	17,729
Interest revenue	716	715	785	787	791	841	(349)	(328)	1,943	2,015
Other revenue	1,981	1,931	3,804	3,726	839	569	(2,132)	(2,336)	4,492	3,890
Total Revenue (excluding gains)	**104,968**	**97,942**	**50,051**	**51,209**	**16,865**	**15,319**	**(42,549)**	**(43,283)**	**129,335**	**121,187**
Expenses										
Transfer payments and subsidies	36,521	36,972	-	-	-	-	(1,094)	(1,136)	35,427	35,836
Personnel expenses	9,358	9,274	17,929	17,989	2,582	2,084	(52)	(34)	29,817	29,313
Other operating expenses	59,967	64,057	34,041	35,668	13,576	12,434	(41,378)	(42,108)	66,206	70,051
Interest expenses	1,918	1,967	218	263	592	656	(456)	(359)	2,272	2,527
Forecast new operating spending	-	500	-	-	-	-	-	-	-	500
Top-down expense adjustment	-	(2,025)	-	-	-	-	-	-	-	(2,025)
Total Expenses (excluding losses)	**107,764**	**110,745**	**52,188**	**53,920**	**16,750**	**15,174**	**(42,980)**	**(43,637)**	**133,722**	**136,202**
Gains/(losses) and other items	7,500	4,238	11,927	10,540	139	36	980	1,475	20,546	16,289
Operating Balance (excluding minority interests)	**4,704**	**(8,565)**	**9,790**	**7,829**	**254**	**181**	**1,411**	**1,829**	**16,159**	**1,274**
Assets										
Financial assets	128,660	120,524	67,528	63,597	32,873	34,291	(27,825)	(25,909)	201,236	192,503
Property, plant and equipment	51,920	46,211	119,682	106,190	41,614	39,156	-	-	213,216	191,557
Investments in associates, CEs and SOEs	53,877	54,781	12,836	12,351	309	508	(52,601)	(53,478)	14,421	14,162
Other assets	4,898	4,712	2,428	2,227	2,854	2,674	(457)	(83)	9,723	9,530
Forecast adjustments	-	(800)	-	-	-	-	-	-	-	(800)
Total Assets	**239,355**	**225,428**	**202,474**	**184,365**	**77,650**	**76,629**	**(80,883)**	**(79,470)**	**438,596**	**406,952**
Liabilities										
Borrowings	132,543	139,892	11,836	12,811	38,433	39,977	(20,252)	(19,453)	162,560	173,227
Other liabilities	46,274	46,317	74,494	71,110	9,702	8,748	(11,627)	(9,713)	118,843	116,462
Total Liabilities	**178,817**	**186,209**	**86,330**	**83,921**	**48,135**	**48,725**	**(31,879)**	**(29,166)**	**281,403**	**289,689**
Net Worth	**60,538**	**39,219**	**116,144**	**100,444**	**29,515**	**27,904**	**(49,004)**	**(50,304)**	**157,193**	**117,263**
Cost of Acquisition of Physical Assets (Cash)	**2,882**	**3,155**	**4,850**	**6,341**	**1,991**	**2,025**	**-**	**(1)**	**9,723**	**11,520**

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

Statement of Segments (continued)

	Current Year Actual vs Prior Year Actual									
	Core Crown		Crown entities		State-owned Enterprises		Inter-segment eliminations		Total Crown	
	Actual 2021 $m	Actual 2020 $m	Actual 2021 $m	Actual 2020 $m	Actual 2021 $m	Actual 2020 $m	Actual 2021 $m	Actual 2020 $m	Actual 2021 $m	Actual 2020 $m
Revenue										
Taxation revenue	97,983	85,102	-	-	-	-	(621)	(581)	97,362	84,521
Other sovereign revenue	2,745	2,120	6,220	5,688	-	-	(1,927)	(1,539)	7,038	6,269
Revenue from core Crown funding	-	-	36,138	34,107	761	441	(36,899)	(34,548)	-	-
Sales of goods and services	1,543	1,553	3,104	2,400	14,474	15,100	(621)	(616)	18,500	18,437
Interest revenue	716	850	785	947	791	953	(349)	(450)	1,943	2,300
Other revenue	1,981	2,298	3,804	3,463	839	906	(2,132)	(2,191)	4,492	4,476
Total Revenue (excluding gains)	**104,968**	**91,923**	**50,051**	**46,605**	**16,865**	**17,400**	**(42,549)**	**(39,925)**	**129,335**	**116,003**
Expenses										
Transfer payments and subsidies	36,521	43,616	-	-	-	-	(1,094)	(1,009)	35,427	42,607
Personnel expenses	9,358	8,480	17,929	16,317	2,582	3,023	(52)	(45)	29,817	27,775
Other operating expenses	59,967	53,508	34,041	34,177	13,576	14,199	(41,378)	(37,104)	66,206	64,780
Interest expenses	1,918	3,228	218	164	592	901	(456)	(539)	2,272	3,754
Total Expenses (excluding losses)	**107,764**	**108,832**	**52,188**	**50,658**	**16,750**	**18,123**	**(42,980)**	**(38,697)**	**133,722**	**138,916**
Gains/(losses) and other items	7,500	(3,974)	11,927	(3,143)	139	382	980	(392)	20,546	(7,127)
Operating Balance (excluding minority interests)	**4,704**	**(20,883)**	**9,790**	**(7,196)**	**254**	**(341)**	**1,411**	**(1,620)**	**16,159**	**(30,040)**
Assets										
Financial assets	128,660	120,269	67,528	63,239	32,873	30,005	(27,825)	(30,198)	201,236	183,315
Property, plant and equipment	51,920	45,167	119,682	101,509	41,614	39,828	-	(2)	213,216	186,502
Investments in associates, CEs and SOEs	53,877	49,605	12,836	12,856	309	562	(52,601)	(48,715)	14,421	14,308
Other assets	4,898	4,780	2,428	2,080	2,854	2,608	(457)	(193)	9,723	9,275
Total Assets	**239,355**	**219,821**	**202,474**	**179,684**	**77,650**	**73,003**	**(80,883)**	**(79,108)**	**438,596**	**393,400**
Liabilities										
Borrowings	132,543	126,341	11,836	11,111	38,433	36,002	(20,252)	(20,737)	162,560	152,717
Other liabilities	46,274	46,364	74,494	79,891	9,702	8,923	(11,627)	(10,438)	118,843	124,740
Total Liabilities	**178,817**	**172,705**	**86,330**	**91,002**	**48,135**	**44,925**	**(31,879)**	**(31,175)**	**281,403**	**277,457**
Net Worth	**60,538**	**47,116**	**116,144**	**88,682**	**29,515**	**28,078**	**(49,004)**	**(47,933)**	**157,193**	**115,943**
Cost of Acquisition of Physical Assets (Cash)	**2,882**	**2,739**	**4,850**	**4,906**	**1,991**	**2,042**	**-**	**-**	**9,723**	**9,687**

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

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 Public Service Act 2020, the Crown Entities Act 2004 and the State-owned Enterprises Act 1986.

These financial statements were authorised for issue by the Minister of Finance on 30 September 2021.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2021.

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 161.

Basis of preparation

These financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year. These financial statements have been prepared on an accrual basis unless otherwise specified (for example, the Statement of Cash Flows). Under an accrual basis, revenues are recognised when rights to assets are earned or levied rather than when cash is received, and expenses are recognised when obligations are incurred rather than when they are settled. 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 2020* were 2021 forecasts published in the *2020 Budget Economic and Fiscal Update*.

The forecast comparatives include some items that are not applicable for reporting actual results. Forecast new capital spending is an amount provided in the forecast to represent the impact on the financial position and cash flows of capital spending expected to be appropriated after budgets. Forecast new operating spending is an amount included in the forecast to provide for the operating balance and cash flow impact of new policy initiatives, cost pressures of existing policy (eg, changes in inflation, wage growth and demand), and COVID-19 fiscal support measures expected to be appropriated after budgets. The top-down adjustment is an adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to State-owned Enterprises or Crown Entity forecasts.

Note 1: Basis of Reporting (continued)

Segment analysis

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

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. These financial statements will adopt this standard from 1 July 2022.

Cash flows disclosure

An amendment to PBE IPSAS 2 *Cash flow statements* requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for periods beginning on or after 1 January 2021. The Financial Statements of the Government will adopt this new disclosure in the year ending 30 June 2022.

Government Reporting Entity as at 30 June 2021

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.

The following new entities have been added to the Government reporting entity since 30 June 2020.

Note 1: Basis of Reporting (continued)

Government Reporting Entity as at 30 June 2021 (continued)

Core Crown segment:

- the Strategic Planning Reform Board as an interdepartmental executive board, serviced by the Ministry for the Environment, and the Border Executive Board as an interdepartmental executive board, serviced by the New Zealand Customs Service.

Crown entities segment:

- the Criminal Cases Review Commission, the Mental Health and Wellbeing Commission, Taumata Arowai—the Water Services Regulator, and Ngāpuhi Investment Fund Limited.

Additionally, Regenerate Christchurch was formally disestablished on 30 June 2020 and therefore removed from the Government reporting entity.

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
- Christ Church Cathedral Reinstatement Trust
- Kiwi Group Holdings Limited (including Kiwibank)
- 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

Government departments are defined by the Public Finance Act 1989 and include departments (as defined in the Public Service Act 2020), departmental agencies, interdepartmental executive boards, interdepartmental ventures, the New Zealand Defence Force, the New Zealand Police, the Parliamentary Counsel Office, the Office of the Clerk of the House of Representatives and the Parliamentary Service.

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) 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 consolidation. 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.

As a consequence of the agreements with Auckland Council, City Rail Link Limited (CRL) is reported as a joint venture 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.

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 (services Strategic Planning Reform Board as an interdepartmental executive board)
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 Māori Development – Te Puni Kōkiri
Ministry of Social Development
Ministry of Transport
New Zealand Customs Service (services Border Executive Board as an interdepartmental executive board)
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
Public Service Commission - (includes Social Wellbeing Agency as a departmental agency)
Serious Fraud Office
Statistics New Zealand
Te Kāhui Whakamana Rua Tekau mā Iwa – Pike River Recovery Agency
The Treasury

Offices of Parliament

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

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

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
Criminal Cases Review 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
Mental Health and Wellbeing Commission
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 Growth Capital Partners Limited
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 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 (2,424)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Taumata Arowai—the Water Services Regulator
Te Pūkenga—New Zealand Institute of Skills and Technology
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

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

Te Urewera

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

Crown Regional Holdings Limited (formerly Provincial Growth Fund Limited)

Education Payroll Limited

New Zealand Green Investment Finance Limited

Ngāpuhi Investment Fund Limited

Ōtākaro Limited

Predator Free 2050 Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

Others

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

Tertiary Education Institutions (11)

(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 2021, 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, including assumptions about risk, are necessary to price the assets or liabilities.

	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 for New Zealand Units at year-end 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 2021 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.

Certain accounting valuations reported in these financial statements use a centrally prepared 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*. 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 CPI inflation assumption (based on references to CPI forecasts and inflation-indexed bonds), is used, but each valuation may be adjusted 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.

The Treasury's central risk-free discount rates and CPI assumptions used for certain accounting valuations are:

	30 June 2021	**30 June 2020**
Risk-free discount rates	From 0.38% in the first year (2022) up to 4.3% for the 31st year (2052) and beyond	From 0.22% in the first year (2021) up to 4.3% for the 63rd year (2083) and beyond
CPI inflation	From 1.88% in the first year (2022) up to 2.00% for the 30th year (2051) and beyond	From 0.83% for the first year (2021) up to 2.00% for the 63rd year (2083) and beyond

For the detailed table of annual risk-free discount rates and CPI assumptions refer to www.treasury.govt.nz on the page: *Discount Rates and CPI Assumptions for Accounting Valuation Purposes.*

Note 2: Key Assumptions and Judgements (continued)

Specific accounting estimates and assumptions

<table>
<tr><th>Financial statement item</th><th>Judgements and Impact on assumptions</th><th>Note</th></tr>
<tr><td>Tax revenue</td><td>
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.
The tax year for a large portion of taxpayers ends on 31 March whereas the financial year for the Government ends on 30 June.
Tax revenue is estimated and recognised in the Statement of Financial Performance on an accruals basis in the period the taxable event occurs. The estimation of income tax revenue for other persons and corporates has a high degree of uncertainty because it is an annual tax and the relevant tax returns may be filed a long time after the Government's balance date of 30 June 2021 (as explained below). In contrast, other tax revenue estimates are more certain because relevant tax returns are filed more frequently. For example, subsequent filing information for GST and PAYE in July and August relating to taxable events in the financial year ended 30 June 2021 can be used to support GST and PAYE estimates made at 30 June 2021.
Income tax
As income tax from other persons and corporates is an annual tax, it is deemed to accrue evenly over the year to which it relates.
Revenue estimation for the financial year ended 30 June 2021 requires estimating income tax covering two tax years, for example, for taxpayers with a 31 March balance date, this would cover:

the nine month period for the tax year ended 31 March 2021 (ie, an estimate of three quarters of annual tax revenue for the full tax year to 31 March 2021), and
the three month period for the tax year ending 31 March 2022 (ie, an estimate of one quarter of annual tax revenue for the full tax year to 31 March 2022).

The filing of terminal tax returns for these years could happen more than a year after the tax year. For example, the March-year 2021 return may not be filed until March 2022 (or after) and the March-year 2022 return may not be filed until March 2023 (or after).
While the majority of taxpayers make provisional tax payments during a year using a 5% uplift under legislation, the uplift percentage assumption used to estimate tax revenue in financial reporting relies on estimated firms' net operating surplus. This macro-economic assumption is designed to measure firms' profits and therefore is considered the most reasonable basis for estimating income tax. Firms' net operating surplus is a component of the income measure of nominal GDP.
An estimate of firms' net operating surplus was applied for the first-time last year as a result of wanting to reflect the expected impact of COVID-19 pandemic on the economy at the time of preparing the 2019/20 financial statements. Prior to that, revenue was estimated for financial reporting using a 5% uplift assumption (linked to the provisional tax regime), which was considered reasonable in years where the economy is relatively stable and growing steadily.
</td><td>4</td></tr>
</table>

Note 2: Key Assumptions and Judgements (continued)

<table>
<tr><th>Financial statement item</th><th>Judgements and Impact on assumptions</th><th>Note</th></tr>
<tr><td>Tax revenue (continued)</td><td>The following uplift assumptions have been used in these financial statements:
• An annual average growth in firms' net operating surplus for the tax year to 31 March 2021 of 2.68%. This rate has been applied to relevant March 2020 terminal tax returns filed (or estimates of March 2020 returns) to estimate tax revenue for March-year 2021.
This assumption is derived from Statistics New Zealand's (Stats NZ) publication of a new quarterly data series released 22 July 2021. This series was developed for institutional sector accounts, balance sheets, and the nominal income measure of quarterly gross domestic product (GDP), to provide more timely data on New Zealand's economy. Details of the quarterly release can be found here: www.stats.govt.nz/experimental/national-accounts-income-saving-assets-and-liabilities-march-2021-quarter.
• An annual average growth in the Treasury's forecast of firms' net operating surplus for the tax year to 31 March 2022 of 1.24% has been applied to relevant March 2021 terminal tax returns filed (or estimates of March 2021 returns) to estimate tax revenue for March-year 2022. One quarter of the estimated revenue for the full March-year 2022 is accrued in these financial statements.
Other key features of revenue estimation include:
• income tax revenue estimation calculations have been adjusted for those taxpayers that have a balance date in a month other than March
• where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment for the period, and taxpayers have not selected the standard uplift option, provisional tax assessments are accrued based on the provisional tax method adopted by the taxpayer eg, the estimation option
• where taxpayers have made payments to the Inland Revenue 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.
While application of these assumptions has resulted in the best estimate of income tax revenue at this point in time, they may not necessarily reflect actual tax returns when they are filed.
For more information on tax revenue and tax receivables refer to notes 4 and 13.</td><td>4</td></tr>
</table>

Note 2: Key Assumptions and Judgements (continued)

Financial statement item	Judgements and Impact on assumptions	Note
Advances (Small Business Cashflow Scheme (SBCS) and Student Loans)	The student loan and SBCS 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 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
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 2021 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 and geothermal 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 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 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 2021 based on the sale value of aircraft.	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. These include the contingencies reported in note 26 of these financial statements and the Government's future policy objectives and targets (eg, climate change commitments, child poverty reduction targets) that are subject to ongoing policy decisions. These do not meet the requirements for recognition under generally accepted accounting practice as they are dependent on future events within the control of the government or the asset/liability cannot be measured reliably at this point. If these future policy objectives and targets or contingencies eventuate, there will be an impact on the operating balance and net worth.

Note 3: Impact of the COVID-19 pandemic

The support measures in response to the COVID-19 pandemic impacting on these financial statements can be broadly grouped into the following categories:

- Health response
- Direct business support
- Wider sector support
- Monetary Policy response.

Also, despite the relative containment of COVID-19 during the 2020/21 financial year, there is significant risk and uncertainty on economic impacts going forward. The recent outbreak of the delta variant of COVID-19 during August 2021 illustrates just how quickly circumstances can change in New Zealand. In addition, the global outlook is highly uncertain, particularly the path away from the COVID-19 emergency fiscal and monetary measures that have been introduced internationally. These uncertainties impact on the estimates and judgements used in estimating the future economic benefits and sacrifices associated with the Government's assets and liabilities.

Health response

During the 2021 financial year core Crown health expenses were $22,784 million, an increase of $2,893 million (or 14.5%) compared to the previous financial year with a large portion of this increase attributable to the Government's COVID-19 health response measures. The expenses under the health response are reported as other operating expenses at the time the expense is incurred (note 10). The most material aspects of the health response which are directly attributable to the impact of COVID-19 have been set out in the table below.

	Operating 2021 $m	Operating 2020 $m
Cost of health response measures		
Managed Isolation and Quarantine	848	79
COVID-19 vaccine	375	-
COVID-19 testing and laboratory capacity	280	38
Personal Protection Equipment	119	108
Contact tracing services and Public Health capacity	90	45
Pharmaceutical Budget and PHARMAC operating costs	50	25

Managed isolation and quarantine (MIQ) represent the costs incurred by the Government for MIQ facilities, including health services within MIQ facilities. In August 2020, fees were introduced for some users of the MIQ facilities with the aim of sharing some of the costs of MIQ with the Government, these fees are reported as sales of goods and services revenue (note 5). At 30 June 2021, these fees totalled $124 million, $59 million of which have not yet been received. MIQ fees that have been written off have been recorded as costs of concessionary lending.

The COVID-19 testing and laboratory capacity includes the costs associated with the delivery and processing of tests within the community to detect the presence of COVID-19. Personal protection equipment is expensed as used by the frontline healthcare workforce and essential services workforce. Contact tracing services includes the costs associated with the telehealth consultation service and boosting Public Health capacity. The Pharmaceutical Budget and PHARMAC costs are to meet the increase in the price of medicines precured by PHARMAC resulting from the disruption to supply.

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

Direct business support

Significant direct business support measures in response to COVID-19 are outlined in the table below:

	Operating 2021 $m	Capital 2021 $m	Total 2021 $m	Operating 2020 $m	Capital 2020 $m	Total 2020 $m
Cost of Fiscal Support Measures						
Wage Subsidy Scheme	1,197	-	1,197	12,095	-	12,095
Small Business Cashflow (Loan) Scheme	143	186	329	686	1,423	2,109
Resurgence Support Payment	200	-	200	-	-	-
Business Finance Guarantee Scheme	128	-	128	20	-	20

Wage Subsidy Scheme

Expenses under the wage subsidy scheme are reported as transfer payments at the time the expense is incurred (note 8). As there is only a small delay between the application and payment dates there is little uncertainty around the amounts reported in the financial statements. The amount reported includes repayments of the wage subsidy which for the year ended 30 June 2021 totalled $444 million (2020: $230 million).

Small Business Cashflow (Loan) Scheme

The net lending under the SBCS during 2021 totalled $186 million. The overall value of loans issued by the Government is reported in the advances note (note 16). The loans under the SBCS are reported at fair value, and the concessionary element is reported as an expense. 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.

Resurgence support payments

Payments under the Resurgence Support Payment (RSP) scheme during 2020/21 are reported as transfer payments and subsidies within transfer payments and subsidies (note 8). As there is only a small delay between the application and payment dates there is little uncertainty around the amounts reported in the financial statements.

Business Finance Guarantee Scheme

Business Finance Guarantee Scheme (BFGS) loans by lenders are indemnified for 80% of the value of the loans. 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). This amount represents the indemnity fee foregone by providing the indemnity without charge. The scheme closed on 30 June 2021 with lending facilities totalling $2.86 billion.

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

Wider Sector and Economic Support

As part of the response to and recovery from COVID-19, the Government has provided significant levels of funding to various sectors directly impacted by the pandemic. A few government reporting entities have been adversely impacted from the COVID-19 pandemic, with lower income resulting in revenue shortfalls (eg, Air New Zealand and NZTA amongst others). The Government has been providing fiscal support to these government reporting entities in order to maintain operations. Support to sectors includes but is not limited to the tourism and transport sectors. The most material support packages which have impacted the Government's financial results and position during 2020/21 are detailed below.

Support Package	Description
Funding to the National Land Transport Fund	• A National Land Transport Fund (NLTF) borrowing facility of $200 million, which was fully drawn down as at 30 June 2021. • Cost pressure funding of $322 million has also been provided during 2020/21. • A capital injection of $205 million into New Zealand Transport Agency (NZTA). • Funding of $107 million was provided to protect the transport sector agency core functions.
Aviation support	• International Air Freight Capacity (IAFC) scheme - $337 million. • Maintaining International Air Connectivity (MIAC) - $48 million. • Air New Zealand Crown loan facility which totals $1.5 billion. At 30 June 2021, $350 million of this facility had been drawn down.
Tourism support	• Strategic Tourism Assets Protection Programme (STAPP) - $71 million. • Worker Redeployment Package - $50 million. • Regional Events Fund - $24 million.

In addition, the Government has funded initiatives to support the economic recovery for New Zealand. One of the most significant policies was the Infrastructure Reference Groups shovel ready projects. Further details of the projects which have been funded in the 2020/21 year can be found at: https://www.crowninfrastructure.govt.nz/irg/

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

Monetary Policy Response

The Reserve Bank's monetary policy responses below have largely been funded through an increase in the Settlement deposits liability (note 20).

Large Scale Asset Purchase (LSAP) programme

Under the LSAP programme, as at 30 June 2021 the Reserve Bank has purchased, from the secondary market, $52,965 million New Zealand Government Bonds (NZGBs), $2,878 million of New Zealand Inflation-Indexed Government Bonds and $1,653 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 $3,976 million (2020: $3,258 million) is reported in the Statement of Financial Performance (note 6). The loss represents the difference between the Reserve Bank's purchase price of NZGBs (driven by the market price on purchase date) and the NZGBs liability (valued at amortised cost)
- a 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 elimination of NZGBs liabilities that were purchased by the Reserve Bank from the market as these bonds are no longer held by third parties, and
- the recognition of LGFA bonds in marketable securities at fair value.

On 14 July 2021, the Monetary Policy Committee agreed that further asset purchases under the LSAP programme were no longer necessary for monetary policy purposes. The Reserve Bank halted additional asset purchases under the LSAP programme on 23 July 2021.

Funding for Lending Programme (FLP)

The loans issued under the FLP are classed as advances and totalled $3,059 million as at 30 June 2021. At a total Crown level, once FLP loans within the Crown have been eliminated, the closing value of the loans is $2,558 million (note 16). The loans under the FLP Tranche 1 are measured at amortised cost. There is an increase in settlement deposits with Reserve Bank (note 20) to fund the FLP.

Term Lending Facility (TLF)

At 30 June 2021, a total of $1,813 million has been borrowed through the TLF. The facility closed following the completion of the final scheduled facility window on 28 July 2021.

Economic Impacts

Estimates of some of the revenue, expenses, assets and liabilities in the reported financial statements are underpinned by judgements over the prevailing economic conditions.

Tax revenue

Most of the tax revenue reported in a financial year is received from taxpayers in the same year, however some estimations at 30 June 2021 are still required. The economic impact of the COVID-19 pandemic has affected some assumptions used to estimate tax revenue, particularly tax revenue subject to the provisional tax regime (note 4).

Sales of goods and services

Some Government reporting entities are experiencing reduced revenue levels owing to the impacts of the COVID-19 pandemic. Overall, total provision of services were $6,462 million, a decrease of $1,987 million from the 2019/20 financial year.

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

Valuation of assets and liabilities

Most valuations contain an element of uncertainty. While property and capital markets have remained open, active and liquid throughout the 2020/21 financial year providing good price evidence, the following uncertainties are noted:

- Ongoing valuation impacts of the COVID-19 pandemic in the aviation sector and the impact to the valuation of aircraft assets (note 17).
- ACC outstanding claims, defined retirement benefits and veterans' disability entitlements valued by discounting future payments to today's dollars using the risk free-discount rate that are likely to be impacted by future changes in monetary conditions (note 12 and note 22).
- Student Loan assumptions regarding future income levels, repayment behaviour, inflation and discount rates (note 16).

Note 4: Sovereign Revenue

2021 Forecast at Budget 2020 $m	2021 Forecast at Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
		Direct Income Tax Revenue		
		Individuals		
34,838	37,090	Source deductions	38,164	34,963
6,694	7,785	Other persons	8,773	7,128
(1,859)	(1,947)	Refunds	(1,716)	(1,887)
555	611	Fringe benefit tax	608	593
40,228	**43,539**	**Total individuals**	**45,829**	**40,797**
		Corporate Tax		
9,588	13,209	Gross companies tax	15,640	11,958
(283)	(314)	Refunds	(344)	(424)
431	456	Non-resident withholding tax	472	570
9,736	**13,351**	**Total corporate tax**	**15,768**	**12,104**
		Other Direct Income Tax		
1,016	1,110	Resident withholding tax on interest revenue	1,000	1,529
596	958	Resident withholding tax on dividend revenue	1,519	828
1,612	**2,068**	**Total other direct income tax**	**2,519**	**2,357**
51,576	**58,958**	**Total direct income tax**	**64,116**	**55,258**
		Indirect Income Tax Revenue		
		Goods and Services Tax		
32,964	38,510	Gross goods and services tax	39,814	35,861
(12,925)	(13,986)	Refunds	(14,252)	(14,112)
20,039	**24,524**	**Total goods and services tax**	**25,562**	**21,749**
		Other Indirect Taxation		
2,022	2,136	Petroleum fuels excise and duty[1]	2,145	1,877
2,180	1,468	Tobacco excise and duty[1]	1,637	2,168
1,663	1,897	Road user charges	1,930	1,716
1,119	1,232	Alcohol excise and duty[1]	1,249	1,064
177	145	Other customs duty	169	164
555	579	Miscellaneous indirect taxation	554	525
7,716	**7,457**	**Total other indirect taxation**	**7,684**	**7,514**
27,755	**31,981**	**Total indirect taxation**	**33,246**	**29,263**
79,331	**90,939**	**Total taxation revenue**	**97,362**	**84,521**
		Other Sovereign Revenue		
2,925	3,171	ACC levies	3,270	3,032
1,152	1,366	Emission trading revenue	1,634	1,043
604	588	Fire and emergency levies	607	596
500	520	EQC levies	520	446
249	231	Child support and working for families penalties[2]	383	254
115	115	Court fines	138	134
467	623	Other miscellaneous items	486	764
6,012	**6,614**	**Total other sovereign revenue**	**7,038**	**6,269**
85,343	**97,553**	**Total sovereign revenue**	**104,400**	**90,790**

1 Includes customs excise-equivalent duty.

2 This increase is due to the recognition of unpaid child support assessments relating to Crown entitlements, increasing revenue by $155 million.

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 2021 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 receivables of $15,642 million (2020: 14,290 million) reported in note 13 Receivables.

Where income tax returns for other persons and corporates 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. Tax revenue is recognised proportionally based on the balance date of the taxpayer. The amount of income tax receivable or refundable is not known with certainty until income tax returns for the period have been filed. The filing of terminal tax returns can happen more than a year after the tax year.

The income tax revenue estimation process is based on a rebuttable presumption that the forecast of firms' net operating surplus, from the most recent Treasury forecast, is used as the uplift assumption. Refer to Note 2 *Key Assumptions and Judgements* for more information. In summary, the following uplift assumptions have been used to estimate income tax:

- An annual average growth in firms' net operating surplus for the tax year to 31 March 2021 of 2.68% (based on Stats NZ's new quarterly data series released on 22 July 2021).
- An annual average growth in the Treasury's forecast of firms' net operating surplus for the tax year to 31 March 2022 of 1.24%.

Other persons and corporate income tax revenue has a high degree of estimation and is therefore uncertain. Application of the uplift assumptions may not necessarily reflect actual tax returns when they are filed and forecasts of firms' net operating surplus are inherently uncertain and volatile, particularly with the ongoing impact of the COVID-19 pandemic on the economy. The table below reports the impact if there were a change in the uplift assumption:

		Change in Income Tax	
Sensitivity of assumptions		30 June 2021 $m	30 June 2020 $m
Increase in firms' net operating surplus assumption by	+1%	196	184
	+5%	981	924
	+10%	1,963	1,848
Decrease in firms' net operating surplus assumption by	-1%	(196)	(184)
	-5%	(981)	(924)
	-10%	(1,963)	(1,848)

Note 5: Sales of Goods and Services

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
9,727	10,582	Sales of goods	12,038	9,988
7,410	7,147	Provision of services	6,462	8,449
17,137	**17,729**	**Total sales of goods and services**	**18,500**	**18,437**

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.

Note 6: Investment and Finance Income/(Expense)

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
		Interest Revenue		
1,291	958	Other financial assets classified as amortised cost	887	1,179
835	703	Financial assets classified as fair value through the operating balance	702	790
387	354	Concessionary loans (interest unwind)[1]	354	331
2,513	**2,015**	**Total interest revenue**	**1,943**	**2,300**
		Interest Expense		
3,347	2,313	Financial liabilities classified as amortised cost	2,101	3,320
77	98	Financial liabilities classified as fair value through the operating balance	87	179
191	116	Interest unwind on provisions and other interest	84	255
3,615	**2,527**	**Total interest expenses**	**2,272**	**3,754**
(1,102)	**(512)**	**Net interest income/(expense)**	**(329)**	**(1,454)**
		Net gains/(losses) on large scale asset purchases		
(2,236)	(4,586)	Net gains/(losses) on large scale asset purchases	(3,976)	(3,258)
(2,236)	**(4,586)**	**Net gains/(losses) on large scale asset purchases**	**(3,976)**	**(3,258)**
		Gains and Losses on Financial Instruments		
-	(234)	Foreign exchange gains on financial assets and liabilities measured at amortised cost	(59)	143
(2)	127	Foreign exchange losses on financial assets and liabilities measured at amortised cost	59	(324)
(258)	(27)	Gains/(losses) on disposal of financial assets and liabilties measured at amortised cost	(19)	(96)
2,143	2,603	Change in fair value of financial assets and liabilities classified as fair value through the operating balance	8,972	1,886
-	680	Change in fair value of student loans classified as fair value through the operating balance	745	(97)
1,883	**3,149**	**Net gains/(losses) on financial assets and liabilities**	**9,698**	**1,512**
693	9,643	Net gains/(losses) on derivatives	8,432	396
2,576	**12,792**	**Net gains/(losses) on financial instruments**	**18,130**	**1,908**
		Other investment income/(expense)		
1,095	878	Dividend income (refer to note 7)	903	906
1,095	**878**	**Total other investment income/(expense)**	**903**	**906**
333	**8,572**	**Total investment and finance income/(expense)**	**14,728**	**(1,898)**

1 Concessionary loans are advanced at below market rates, as such they are discounted to reflect their fair value. The interest unwind reflects the increase in value as the period to repayment reduces (note 16).

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

Net gains/(losses) on Large Scale Asset Purchases

These financial statements reflect monetary policy measures including the Large Scale Asset Purchases (LSAP) programme. The LSAP programme has resulted in a loss of $3,976 million in the 2020/21 financial year (2020: $3,258 million).

Under the LSAP programme, New Zealand Government Bonds (NZGBs) are purchased by the Reserve Bank at market prices from 3rd parties. 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.

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 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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
1,095	878	Dividends	903	906
807	775	Donations	694	757
781	664	Rental revenue	670	632
1	238	EQC insurance claim on reinsurers	220	(20)
256	250	Sale of royalties	231	294
2,134	1,085	Other revenue	1,774	1,907
5,074	**3,890**	**Total other revenue**	**4,492**	**4,476**

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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
16,346	16,554	New Zealand superannuation	16,569	15,521
4,521	3,273	Jobseeker support and emergency benefit	3,224	2,285
2,607	2,337	Accommodation assistance	2,302	1,923
2,139	2,130	Family tax credit	2,103	2,189
1,807	1,831	Supported living payment	1,826	1,650
-	1,337	Wage subsidy scheme	1,197	12,095
1,577	1,470	Sole parent support	1,455	1,231
935	929	KiwiSaver subsidies	916	893
880	816	Winter energy payment	812	669
777	825	Official development assistance	804	736
641	610	Student allowances	590	567
653	623	Other working for families tax credits	585	641
623	495	Hardship assistance	479	418
419	408	Disability allowances	409	395
268	294	Orphan's/unsupported child's benefit	293	248
336	276	Best start credit	271	184
-	200	COVID-19 resurgence support payment	200	-
157	80	Income related rent subsidy	106	63
1,026	1,348	Other social assistance benefits	1,286	899
35,712	**35,836**	**Total transfer payments and subsidies**	**35,427**	**42,607**

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

Expenses under the wage subsidy scheme are reported as transfer payments at the time the expense is incurred. As there is only a small delay between the application and payment dates there is little uncertainty around the amounts reported in the financial statements. The amount reported includes repayments of the wage subsidy which for the year ended 30 June 2021 was $444 million (2020: $230 million).

Note 9: Personnel Expenses

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
26,138	27,010	Salaries and wages	26,977	25,159
655	667	Costs incurred on defined contribution plans (e.g. KiwiSaver)	769	726
118	110	Costs incurred on GSF and other defined benefit plans	119	93
1,652	1,526	Other personnel expenses	1,952	1,797
28,563	**29,313**	**Total personnel expenses**	**29,817**	**27,775**

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 $9 million (2020: $10 million). This reflects salaries, benefits and allowances. Key management personnel are the 26 Ministers of the Crown who are members of the Executive Council as at 30 June 2021 (2020: 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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
7,000	10,784	Grants and subsidies	9,594	10,499
2,108	1,939	Repairs and maintenance	2,368	2,420
1,513	1,534	Rental and leasing costs	1,516	1,480
1,492	1,554	Clinical supplies	1,582	1,403
822	786	Amortisation and impairment of non-financial assets	1,198	2,375
987	1,474	Impairment of financial assets	928	1,493
636	934	Cost of concessionary lending	1,039	1,279
711	824	Lottery prize payments	814	754
392	457	Inventory expenses	514	370
5	6	Fees paid to audit firms other than the Auditor-General (refer below)	6	6
34,488	37,540	Other operating expenses	34,243	30,504
50,154	**57,832**	**Total other operating expenses**	**53,802**	**52,583**

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

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

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

Audit fees paid to the Controller and Auditor-General

Fees paid to the Controller and Auditor-General (including independent auditors providing services on behalf of the Controller and Auditor-General) for the audit of the financial statements of the Government and its reporting entities were $54.0 million (2020: $50.0 million). These fees include $0.5 million (2020: $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 $0.7 million (2020: $0.6 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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Note	Actual 30 June 2021 $m	30 June 2020 $m
-	9,469	Actuarial gains/(losses) on ACC outstanding claims	12	8,222	(5,974)
-	(586)	Gains/(losses) on the Emissions Trading Scheme	22	(1,489)	(1,097)
-	-	Gains/(losses) on disposal or revaluation of property, plant and equipment		(31)	(154)
(139)	(46)	Other gains/(losses) on non-financial instruments		167	(147)
(139)	**8,837**	**Net gains/(losses) on non-financial instruments**		**6,869**	**(7,372)**

The ACC outstanding claims liability is valued by an independent actuary. 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 Expenses and Liabilities

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		Insurance expense by entity		
5,612	6,282	Accident Compensation Corporation (ACC)	6,539	6,246
201	214	Earthquake Commission (EQC)	167	614
(17)	68	Southern Response	108	27
15	21	Other	24	16
5,811	**6,585**	**Total insurance expenses**	**6,838**	**6,903**

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		Insurance liability by entity		
61,391	57,608	ACC liability	59,133	64,946
470	765	EQC property damage liability	803	1,528
49	108	Southern Response liability	353	168
42	48	Other (incl. Inter-segment eliminations)	47	48
61,952	**58,529**	**Total insurance liabilities**	**60,336**	**66,690**
		By component		
		Outstanding claims liability	56,317	62,943
		Unearned premium liability	2,521	2,276
		Unearned premium liability deficiency	1,498	1,471
		Total insurance liabilities	**60,336**	**66,690**
		By maturity		
		Expected to be settled within one year	9,577	9,360
		Expected to be outstanding for more than one year	50,759	57,330
		Total insurance liabilities	**60,336**	**66,690**
		Assets arising from insurance obligations are:		
		Receivables for premiums	3,926	3,661
		Reinsurance claim recoveries	182	525

The future cost of outstanding insurance claims liabilities is 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 claim 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 the insurance liabilities of ACC, EQC and Southern Response may be found in their annual reports 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 major 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 2021. 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 Expenses and Liabilities (continued)

	Actual 30 June 2021 $m	30 June 2020 $m
Analysis of ACC Insurance Expense		
By type		
Claims expense	(1,201)	12,478
Movement in unearned premium deficiency liability	27	266
Other underwriting expenses	166	205
Total ACC claims and other expenses	**(1,008)**	**12,949**
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss) - (refer note 11)	8,222	(5,974)
Operating costs relating to claims	(675)	(729)
Total ACC insurance expenses (excluding gains/(losses) and operations)	**6,539**	**6,246**

The next table separates the adjustment in the liability arising from claims incurred in the current financial year from the 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 valuation assumptions.

Undiscounted claims expenses increased mainly due to higher inflation assumptions this year, but the primary driver of the overall decrease in claims expense is owing to an increase in the discount rate assumption, which reduces future claims expenses to reflect their value in today's dollars. In addition, there are more new claims this year compared to 2019/20 because during last year's restrictions under New Zealand's Alert Level 4 lockdown, fewer claims were filed.

Revaluation movements as a result of changes in discount rate and inflation rates are reported as part of actuarial gains and losses, rather than as insurance expenses in the Statement of Financial Performance.

	Actual 30 June 2021 $m	30 June 2020 $m
ACC Claims Incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	11,114	8,751
Discount and discount movement	(4,524)	(2,725)
Total current year net claims incurred	**6,590**	**6,026**
Previous years' net ACC claims incurred		
Reassessment of gross claims and expenses – undiscounted	9,360	(3,821)
Discount and discount movement	(17,151)	10,273
Total previous years' net claims incurred	**(7,791)**	**6,452**
ACC claims expense	**(1,201)**	**12,478**

Note 12: Insurance Expenses and Liabilities (continued)

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 2021 $m	Actual 30 June 2020 $m
Net ACC Underwriting Result		
Premium revenue (refer to note 4)	3,270	3,032
Claims and other expenses	1,008	(12,949)
Net ACC underwriting surplus/(deficit)	**4,278**	**(9,917)**
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	3,098	2,925
Cash payments	(5,201)	(4,335)
Net ACC operating cash flows	**(2,103)**	**(1,410)**

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 2021 $m	Actual 30 June 2020 $m
The ACC liability comprises:		
ACC outstanding claims liability (refer below)	55,387	61,463
ACC unearned premium liability	2,248	2,012
ACC unearned premium liability deficiency	1,498	1,471
Total ACC liability	**59,133**	**64,946**
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	101,560	87,589
Discount adjustment	(52,426)	(33,196)
Risk margin	6,253	7,070
Total outstanding ACC claims liability	**55,387**	**61,463**
Discounted central estimate of future payments for outstanding claims	46,636	51,598
Claims handling expenses	2,498	2,795
Outstanding claims liability before risk margin	**49,134**	**54,393**
Risk margin	6,253	7,070
Total outstanding ACC claims liability	**55,387**	**61,463**
Movement in Outstanding ACC Claims Liability		
Opening balance	61,463	53,319
Claims incurred for the year	7,743	6,668
Claims paid out in the year	(5,728)	(5,167)
Discount rate unwind	131	669
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	539	258
- change in discount rate	(13,126)	7,280
- change in inflation rate	4,365	(1,564)
Closing outstanding ACC claims liability	**55,387**	**61,463**

Refer to ACC's annual report for a table showing an historical analysis of claims development.

Note 12: Insurance Expenses and Liabilities (continued)

Key Assumptions

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

(i) Risk-free discount rates

The projected cash flows were discounted using a series of forward discount rates at the balance date derived from the yield curve for New Zealand government bonds (note 2). The equivalent single effective discount rate taking into account ACC's projected future cash flow pattern is 3.00% (2020: 1.86%) This takes into account the Treasury's published discount rates, which has a long-term discount rate of 4.30% beyond 30 years (2020: 4.30% beyond 62 years). Risk-free interest rates have increased significantly during 2021 and this has brought forward when the long-term discount rate is expected to be reached.

(ii) Risk margin

The outstanding claims and the unearned premium include 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.

Refer to ACC's annual report for a table that lists all the main long-term assumptions used in valuing the outstanding ACC claims obligation.

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 2021 $m	Impact on liability Actual 30 June 2020 $m
Sensitivity of assumptions			
Risk-free discount rate	+1%	(8,057)	(10,305)
	-1%	10,963	14,485
Inflation rates (including superimposed inflation)	+1%	10,930	14,302
	-1%	(8,198)	(10,411)
Social rehabilitation benefits - superimposed	+1%	1,547	2,081
inflation for non-serious injury claims	-1%	(1,179)	(1,502)
Social rehabilitation benefits - superimposed	+1%	3,810	5,179
inflation after two years for serious injury claims	-1%	(2,853)	(3,771)

Note 12: Insurance Expenses and Liabilities (continued)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $49,134 million (2020: $54,393 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 2021. These estimated cash flows include the effects of assumed future inflation.

	Actual 30 June 2021 $m	30 June 2020 $m
No later than 1 year	3,469	3,069
Later than 1 year and no later than 2 years	2,469	2,250
Later than 2 years and no later than 5 years	6,299	5,757
Later than 5 years and no later than 10 years	9,318	8,508
Later than 10 years and no later than 15 years	8,669	7,817
Later than 15 years and no later than 20 years	8,290	7,372
Later than 20 years and no later than 25 years	8,037	7,046
Later than 25 years and no later than 30 years	7,724	6,669
Later than 30 years and no later than 35 years	7,339	6,247
Later than 35 years and no later than 40 years	6,864	5,764
Later than 40 years and no later than 45 years	6,320	5,242
Later than 45 years and no later than 50 years	5,702	4,685
Later than 50 years	21,060	17,163
Undiscounted outstanding claims liability	**101,560**	**87,589**

Note 13: Receivables

2021 Forecast at			Actual	
Budget 2020 $m	Budget 2021 $m		30 June 2021 $m	30 June 2020 $m
16,648	14,612	Tax receivables	15,642	14,290
2,848	2,728	ACC levy receivables	2,868	2,490
1,339	1,242	Social benefit receivables	1,304	1,107
510	492	Other levies, fines and penalty receivables	816	463
21,345	**19,074**	**Sovereign receivables**	**20,630**	**18,350**
116	158	Reinsurance receivables	182	525
7,326	5,769	Trade and other receivables	6,017	5,868
28,787	**25,001**	**Total receivables**	**26,829**	**24,743**
		By maturity		
26,926	22,880	Expected to be realised within one year	24,619	22,519
1,861	2,121	Expected to be outstanding for more than one year	2,210	2,224
28,787	**25,001**	**Total receivables**	**26,829**	**24,743**

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 short-term. 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 Inland Revenue (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 $342 million (2020: $242 million), with $290 million (2020: $190 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 short-term in nature and totalled $6,044 million (2020: $5,868 million). Their carrying amount provides a reasonable approximation of their fair value.

Note 13: Receivables (continued)

30 June 2021	Gross receivable $m	Impairment $m	Net receivable $m
Tax receivables	19,047	(3,405)	15,642
ACC levy receivables	3,006	(138)	2,868
Social benefit receivables	2,076	(772)	1,304
Other levies, fines and penalty receivables	3,289	(2,473)	816
Reinsurance receivables	182	-	182
Trade and other receivables	6,119	(102)	6,017
Total receivables	**33,719**	**(6,890)**	**26,829**

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**

The Inland Revenue administers the majority of the tax receivable portfolio. 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. The recoverable amount of the portfolio is calculated by forecasting the expected repayments based on analysis of historical debt data up to June 2021, deducting an estimate of service costs and then discounting the net expected repayments at the current market rate of 5.0% (2020: 5.0%).

	Actual 30 June 2021 $m	Actual 30 June 2020 $m
Gross Tax Receivable		
Current	14,663	13,349
Past due	4,384	4,247
Total gross tax receivable	**19,047**	**17,596**
% past due	23.0%	24.1%
Impairment of Tax Receivables		
Opening balance	3,306	2,342
Impairment losses recognised during the year	912	1,370
Amounts written off as uncollectible	(813)	(406)
Closing balance	**3,405**	**3,306**
Tax Receivable Net of Impairment		
Current	14,526	13,238
Past due	1,116	1,052
Total tax receivable net of impairment	**15,642**	**14,290**
% past due	7.1%	7.4%
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	1,005	1,217
Between six months and one year	432	381
Between one year and two years	903	748
Greater than two years	2,044	1,901
Total tax receivables past due (Gross)	**4,384**	**4,247**

Note 13: Receivables (continued)

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.

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. Inland Revenue has debt management policies and procedures in place to actively manage the collection of past due debt.

The average impairment percentage applied to past due debt as a result of the June 2021 valuation is 74.5% (2020: 78.5%).

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

Note 14: Marketable Securities, Deposits and Derivatives in Gain

2021 Forecast at			Actual	
Budget 2020 $m	Budget 2021 $m		30 June 2021 $m	30 June 2020 $m
		By type		
64,784	44,001	Marketable securities	44,687	45,858
3,693	4,046	Long term deposits	5,108	5,443
3,650	7,274	Derivatives in gain	4,509	7,166
2,383	2,420	IMF financial assets	2,479	2,538
74,510	**57,741**	**Total marketable securities, deposits and derivatives in gain**	**56,783**	**61,005**
		Expected Realisation		
52,875	29,926	Expected to be realised within one year	33,496	39,287
21,635	27,815	Expected to be held for more than one year	23,287	21,718
74,510	**57,741**	**Total marketable securities, deposits and derivatives in gain**	**56,783**	**61,005**

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 and/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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		By type		
33,581	43,494	Share investments	48,539	33,791
5,693	4,276	Investments in controlled enterprises	4,718	4,220
39,274	**47,770**	**Total share investments and investments in controlled enterprises**	**53,257**	**38,011**
		Expected Realisation		
18,105	23,720	Expected to be realised within one year	27,932	17,323
21,169	24,050	Expected to be held for more than one year	25,325	20,688
39,274	**47,770**	**Total share investments**	**53,257**	**38,011**

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.

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 2021. This category predominantly includes private equity investments held directly or via investment funds, controlled enterprises and other externally managed investment vehicles.

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

Note 16: Advances

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		By type		
24,335	24,615	Kiwi Group Holdings loans and advances	25,155	22,189
10,782	10,833	Student loans	10,841	10,395
-	4,540	Funding for Lending advances	2,558	-
-	953	Small business cashflow loans	921	737
8,635	6,103	Other advances	6,137	4,308
43,752	**47,044**	**Total advances**	**45,612**	**37,629**

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

Note 16: Advances (continued)

Kiwi Group Holdings loans and advances

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		Kiwi Group Holdings Loans and Advances		
		By maturity		
1,759	1,657	Expected to be repaid within one year	1,733	1,494
22,576	22,958	Expected to be outstanding for more than one year	23,422	20,695
24,335	**24,615**	**Total Kiwi Group Holdings loans and advances**	**25,155**	**22,189**

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

The fair value of Kiwi Group Holdings loans and advances is $25,130 million (2020: $22,291 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 $62 million (2020: $86 million).

Student loans

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Note	Actual 30 June 2021 $m	30 June 2020 $m
		Student Loans			
16,073	16,280	Nominal value		16,260	16,135
(5,291)	(5,447)	Write-down on initial recognition, impairment and other fair value changes		(5,419)	(5,740)
10,782	**10,833**	**Total student loans**		**10,841**	**10,395**
		By maturity			
		Expected to be repaid within one year		1,355	1,256
		Expected to be outstanding for more than one year		9,486	9,139
		Total student loans		**10,841**	**10,395**
		Movement During the Year			
		Opening balance		10,395	10,731
		Net new lending (including fees)		1,430	1,413
		Initial write-down to fair value		(469)	(506)
		Repayments made during the year		(1,495)	(1,477)
		Interest unwind	6	235	331
		Unwind of administration costs		38	36
		Experience/actuarial adjustments:			
		- Projected repayments		487	(476)
		- Change in discount rates		220	343
		Closing balance student loans		**10,841**	**10,395**

Student loans are initially recognised 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 on 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.

Note 16: Advances (continued)

The fair value of student loans has increased by $487 million largely as a result of updating assumptions around projected repayments and by $220 million due to reductions in the discount rates since 2020. The discount rate is based on the Treasury risk-free rate (which increased) with a risk-adjustment added (which reduced by more than the increase in the risk-free component).

When valuing the portfolio last year, it was assumed borrower repayments, both domestically and overseas, would be adversely affected by unemployment and underemployment as a result of the COVID-19 pandemic, which resulted in an actuarial valuation loss in 2020. It is now expected that fewer borrowers will be adversely impacted by the COVID-19 pandemic than previously assumed owing to the New Zealand economy showing greater resilience than initially assumed, resulting in a positive actuarial adjustment this year. An increase in the wage inflation assumptions and improvements in the valuation data and model are other contributors to the valuation gain.

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

	Note	Actual 30 June 2021 $m	 30 June 2020 $m
Interest Revenue			
Interest unwind	6	235	331
Other operating expenses			
Initial write-down to fair value		(469)	(506)
Total included in other operating expenses		**(469)**	**(506)**
Net Gains/(Losses) on Financial Instruments			
Experience/actuarial adjustments:			
- Projected repayments		487	(476)
- Change in discount rates		220	343
Unwind of administration costs		38	36
Total Net Gains/(Losses) on Financial Instruments	6	**745**	**(97)**

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 to 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. There are two key types of risk to the valuation, payment risk and modelling risk, both are exacerbated as a result of COVID-19. Payment risk represents the risk of current and repayment behaviours changing, either improving or worsening - two particularly important payment risks are the number of long-term New Zealand low earners, and the number of long-term overseas non-payers. Modelling risk represents the risk of the model and assumptions not adequately reflecting future repayment behaviour.

	Actual 30 June 2021	 30 June 2020
Significant assumptions behind the carrying value are:		
Interest rate applied to loans for overseas borrowers	2.4%-5.0%	1.9%-5.0%
Consumer Price Index	1.1%-2.4%	0.5%-2.0%
Future salary inflation	2.4%-4.5%	0.0%-3.5%
Discount rate	4.0%	4.0%

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

Note 16: Advances (continued)

	Actual 30 June 2021 $m	30 June 2020 $m
Impact on fair value of a 1% increase in discount rate	(598)	(602)
Impact on fair value of a 1% decrease in discount rate	668	674
Impact on fair value of a 1% increase in salary inflation[1]	109	109
Impact on fair value of a 1% decrease in salary inflation[1]	(113)	(114)

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 pass away 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.

Funding for Lending advances

	Actual 30 June 2021 $m	30 June 2020 $m
Funding for Lending Advances		
Nominal value	2,556	-
Accrued interest	2	-
Total Funding for Lending Advances	**2,558**	**-**
By maturity		
Expected to be repaid within one year	-	-
Expected to be outstanding for more than one year	2,558	-
Total Funding for Lending Advances	**2,558**	**-**
Movement During the Year		
Opening balance	-	-
Net new lending (including fees)	2,556	-
Accrued Interest	2	-
Closing Funding for Lending Advances	**2,558**	**-**

Advances by the Reserve Bank of New Zealand under the initial allocation (Tranche 1) of the Funding for Lending Programme are measured at amortised cost. Initially and subsequently reported at their face value, less an allowance for expected losses.

On 11 November 2020, the Reserve Bank announced that additional economic stimulus would be provided through the FLP. The FLP is designed to lower market interest rates by the Reserve Bank offering lending to financial institutions for three years at the Official Cash Rate (OCR). The borrowing rate will adjust over the term of the transaction if the OCR changes, whether up or down.

Access to FLP funding is available over a 2-year period from 7 December 2020 to 6 December 2022, subject to any extension by the Reserve Bank. A participant may access funding up to the value of its Funding Allocation (comprising an Initial Allocation and an Additional Allocation).

The Initial Allocation (FLP tranche 1) is available for the first 18 months from 7 December 2020 to 6 June 2022. The Additional Allocation (FLP tranche 2), based on the participant's lending growth, is available over the full 2-year period from 7 December 2020 to 6 December 2022. Under FLP tranche 2, in addition to being charged interest on FLP funding provided at the OCR, participants may also be charged a facility fee if the volume of their eligible loans decrease. No allocation of FLP tranche 2 has been undertaken as at 30 June 2021. For the purpose of the FLP, eligible loans mean gross resident loans and advances to households, non-financial businesses, and non-profit institutions serving households.

Note 16: Advances (continued)

Small business cashflow loans

	Note	Actual 30 June 2021 $m	30 June 2020 $m
Small Business Cashflow Loan Scheme			
Nominal value		1,609	1,423
Write-down on initial recognition, impairment and other fair value changes		(688)	(686)
Total small business cashflow loans		**921**	**737**
By maturity			
Expected to be repaid within one year		253	356
Expected to be outstanding for more than one year		668	381
Total small business cashflow loans		**921**	**737**
Movement During the Year			
Opening balance		737	-
Net new lending (including fees)		298	1,423
Initial write-down to fair value		(143)	(686)
Repayments		(112)	-
Interest Unwind	6	119	-
Fair value measurement		22	-
Closing Small Business Cashflow Loan Scheme		**921**	**737**

The SBCS is initially recognised 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 administered by Inland Revenue 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 two years, 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 2021	30 June 2020
Significant assumptions behind the carrying value are:		
Default rate - loans issued in 2020	29.5%	29.7%
Default rate - loans issued in 2021	29.4%	n/a
Discount rate	13.0%	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 2021	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 2020	205,689	57,835	47,668	39,410	17,481	6,393	5,157	5,194	3,079	6,906	16,566
Additions	10,762	621	4,383	1,818	128	295	61	658	33	836	1,929
Disposals	(1,101)	(158)	(192)	(16)	(19)	(71)	(3)	(4)	(9)	-	(629)
Net revaluations	16,131	12,190	3,852	1,464	415	-	(1,578)	-	84	(298)	2
Transfers from/(to) other asset classes	(258)	(177)	7	(10)	-	-	(26)	-	-	-	(52)
Other	11	(19)	(11)	-	3	(1)	-	-	-	2	37
Total gross carrying amount	**231,234**	**70,292**	**55,707**	**42,666**	**18,008**	**6,616**	**3,611**	**5,848**	**3,187**	**7,446**	**17,853**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2020	19,187	-	2,614	-	390	2,102	1,363	1,855	54	34	10,775
Eliminated on disposal	(636)	-	(34)	-	(2)	(23)	(1)	(3)	(8)	-	(565)
Eliminated on transfer to other asset classes	(56)	-	(7)	-	-	-	-	-	-	-	(49)
Eliminated on revaluation	(5,979)	-	(2,354)	(608)	(921)	-	(1,578)	-	(43)	(475)	-
Impairment losses charged to operating balance	(58)	-	(6)	-	-	-	(52)	-	-	-	-
Depreciation expense	5,566	-	1,988	608	563	219	268	348	27	479	1,066
Other	(6)	-	(1)	-	(1)	-	-	(1)	1	1	(5)
Total accumulated depreciation and impairment	**18,018**	**-**	**2,200**	**-**	**29**	**2,298**	**-**	**2,199**	**31**	**39**	**11,222**
Carrying value as at 30 June 2021	**213,216**	**70,292**	**53,507**	**42,666**	**17,979**	**4,318**	**3,611**	**3,649**	**3,156**	**7,407**	**6,631**
By holding											
Leasehold	1,492	-	334	-	2	-	1,112	-	-	-	44
Public Private Partnerships	4,249	243	1,842	2,156	-	-	-	-	-	-	8
Freehold (excluding PPP)	207,475	70,049	51,331	40,510	17,977	4,318	2,499	3,649	3,156	7,407	6,579
Carrying value as at 30 June 2021	**213,216**	**70,292**	**53,507**	**42,666**	**17,979**	**4,318**	**3,611**	**3,649**	**3,156**	**7,407**	**6,631**

The total amount of property, plant and equipment under construction is $6,415 million (2020: $4,990 million).

Note 17: Property, Plant and Equipment (continued)

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	**1,589**	1	327	-	2	-	1,177	-	45	-	37
Public Private Partnerships	**3,705**	338	1,417	1,950	-	-	-	-	-	-	-
Freehold (excluding PPP)	**181,208**	57,496	43,310	37,460	17,089	4,291	2,617	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 Te Pūkenga - New Zealand Institute of Skills and Technology.

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.

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

The useful lives of other categories of PPE are disclosed throughout this note where each class of asset is discussed.

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 Crown Entities has not been used as security for lending in 2021 (2020: $0). PPE owned by SOEs and mixed ownership companies has been pledged to secure borrowings and finance lease obligations of $2,792 million (2020: $2,914 million).

	Actual	
Property, plant and equipment revaluation reserve	**30 June 2021 $m**	**30 June 2020 $m**
Opening revaluation reserve	112,334	106,495
Net revaluations	22,539	5,233
Minority interest share of revaluation reserve	(431)	(57)
Transfers from/(to) taxpayer funds	(439)	663
Closing revaluation reserve	**134,003**	**112,334**
Class of Asset		
Land	59,295	47,102
Buildings	30,857	24,834
State highways	25,188	23,116
Electricity generation assets	12,999	12,120
Rail network	3,157	2,797
Specified cultural and heritage assets	1,524	1,353
Specialist military equipment	558	559
Other reserves	425	453
Closing revaluation reserve	**134,003**	**112,334**

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 88 to 89.

Note 17: Property, Plant and Equipment (continued)

Land and Buildings

30 June 2021	Actual Land $m	 Buildings $m	 Total $m
Housing stock	25,826	15,405	41,231
School property	7,106	17,299	24,405
State highway corridor land	18,469	14	18,483
Hospitals	1,635	6,927	8,562
Conservation estate	7,159	68	7,227
Rail network corridor land	3,802	-	3,802
Prisons and Department of Corrections	221	4,124	4,345
Defence Force land and buildings	1,047	2,749	3,796
Te Pūkenga - New Zealand Institute of Skills and Technology	458	1,512	1,970
Ministry of Justice land and buildings	244	967	1,211
Landcorp farmland and buildings	1,030	148	1,178
Fire Stations	411	488	899
Police stations	363	509	872
Other	2,521	3,297	5,818
Total land and buildings	**70,292**	**53,507**	**123,799**

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
Te Pūkenga - 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**

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.

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 2021 financial year.
School property, including land, early childhood centres and teacher housing	Quotable Value Limited	Valuations based on market evidence where available or optimised depreciated replacement cost (ODRC) for specialised assets or assets that would transfer ownership within limited property markets.	Independent valuation reviews are completed at least once every three years with the latest completed in the 30 June 2020 financial year. In the intervening years an indexed valuation is done.
State highway corridor land and held properties	Held property: Darroch Ltd Corridor land: Internal valuation Peer-reviewed by WSP	Land associated with the state highway corridor is valued based on rateable valuations of adjacent land adjusted by annual indexation. The valuation for held properties was determined by reference to prices in the property market unless it is a specialised asset, where ODRC was used.	A full valuation is completed on a rolling regional basis, with each region fully valued at least once every 9 years. The latest valuation and indexation was completed as at 30 June 2021.
Conservation estate (national parks, forest parks, conservation areas, reserves)	Internal valuation 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 2021. Independent valuer reviews are completed at least once every three years 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, 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 2021.
NZ Defence Force Land and Buildings	Beca Limited	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 2021.

Note 17: Property, Plant and Equipment (continued)

Carrying value of other asset classes subject to revaluation

State Highways (excluding land)

	Actual	
	30 June 2021 $m	**30 June 2020 $m**
Formation	16,425	15,919
Pavement (structure)	6,979	6,284
Pavement (surface)	1,347	1,093
Bridges	8,934	8,387
Drainage	2,247	1,775
Tunnels	2,191	2,191
Traffic facilities	1,709	1,515
Culverts and subways	648	706
Other structures	1,841	1,237
Miscellaneous[1]	345	303
Total state highways	**42,666**	**39,410**

1 Miscellaneous is made up of intelligent traffic systems (ITS), traffic management units, bailey bridges, sea and river protection structures.

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 tunnels, traffic facilities, culverts, subways and other structures.	WSP	State Highways are valued using the ODRC of the existing asset database.	The latest valuation was completed as at 30 June 2021.

The state highway net value increased by $3,370 million for the year ended 30 June 2021 mainly due to movement in the base unit rates reflecting the increased current costs of bridges, pavements and drainages construction and due to the capital expenditure of state highway projects.

WSP, an independent valuer, determined the valuation of the state highway as at 30 June 2021 by assigning replacement costs to the components of the state highway reported in the NZTA's databases as at 30 June 2020. The net capital expenditure for the year to 30 June 2021 was added to this data. The unit cost rates 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 and estimates effecting the state highway valuation are:

	30 June 2021	30 June 2020
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	$68	$69
$ per square metre cost in mountainous terrain	$127	$129
Pavement		
Asphalt ($/m2)	$22-$121	$19-$109
Structural asphalt concrete ($/m3)	$750-$808	-
Chipseal ($/m2)	$7-$8	$7-$8
Bridges		
Routine (single span) ($/m2)	$4,520	$4,262
Routine (multi span) ($/m2)	$3,694	$3,483
Motorway ramps ($/m2)	$5,541	$5,041

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 2021 $m	30 June 2020 $m
Increase in external professional fees by 10%	425	398
Increase in preliminary & general costs by 10%	1,053	971
Increase in formation unit costs by 10%	1,432	1,398
Increase in unit costs of bridges, culverts, pavements, railings and barriers by 10%	1,795	1,647
Increase in brownfield costs by 10%	198	174
Increase in price index by 10%	3,456	3,375

WSP 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 has concluded that the overall valuation is between -7.5% to +10% of the current state highways (excluding land) value (-$3,043 million to +$4,058 million).

Note 17: Property, Plant and Equipment (continued)

Electricity generation assets

	Actual 30 June 2021 $m	30 June 2020 $m
Meridian Energy	8,455	8,445
Mercury NZ	6,368	5,581
Genesis Energy	3,323	3,228
Inter segment eliminations	(167)	(163)
Total electricity generation assets	**17,979**	**17,091**

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 primarily on discounted cash flows (DCFs) and capitalisation of earnings to establish a valuation range on which the 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. The latest valuation was completed as at 30 June 2021.
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 2021.
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 was completed as at 30 June 2021.

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.

Note 17: Property, Plant and Equipment (continued)

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, future of the Tiwai Point aluminium smelter load 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.

Meridian Energy

Key input		Sensitivity range	Valuation impact on fair value of generation assets
Future NZ wholesale electricity prices	$42 MWh to $118 MWh by 2035 (in real terms)	+/- $3MWh	$442 million / ($442) million
New Zealand generation volume	13,059 GWh p.a. to 14,024 GWh p.a.	+/- 250 GWh	$234 million / ($234) million
Weighted Average Cost of Capital (WACC)	6.25% to 7.90%	+/- 5%	($693) million / $810 million

Genesis Energy

Key input		Sensitivity range	Valuation impact on fair value of generation assets
Wholesale electricity price path	$81/MWh to $190/MWh referenced to the Otahuhu 220KV location node from July 2021 to July 2041 (in nominal terms)	+/- 10%	$557 million / ($557) million
Generation volume	2,678 GWh to 7,628 GWh per annum, the low end of the range relates to periods where there is no thermal generation.	+/- 10%	$419 million / ($419) million
Discount rate	Pre-tax equivalent discount rate of 9.3%	+/- 1%.	($313) million / $402 million

Mercury NZ

Key input		Sensitivity range	Valuation impact on fair value of generation assets
Future wholesale electricity price path	$74/MWh to $180/MWh (in real terms)	+/- 10%	$1,044 million / ($1,044) million
Discount rate	Post-tax discount rate between 6.2% to 6.6%	+/- 0.5%	$(711) million / $892 million
Operating expenditure	$171 million p.a.	+/- 10%	($289) million / $289 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)

Rail network

Carrying value of the rail network

	Actual 30 June 2021 $m	30 June 2020 $m
Network required for freight	5,658	5,695
Network not required for freight (including metro)	870	858
Total rail infrastructure	**6,528**	**6,553**
Buildings	129	48
Capital work in progress	750	271
Total rail network	**7,407**	**6,872**

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 150 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.

Valuation information

Description	Valuer/Reviewer	Approach	Timing
Tunnels, bridges, rail, sleepers, electrification and other assets.	Rail network assets (other than buildings): Ernst & Young Buildings: Jones Lang LaSalle Limited	The rail network is valued using the ODRC of the existing asset database. 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.	A valuation of rail network is completed annually. The latest valuation was completed as at 30 June 2021. Buildings are valued at least once every three years with the latest completed as at 30 June 2020.

	Actual 30 June 2021 $m	30 June 2020 $m
Tunnels	2,094	2,083
Bridges	1,439	1,443
Rail (includes allowance for formation)	937	928
Sleepers	687	737
Electrification	594	600
Other	777	762
Total rail network	**6,528**	**6,553**

The rail network comprises approximately 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.

Note 17: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

	Actual 30 June 2021 $m	30 June 2020 $m
Te Papa	1,024	955
National Library	908	876
National Archives	595	548
Conservation	568	538
Other	61	108
Total specified cultural and heritage assets	**3,156**	**3,025**

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 a depreciable nature.

Valuation information

Description	Valuer/Reviewer	Approach	Timing
Te Papa collections	Art: Dunbar Sloane and Hamish Coney 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, Mataraunga Māori, Philatelic, Pacific and International and Photography Collections are valued 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 2021.
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 are completed at least once every three years with the latest 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 are completed at least once every three years with the latest 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 Stats NZ to estimate the change in asset values.	All asset classes were valued at fair value effective as at 30 June 2021.

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 Janes and NZDF Capability Subject Matter Experts.	Valued using an ODRC method.	Valuation completed at least once every five years with the latest valuation being as at 30 June 2021.

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 2021.

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 2021 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.

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 2021 $m	30 June 2020 $m
Transmission Gully State Highway	1,336	1,195
Puhoi to Warkworth State Highway	945	874
Education Assets	626	578
Waikeria Corrections Facility	644	392
Auckland Prison	348	338
Auckland South Corrections Facility	350	328
Total public private partnerships	**4,249**	**3,705**
Carrying value of assets by source		
Provided by private sector partner	3,918	3,367
Existing government assets	331	338
Total public private partnerships	**4,249**	**3,705**

Movements in carrying value for Public Private Partnerships

	Actual 30 June 2021 $m	30 June 2020 $m
Gross carrying amount		
Opening balance 1 July	3,756	2,978
Assets provided by private sector partner(s)	451	542
Existing Government assets	23	(11)
Net revaluations	38	(34)
Other	4	281
Total Gross Carrying Amount	**4,272**	**3,756**
Accumulated Depreciation and Impairment		
Opening balance 1 July	51	15
Eliminated on disposal	-	20
Eliminated on revaluation	(76)	(18)
Depreciation expense	48	34
Total accumulated depreciation	**23**	**51**
Carrying value as at 30 June	**4,249**	**3,705**

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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
12,051	12,094	Universities and Wānanga	12,554	12,637
977	958	City Rail Link Limited	903	548
1,177	1,110	Other	964	1,123
14,205	**14,162**	**Total equity accounted investments**	**14,421**	**14,308**

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 doing so, 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:

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
		Operating Results		
2,184	1,543	Revenue from Crown	1,513	3,544
2,347	2,280	Other revenue	2,497	2,839
(4,474)	(4,376)	Expenses	(4,377)	(5,205)
57	**(553)**	**Net surplus/(deficit)**	**(367)**	**1,178**
		Assets		
1,236	1,953	Financial assets	2,134	2,014
12,233	11,229	Property, plant and equipment	11,480	11,203
994	1,012	Other assets	1,069	1,630
14,463	**14,194**	**Total assets**	**14,683**	**14,847**
		Liabilities		
625	281	Borrowings	165	267
1,787	1,819	Other liabilities	1,964	1,943
2,412	**2,100**	**Total liabilities**	**2,129**	**2,210**
12,051	**12,094**	**Net worth**	**12,554**	**12,637**

The Universities and Wānanga net surplus declined in the year ended 30 June 2021 by $1,545 million from a $1,178 million surplus in 2019/20 to a $367 million deficit in 2020/21. This is due to Universities and Wānanga being provided with certainty of funding for the 2020 teaching calendar year regardless of domestic student numbers. This change resulted in the early recognition of the July to December 2020 funding of $581 million. In addition, the establishment of Te Pūkenga - New Zealand Institute of Skills and Technology (NZIST) on 1 April 2020 contributed to the variance as 16 former Institutes of Technology and Polytechnics (ITPs) are now line-by-line consolidated rather than equity accounted. ITPs contributed a surplus of $395 million in the 2019/20 financial year also due to the early recognition of funding.

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 $4,419 million, which will be confirmed once all the contracts are finalised. The Government's share of expected costs is $2,210 million.

For the year ended 30 June 2021, CRLL recognised revenue of $3 million (2020: $2 million), a deficit of $80 million (2020: $113 million), assets of $1,878 million (2020 $1,158 million), liabilities of $71 million (2020: $61 million) and equity of $1,807 million (2020: $1,097 million).

The Government's share of CRLL commitments is $838 million (2020: $579 million). The increase in commitments 2020/21 is due to the finalisation of C5 Western Line works, including connection of tunnels to existing live rail corridor environment and line-wide systems, and C7 rail systems integration, testing, and commissioning from Britomart to Mt Eden Station.

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 2021, NZLGFA recognised revenue of $377 million (2020: $370 million) and a surplus of $12 million (2020: $11 million). NZLGFA's assets were $14,485 million (2020: $13,174 million) and liabilities were $14,390 million (2020: $13,091 million). The Crown's share of the net assets is $19 million (2020: $17 million). The Crown is not a guarantor of the NZLGFA and has no share of any contingent liabilities of the NZLGFA.

Note 19: Payables

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
		By type		
12,017	10,880	Accounts payable	12,179	11,928
6,380	5,125	Taxes repayable	5,398	5,043
18,397	**16,005**	**Total payables**	**17,577**	**16,971**
		By maturity		
17,319	14,139	Expected to be settled within one year	16,040	15,741
1,078	1,866	Expected to be outstanding for more than one year	1,537	1,230
18,397	**16,005**	**Total payables**	**17,577**	**16,971**

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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		By type		
102,215	68,561	Government bonds	70,653	64,363
23,045	22,175	Kiwi Group Holdings customer deposits	21,700	20,583
66,839	38,791	Settlement deposits	29,466	23,027
10,461	7,526	Treasury bills	7,593	11,269
8,013	4,389	Derivatives in loss	5,056	5,567
3,693	3,656	Public private partnership liability	3,474	3,082
1,237	1,484	Finance lease liabilities	1,307	1,495
164	214	Government retail stock	182	242
22,497	26,431	Other borrowings	23,129	23,089
238,164	**173,227**	**Total borrowings**	**162,560**	**152,717**
		By maturity		
107,914	79,806	Due to or expected to be settled within one year	69,095	76,227
130,250	93,421	Expected to be outstanding for more than one year	93,465	76,490
238,164	**173,227**	**Total borrowings**	**162,560**	**152,717**
		By guarantee		
192,064	125,571	Sovereign-guaranteed debt	117,641	109,547
46,100	47,656	Non-sovereign debt	44,919	43,170
238,164	**173,227**	**Total borrowings**	**162,560**	**152,717**

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 occur only 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 necessarily 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 2022 and on this basis, are classified as "current".

Government Bonds

Government bonds are measured at amortised cost.

The fair value of Government bonds measured at amortised cost is $74,374 million (2020: $76,830 million). This valuation is based on observable market prices at 30 June 2021. The difference in value is due to a reduction in market rates since the bonds were issued, increasing the value of the bonds.

New Zealand Government bonds are rated Aaa by Moody's, AAA by S&P and AA+ by Fitch. The rating outlook is stable with all three. In February 2021, the S&P Global Rating was upgraded to a AAA rating.

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

Note 20: Borrowings (continued)

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). In order to 'settle' these transactions, banks hold settlement accounts at the Reserve Bank. The Government also holds an account at the Reserve Bank, called the Crown Settlement Account (CSA) that as at 30 June 2021 was $39,023 million (2020: $18,159 million). For the consolidation of the Government financial statements the CSA is eliminated, however the Reserve Bank can apply the funds received from CSA to implement alternative monetary tools such as LSAP and FLP.

The Exchange Settlement Account System (ESAS) is used to transfer funds between banks and the government at the end of each day. As with currency in circulation, settlement deposits are usually considered part of the supply of money and are administered through the ESAS. 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 $21,712 million (2020: $20,346 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.

Public–private partnership liability

A public private partnership (also known as a service concession arrangement) is an arrangement between the Government 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 as 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 Government has entered into a number of public–private partnership agreements either to construct and operate (eg, selected state highways and correction facilities) or to only construct (eg, selected school buildings) as listed in 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 Government 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.

Note 20: Borrowings (continued)

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 2021 $m	30 June 2020 $m
Other borrowings measured at amortised cost	18,817	19,055
Other borrowings measured at fair value	4,312	4,034
Total other borrowings	**23,129**	**23,089**

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 include $4,196 million (2020: $4,138 million) of sovereign-guaranteed debt administered by the Reserve Bank and the Treasury.

The fair value of other borrowings measured at amortised cost is $20,012 million (2020: $19,116 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.

	Actual 30 June 2021 $m	30 June 2020 $m
Other borrowings measured at fair value		
Carrying value	4,312	4,034
Amount payable on maturity	3,292	3,484
Fair value impact from changes in credit risk for the year	(39)	(9)
Cumulative fair value impact from changes in credit risk	33	73

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, $4,221 million (2020: $3,678 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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
12,246	12,711	Government Superannuation Fund (GSF)	11,038	13,970
18	14	Other funds	-	13
12,264	**12,725**	**Total retirement plan liabilities**	**11,038**	**13,983**

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 2021 and involves projecting the benefits payable in future to members and their dependants. Benefits are payable on retirement, death, leaving service, ill health or on withdrawal from the Fund and are calculated using membership data at the valuation date. The amount of the entitlement typically depends on the length of membership, the level of salary over time and subsequent pension increases (in the case of the pension entitlements). There are 4,032 (2020: 4,512) members and 46,042 (2020: 46,835) pensioners in the scheme. Amounts recognised in the statement of financial position in respect of GSF are as follows:

	Actual 30 June 2021 $m	Actual 30 June 2020 $m
Net GSF Obligation		
Present value of defined benefit obligation	16,240	18,238
Fair value of plan assets	(5,202)	(4,268)
Present value of unfunded defined benefit obligation	**11,038**	**13,970**
Present value of defined benefit obligation		
Opening defined benefit obligation	18,238	17,692
Expected current service cost [3]	63	66
Expected unwind of discount rate [4]	39	218
Actuarial losses/(gains) arising from changes in financial assumptions	(1,188)	1,090
Actuarial losses/(gains) arising from changes in demographic assumptions and experience adjustments	-	73
Benefits paid	(912)	(901)
Closing defined benefit obligation	**16,240**	**18,238**
Fair value of plan assets		
Opening fair value of plan assets	4,268	4,531
Expected interest on plan assets [1, 2, 4]	9	57
Actuarial gains/(losses) [2]	1,137	(108)
Funding of benefits paid by Government	736	696
Contributions from other entities [3]	13	15
Contributions from members [3]	18	21
Benefits paid	(912)	(901)
Other [3]	(67)	(43)
Closing fair value of plan assets	**5,202**	**4,268**

1 This is 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 is calculated at the risk-free rate of return.

3 These amounts are recorded as personnel expenses in the statement of financial performance (refer Note 9).

4 These amounts are offset and recorded as interest expense in the statement of financial performance (refer Interest unwind on provisions and other interest in Note 6).

Note 21: Retirement Plan Liabilities (continued)

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

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
		Actuarial losses/(gains) arising from changes in financial assumptions	(1,188)	1,090
		Actuarial losses/(gains) arising from changes in demographic assumptions and experience adjustments	-	73
		Experience (gain)/loss on plan assets	(1,137)	108
181	**635**	**Total revaluations on defined benefit retirement plan scheme**	**(2,325)**	**1,271**

A contribution of $772 million (2020: $737 million) is expected to be made to the GSF in the year ended 30 June 2022.

The principal assumptions used to project the benefits payable in the future are financial assumptions (eg, inflation and salary growth) and demographic assumptions (eg, pensioner mortality). Pension increases are linked to expected increases in the Consumer Price Index. Projected benefit payments are discounted back to the valuation date using the market yield curve of New Zealand Government bonds as set out on the Treasury's central table of risk-free discount rates (refer to Note 2 *Assumptions and Judgements* for the relevant discount rates and CPI assumptions used). The salary growth assumption adopted is a flat salary increase of 2.5% p.a. (2020: 2.5% p.a.).

The defined benefit obligation decreased in the year to 30 June 2021 by $1,998 million, mainly due to an increase in the discount rates and strong investment returns. This was partially offset by an increase in the CPI assumptions.

The major categories of GSF plan assets at 30 June 2021 are as follows:

	Actual 30 June 2021 $m	Actual 30 June 2020 $m
Equity instruments	3,894	2,754
Other debt instruments	317	179
Cash and short term investments	450	482
Insurance linked securities	334	419
Derivatives	14	146
Other	193	288
Fair value of plan assets	**5,202**	**4,268**

The expected rate of return on the plan assets is 5.0% (2020: 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 2021 was 27.5% (net of tax on investment income), or $1,146 million (2020: -1.1% or -$51 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. The plan's assets are exposed to share price risks arising from its holding of equity instruments. The sensitivity analysis below has been determined based on whether the discount rate or inflation assumption were to change in isolation and on GSF's exposure to share price risks at the reporting date.

Note 21: Retirement Plan Liabilities (continued)

	Impact on net GSF obligation Change	Actual 30 June 2021 $m	30 June 2020 $m
Sensitivity of assumptions			
Discount rate (present value of the obligation)	+ 1%	(1,648)	(2,058)
	- 1%	1,986	2,519
Expected rate of inflation	+ 1%	1,841	2,312
	- 1%	(1,571)	(1,940)
Share price (fair value of equity instruments)	+ 10%	(389)	(275)
	- 10%	389	275

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $16,240 million (2020: $18,238 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 post 30 June 2021. These estimated cash flows include the effects of assumed future inflation.

	30 June 2021 $m	30 June 2020 $m
No later than 5 years	4,618	4,553
Later than 5 years and no later than 10 years	4,421	4,335
Later than 10 years and no later than 15 years	3,978	3,900
Later than 15 years and no later than 20 years	3,298	3,232
Later than 20 years and no later than 25 years	2,519	2,466
Later than 25 years and no later than 30 years	1,762	1,725
Later than 30 years and no later than 35 years	1,112	1,092
Later than 35 years and no later than 40 years	621	615
Later than 40 years and no later than 45 years	296	299
Later than 45 years and no later than 50 years	114	119
Later than 50 years	34	42
Undiscounted defined benefit obligation	**22,773**	**22,378**

Note 22: Provisions

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		By type		
4,888	5,848	Provision for employee entitlements	6,363	5,535
3,500	3,507	Veterans' disability entitlements	3,036	3,483
3,502	5,255	Provision for Emission Trading Scheme credits	5,824	3,804
763	777	Provision for National Provident Fund guarantee	762	857
-	-	Aircraft Lease Return Costs	275	303
2,718	3,066	Other provisions	2,827	2,502
15,371	**18,453**	**Total provisions**	**19,087**	**16,484**
		By longevity		
4,666	6,374	Expected to be settled within one year	7,197	6,002
10,705	12,079	Expected to be outstanding for more than one year	11,890	10,482
15,371	**18,453**	**Total provisions**	**19,087**	**16,484**

Provisions are liabilities of uncertain amount and timing. Government commitments and targets that are subject to ongoing policy decisions are not reported as provisions. Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond 12 months are recorded at the present value of their estimated future cash outflows.

For the year ended 30 June 2021	Employee entitlements $m	ETS $m	NPF guarantee $m	Aircraft lease return costs $m	Other $m
Opening Provision	5,535	3,804	857	303	2,502
Additional Provision	2,411	1,274	-	34	1,974
Provision Utilised	(1,084)	(529)	(69)	(11)	(1,536)
Reversal of previous provision	(485)	-	(48)	(30)	(143)
(Gains) / Losses on NZ Units	-	1,489	-	-	-
Other Movements	(14)	(214)	22	(21)	30
Closing Provision	**6,363**	**5,824**	**762**	**275**	**2,827**

For the year ended 30 June 2020	Employee entitlements $m	ETS $m	NPF guarantee $m	Aircraft lease return costs $m	Other $m
Opening Provision	4,582	2,884	879	268	1,751
Additional Provision	1,570	650	-	110	1,441
Provision Utilised	(496)	(827)	(74)	(76)	(804)
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**	**2,502**

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 0.38% (2020: 0.22%) next year to 4.30% in 30 years’ time (2020: 4.30% in 62 years’ time) (note 2).

Note 22: Provisions (continued)

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. The health entities (District Health Boards) have recognised a Holidays Act 2003 provision; the indicative potential range for the liability is between $1,400 million and $1,500 million (2020: between $1,000 million and $1,100 million). To the extent that an obligation cannot reasonably be quantified at 30 June 2021, an unquantified contingent liability has been disclosed in note 26.

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 2021 $m	**30 June 2020 $m**
Veterans' disability entitlements		
Veterans' support entitlements	1,451	1,692
Veterans' independence programme entitlements	939	1,018
Assessments, treatments and rehabilitation obligations	646	773
Total veterans' disability entitlements	**3,036**	**3,483**
Veterans' disability entitlements		
Opening value of entitlements	3,483	3,228
Current service costs	5	16
Past service costs	89	-
Unwind of discount rate	8	41
Benefit payments	(113)	(113)
Actuarial (gains)/losses arising from changes in demographic assumptions	78	61
Actuarial (gains)/losses arising from changes in financial assumptions	(518)	277
Actuarial (gains)/losses - liabilities	4	(27)
Closing value of veterans' disability entitlements	**3,036**	**3,483**

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.

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 assessments, treatments and rehabilitation (ATR) and veterans' independence programme (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% (2020: 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 Stats NZ. 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.

In 2021, $102 million (2020: $57 million) has been recognised in the statement of financial performance in relation to disability entitlements.

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

		Impact on Veterans' Liability Actual	
Sensitivity of assumptions	**Change**	**30 June 2021 $m**	**30 June 2020 $m**
Utilisation Rates	No increase	(403)	(430)
Discount Rate (present value of the obligation)	+1% p.a	(446)	(595)
	-1% p.a	599	821
Inflation Rate	+1% p.a	599	821
Change in mortality	+ 2 years	(334)	(406)
	- 2 years	360	439

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

	30 June 2021 $m	**30 June 2020 $m**
Net revaluations of veterans disability entitlements		
Actuarial gains/(losses) arising from changes in demographic assumptions	(78)	(61)
Actuarial gains/(losses) arising from changes in financial assumptions[1]	518	(277)
Actuarial gains/(losses) - liabilities	(4)	27
Total veterans' entitlements other comprehensive revenue and expense	**436**	**(311)**

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

Note 22: Provisions (continued)

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. Emitters can meet their emissions obligations by surrendering NZUs they hold, or by purchasing units from the Government directly at a fixed price of $35 per unit (known as the fixed price option, or FPO) before immediately surrendering them or through ETS auctions. NZUs purchased through Government auctions or FPO result in cash receipts for the Crown. The carbon price used to calculate the ETS provision at 30 June 2021 is $43.45 (2020: $32.10). The carbon price used is determined by the quoted NZU spot price at the end of the reporting date as published by Jarden Securities Limited (previously OM Financial Limited) on their website: https://commtrade.co.nz.

The ETS provision at 30 June 2021 has increased by $2,020 million compared to the previous year. This is primarily driven by the increase in the carbon price used to value the provision ($43.45 at 30 June 2021 compared to $32.10 at 30 June 2020). In addition, the 2020/21 financial year is the first in which Government auctions took place to sell NZUs to ETS market participants. These auctions result in cash inflow to the Crown and an increase to the ETS provision, as the number of NZUs in circulation increases. In addition, with the price of NZUs being above $35 for much of the year, emitters have chosen to utilise the FPO reducing the number of units surrendered to the Government.

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 defined benefit plan annuitants scheme unfunded liability position of $762 million (2020: $857 million), represented by a gross estimated pension obligation of $801 million (2020: $896 million) with net investment assets valued at $39 million (2020: $39 million).

Other Provisions

Other provisions include 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 $305 million has been calculated based on the limited data available. The liability will be recalculated periodically, as information to estimate the forecast payments improves.

Other provisions also include $79 million (2020: $20 million) relating to the Business Finance Guarantee Scheme. The Crown has established a Business Finance Guarantee Scheme with a number of lenders to support New Zealand businesses facing hardship as a consequence of COVID-19 or to help businesses recover from the impact of COVID-19. Under this scheme, the Crown has indemnified approved lenders for an amount equal to 80% of the shortfall that arises in relation to a supported loan in default. As these indemnities are financial guarantee contracts, the fair value of the contract, and the expense arising, has been quantified and incorporated into these financial statements. The actual call on the indemnity is unquantifiable, as it will depend on the default rates actually incurred across the portfolio.

Note 23: Minority Interests

2021 Forecast at			Actual	
Budget 2020 $m	Budget 2021 $m		30 June 2021 $m	30 June 2020 $m
		Net Worth Attributable to Minority Interests		
5,925	5,623	Opening minority interest	5,623	6,390
76	219	Operating balance attributable to minority interests	117	(402)
(539)	(359)	Transactions with minority interests	(387)	(426)
8	(215)	Movement in reserves attributable to minority interests	366	49
1	5	Other movements	5	12
5,471	**5,273**	**Closing minority interest**	**5,724**	**5,623**
		Consisting of interests in:		
		Meridian Energy	2,383	2,341
		Mercury NZ	1,880	1,662
		Air New Zealand	462	618
		Genesis Energy	956	959
		Other	43	43
		Closing minority interest	**5,724**	**5,623**
		Minority share of Operating Balance		
		Meridian Energy	196	81
		Mercury NZ	69	91
		Air New Zealand	(155)	(623)
		Genesis Energy	6	22
		Other	1	27
		Operating balance attributable to minority interests	**117**	**(402)**

Transactions with minority interests include items such as dividend payments and dividend reinvestments. Other minority interests consist 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 161 and information about their financial position is included on page 163.

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 20 May 2021.

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 2021 $m	30 June 2020 $m
Capital Commitments		
State highways[1]	2,745	2,979
Aircraft (excluding military)	2,568	2,907
Specialist military equipment	2,598	2,677
Land and buildings	6,044	5,395
Other property, plant and equipment	1,863	926
Other capital commitments	193	334
Share of capital commitments from joint venture (CRLL)	838	799
Universities and Wānanga	875	400
Total capital commitments	**17,724**	**16,417**
Operating Lease Commitments		
Non-cancellable accommodation leases	5,342	5,095
Other non-cancellable leases	3,866	3,969
Universities and Wānanga	1,137	1,084
Total operating lease commitments	**10,345**	**10,148**
Total commitments	**28,069**	**26,565**
By source		
Core Crown	14,090	13,949
Crown entities	9,063	7,855
State-owned Enterprises	6,896	6,646
Inter-segment eliminations	(1,980)	(1,885)
Total commitments	**28,069**	**26,565**
By Term		
Capital Commitments		
One year or less	8,616	6,829
From one year to two years	4,072	3,103
From two to five years	4,407	5,209
Over five years	629	1,275
Total capital commitments	**17,724**	**16,417**
Operating Lease Commitments		
One year or less	1,518	1,500
From one year to two years	1,099	1,247
From two to five years	2,130	2,109
Over five years	5,598	5,292
Total operating lease commitments	**10,345**	**10,148**
Total commitments	**28,069**	**26,565**

1 A restatement to the 2019/20 state highway network capital commitments of $1,809 million has been made to reflect the contracted work remaining.

2 Other capital commitments exclude commitments to provide loans and capital funding. This is included in note 27, Financial Instruments. A reclassification has been made to the prior year commitments note to reclassify $561 million of loan and capital funding commitments which is now included in note 27.

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 Government 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 for contingencies within the core Crown, 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 2021 where they are expected to be material but not remote. Where there is an obligation and a reliable estimate can be made, amounts have been recognised in the financial statements.

Note 26: Contingent Liabilities and Contingent Assets (continued)

Contingent Liabilities

	Actual 30 June 2021 $m	30 June 2020 $m
Quantifiable Contingent Liabilities		
Uncalled capital	8,568	8,384
Guarantees and indemnities	348	263
Legal proceedings and disputes	313	491
Other quantifiable contingent liabilities	567	485
Total quantifiable contingent liabilities	**9,796**	**9,623**
By source		
Core Crown	9,538	9,453
Crown entities	157	89
State-owned Enterprises	196	210
Inter-segment eliminations	(95)	(129)
Total quantifiable contingent liabilities	**9,796**	**9,623**

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 2021 $m	30 June 2020 $m
Asian Development Bank	3,157	3,315
International Monetary Fund - promissory notes	1,862	2,058
International Bank for Reconstruction and Development	1,637	1,724
International Monetary Fund - arrangements to borrow	1,366	693
Asian Infrastructure Investment Bank	527	575
Other uncalled capital	19	19
Total uncalled capital	**8,568**	**8,384**

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 the 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 2021 $m	**30 June 2020 $m**
New Zealand Export Credit Office guarantees	181	127
Share of OECD employee benefits	54	44
Screen Sector Indemnity Scheme	39	-
Air New Zealand letters of credit	22	34
Other guarantees and indemnities	52	58
Total guarantees and indemnities	**348**	**263**

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

The New Zealand Government 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 €6.576 billion on the OECD Balance Sheet. ($54 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.

Screen Sector Indemnity Scheme – Ministry for Culture and Heritage

The Government has indemnified eight domestic screen productions to support the functioning of the domestic film industry during the COVID-19 pandemic. The indemnity can be called upon in agreed conditions where a COVID-19 event causes delay or abandonment of a production.

Air New Zealand letters of credit

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.

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 2021 $m	30 June 2020 $m
Legal tax proceedings	160	189
New Zealand Transport Agency - Contractual disputes	84	80
Other legal proceedings and disputes	69	222
Total legal proceedings and disputes	**313**	**491**

Legal tax proceedings

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

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.

Note 26: Contingent Liabilities and Contingent Assets (continued)

Other quantifiable contingent liabilities

	Actual	
	30 June 2021 $m	30 June 2020 $m
Unclaimed monies	186	183
Ministry for Primary Industries	127	132
Air New Zealand partnership	100	70
Transpower - Economic gains	72	80
Other contingent liabilities	82	20
Total other contingent liabilities	**567**	**485**

Unclaimed monies

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

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 biosecurity responses for incursions including Bonamia ostraea, as well as claims for losses incurred following the destruction of bud-stock, known as the Post Entry Quarantine (PEQ) response. While these claims can be quantified, they do not meet the tests for recognising a provision.

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.

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 actual 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.

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.*

Note 26: Contingent Liabilities and Contingent Assets (continued)

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.

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. Such funding may be provided by means of an advance or a grant. As the contingency has no end date, it is not possible to quantify the value of commitments that may arise from past or future natural hazard events which are covered by the Earthquake Commission Act 1993.
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.

Note 26: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 - National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, 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.
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
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 losses which the Reserve Bank incurs in respect of Indemnified Bonds under the Large Scale Asset Purchase (LSAP) Programme. The indemnity was amended and restated several times, and the current indemnity came into effect on 12 August 2020. The Crown may terminate its obligations under this letter of indemnity at any time after 31 August 2022 (Termination Date) by giving one day's notice to the Reserve Bank. Otherwise, obligations under this letter of indemnity may be terminated by agreement between the Crown and the Reserve Bank if they both believe the Programme is no longer needed as a monetary policy tool. Termination of this indemnity will not release the Crown from any liability in respect of losses occurring after the termination date in respect of the Indemnified Bonds. Indemnified Bonds means all New Zealand domestic nominal government bonds, inflation-indexed government bonds and Local Government Funding Agency bonds purchased by the Reserve Bank under the LSAP programme prior to the Termination Date, including the reinvestments of maturing bonds up to the Cap. As at 12 August 2020, the cap means 60% of the face value of all New Zealand government nominal bonds on issue on the date of purchase; 30% of the face value of all New Zealand government inflation-indexed bonds on issue on the date of purchase; and 30% of the face value of all LGFA bonds on issue on the date of purchase of any LGFA bonds, or such amount agreed between the Minister and the Reserve Bank from time to time.
Southern Response Earthquake Services Limited (SRES)	Deed of Indemnity	SRES continues to settle the claims of AMI residential policyholders for Canterbury earthquake damage which occurred before 5 April 2012. However, many of the remaining claims are also complex or are otherwise challenging to settle through the normal internal process or with external assistance such as mediation. In light of litigation that has arisen, the Minister of Finance provided SRES with a Deed of Indemnity for certain litigation on 25 September 2018. Claims covered by this indemnity were extended on 11 December 2020 to include those settled by the company in connection with the package agreed by the Government on 7 December 2020.

Note 26: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master Agreement	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited was entered into on 24 September 2015. The Crown has indemnified Westpac New Zealand Limited: • 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.

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, but also occasionally includes general civil proceedings such as judicial review applications. The majority of appeals are able to be managed on a case by case basis, depending on the merit of the issue in dispute, and without wider ACC Scheme management impact.

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 Crown’s potential obligations.

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 for incursions including Mycoplasma Bovis. The contingent liability resulting from the Mycoplasma Bovis outbreak remains unquantified. This is due to the Ministry for Primary Industries being unable to reliably estimate the period of time losses will be incurred as a result of its actions under the Biosecurity Act 1993.

Note 26: Contingent Liabilities and Contingent Assets (continued)

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 Te Pūkenga – New Zealand Institute of Skills and Technology, 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.

Proprietors of 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 victims of sexual violence and abuse who suffer mental injury support (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 ACC's Outstanding Claims Liability (OCL). 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 OCL 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.

Holidays Act compliance

A number of entities are undertaking or have recently 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).

Note 26: Contingent Liabilities and Contingent Assets (continued)

Pay Equity Claims

A number of claims have been raised in relation to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value) and further claims may be raised following the Equal Pay Amendment Act 2020 coming in to force in November 2020. As the costs cannot be reliably measured at this time, they are disclosed as an unquantified contingent liability.

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 uncertainty on how various disputes, concerning the interpretation of the mechanism, will be resolved. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

Contingent Assets

	Actual	
	30 June 2021 $m	30 June 2020 $m
Contingent assets		
Tax disputes	27	9
Callaghan repayable grants	21	19
Other contingent assets	10	17
Total contingent assets	**58**	**45**
By source		
Core Crown	37	17
Crown entities	21	28
State-owned Enterprises	-	-
Total quantifiable contingent assets	**58**	**45**

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

Tax disputes

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

Callaghan Innovation repayable grants

Incubator grants are repayable once the grant recipient's business produces commercial revenue. A percentage of the commercial revenue generated is payable to Callaghan Innovation as repayment of the outstanding loan each year until the loan is repaid. These grants commenced in 2014/15 and given the long-term nature of the investments being made, there is limited information available to date that would allow the Group to assess the timing, likelihood and quantum of any future repayments.

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, Inland Revenue, 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 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 capital markets.

- Central bank purposes. Held for the Reserve Bank's foreign reserve management, market operations and monetary policy functions. 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 each 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 and liabilities in Investment Statements.

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

- Non-derivative financial instrument policies (pages 128 to 130)

- Classification of financial assets and financial liabilities (pages 131 to 132)

- Fair value measurement (pages 132 to 133)

- Derivative disclosures (pages 134 to 135)

- Risk management (pages 135 to 139), and

- Sensitivity analysis (pages 139 to 140).

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	Fair value through the operating balance
Kiwi Group Holdings loans and advances	Amortised cost
Concessionary loans • Student loans • Small business cashflow loans	Fair value through operating balance
Funding for lending advances	Amortised cost for the initial allocation and at fair value through the operating balance for the additional allocation
Other advances	Generally measured at fair value through the operating balance with a small portion recognised under 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 a duration 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.

Note 27: Financial Instruments (continued)

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.

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
Issued currency	Not designated: Recognised at face value
Accounts payable	Amortised cost
Government bonds	Amortised cost
Kiwi Group Holdings customer deposits	Amortised cost
Settlement deposits	Amortised cost
Treasury bills	Amortised cost
Finance lease liabilities	Amortised cost
Government retail stock	Amortised cost
Public private partnership liability	Amortised cost
Other borrowings	Generally measured at amortised cost with a small portion recognised under fair value through the operating balance

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 2021 $m	30 June 2020 $m
By class			
Cash and cash equivalents		18,755	21,927
Reinsurance, trade and other receivables	13	6,199	6,393
Marketable securities	14	44,687	45,858
Long-term deposits	14	5,108	5,443
Derivatives in gain	14	4,509	7,166
IMF financial assets	14	2,479	2,538
Share investments	15	48,539	33,791
Investments in controlled enterprises	15	4,718	4,220
Kiwi Group Holdings loans and advances	16	25,155	22,189
Student loans	16	10,841	10,395
FLP advances	16	2,558	-
Small business cashflow loans	16	921	737
Other advances	16	6,137	4,308
Total financial assets		**180,606**	**164,965**
By valuation methodology			
Amortised cost		61,409	60,030
Fair value			
Fair value through the operating balance		118,134	103,844
Fair value through the other comprehensive revenue and expenses		1,063	1,091
Total financial assets at fair value		**119,197**	**104,935**
Total financial assets		**180,606**	**164,965**

As at 30 June 2021, the carrying value of financial assets that had been pledged as collateral was $974 million (2020: $2,322 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 2021 and that require collateral to be posted as per the terms. The decrease 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 2021 $m	30 June 2020 $m
By class			
Issued currency		8,256	8,022
Accounts payable	19	12,179	11,928
Borrowings:	20		
Government bonds		70,653	64,363
Settlement deposits with Reserve Bank		29,466	23,027
Kiwi Group Holdings customer deposits		21,700	20,583
Treasury bills		7,593	11,269
Derivatives in loss		5,056	5,567
Public private partnership liability		3,474	3,082
Finance lease liabilities		1,307	1,495
Government retail stock		182	242
Other borrowings		23,129	23,089
Total borrowings		**162,560**	**152,717**
Total financial liabilities		**182,995**	**172,667**
By valuation methodology			
Amortised cost		173,627	163,066
Fair value			
Held for trading		5,056	5,567
Fair value through the operating balance		4,312	4,034
Total financial liabilities at fair value		**9,368**	**9,601**
Total financial liabilities		**182,995**	**172,667**

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 2021 $m	Actual 30 June 2020 $m
Financial assets		
Quoted market price	62,617	53,492
Observable market inputs	36,098	32,800
Significant non-observable inputs	20,482	18,643
Total financial assets at fair value	**119,197**	**104,935**
Financial liabilities		
Quoted market price	92	30
Observable market inputs	8,819	9,415
Significant non-observable inputs	457	156
Total financial liabilities at fair value	**9,368**	**9,601**
Net financial instruments at fair value	**109,829**	**95,334**

Significant non observable inputs

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

	Actual 30 June 2021 $m	Actual 30 June 2020 $m
Financial assets	20,482	18,643
Financial liabilities	457	156
Net financial instruments	**20,025**	**18,487**
Opening balance	18,487	16,918
Total gains/(losses) recognised in the statement of financial performance	1,125	13
Total gains/(losses) recognised in the statement of comprehensive revenue and expense	(218)	31
Purchases	932	1,467
Sales	(83)	(13)
Issues	46	38
Settlements	(558)	(348)
Concessionary Loan movement during the year	630	401
Transfers into and out of non-observable inputs	(336)	(20)
Closing balance	**20,025**	**18,487**

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 2021			Carrying Value As at 30 June 2020		
	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	681	1,223	(542)	1,755	580	1,175
Cross currency swaps	737	492	245	977	898	79
Interest rate swaps	1,616	2,087	(471)	2,474	3,134	(660)
Futures	34	27	7	36	19	17
Other derivatives	1,441	1,227	214	1,924	936	988
Total derivatives	**4,509**	**5,056**	**(547)**	**7,166**	**5,567**	**1,599**

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

	Notional Value As at 30 June 2021			Notional Value As at 30 June 2020		
	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	50,354	62,754	113,108	68,372	33,600	101,972
Cross currency swaps	8,870	9,232	18,102	8,982	10,121	19,103
Interest rate swaps	40,309	48,414	88,723	39,019	50,763	89,782
Futures	2,974	7,196	10,170	5,322	6,509	11,831
Other derivatives	15,230	14,873	30,103	19,298	13,246	32,544
Total derivatives	**117,737**	**142,469**	**260,206**	**140,993**	**114,239**	**255,232**

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.

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

As at 30 June 2021	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	120,489	108,423	1,536	6,467	4,056	7
- outflow	(120,797)	(108,882)	(1,505)	(6,343)	(4,064)	(3)
Total settled gross	(308)	(459)	31	124	(8)	4
Derivatives in loss settled net	3,219	1,106	607	1,084	296	126

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

Risk Management

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:

	Actual	
	30 June 2021 $m	**30 June 2020 $m**
Financial Assets (excluding derivatives)		
New Zealand Dollar	78,989	62,959
United States Dollar	43,299	34,030
Yen	7,916	13,006
Euro	9,084	9,938
Other	36,809	37,866
Total financial assets (excluding derivatives)	**176,097**	**157,799**
Financial Liabilities (excluding derivatives)		
New Zealand Dollar	165,733	152,477
United States Dollar	7,012	9,719
Yen	996	1,257
Euro	1,625	1,203
Other	2,573	2,444
Total financial liabilities (excluding derivatives)	**177,939**	**167,100**
Derivatives in gain/(loss)		
New Zealand Dollar	52,342	56,286
United States Dollar	(25,252)	(21,906)
Yen	(6,799)	(13,085)
Euro	(6,791)	(9,369)
Other	(14,047)	(10,327)
Total derivatives	**(547)**	**1,599**
Net Financial Assets/(Liabilities)		
New Zealand Dollar	(34,402)	(33,232)
United States Dollar	11,035	2,405
Yen	121	(1,336)
Euro	668	(634)
Other	20,189	25,095
Net Financial Assets/(Liabilities)	**(2,389)**	**(7,702)**

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 2021, the fair value of collateral held that could be sold or repurchased was $30,974 million (2020: $25,183 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 is provided below.

Kiwi Group Holdings loans and advances consist mainly of residential lending. 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 2021	Total $m	AAA $m	AA $m	A $m	Other $m	Non-rated $m
Cash and cash equivalents	**18,755**	1,927	12,239	4,483	31	75
Reinsurance, trade and other receivables	**6,199**	429	382	1,635	493	3,260
Marketable securities	**44,687**	17,573	12,276	4,734	4,633	5,471
Long-term deposits	**5,108**	-	3,966	1,079	8	55
Derivatives in gain	**4,509**	(59)	1,779	2,246	103	440
IMF financial assets	**2,479**	-	-	-	2,479	-
Share investments	**48,539**	1,966	5,592	8,736	11,086	21,159
Investments in controlled enterprises	**4,718**	-	-	-	-	4,718
Kiwi Group Holdings loans and advances	**25,155**	-	-	-	-	25,155
Student loans	**10,841**	-	-	-	-	10,841
FLP advances	**2,558**	16	2,502	-	-	40
Small business cashflow loans	**921**	-	-	-	-	921
Other advances	**6,137**	278	1,067	700	1,098	2,994
Total credit exposure by credit rating	**180,606**	**22,130**	**39,803**	**23,613**	**19,931**	**75,129**

Note 27: Financial Instruments (continued)

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
Reinsurance, trade and other receivables	**6,393**	11	386	1,559	1,182	3,255
Marketable securities	**45,858**	18,301	15,690	4,005	3,763	4,099
Long-term deposits	**5,443**	1	4,047	1,262	85	48
Derivatives in gain	**7,166**	-	3,085	3,710	97	274
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
FLP advances	**-**	-	-	-	-	-
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**

Concentrations of credit exposure classified by geographical region and industry is provided below.

	Actual 30 June 2021 $m	Actual 30 June 2020 $m
Financial Assets		
Concentration of credit exposure by geographical area		
New Zealand	80,408	65,892
USA	41,233	34,358
Europe	18,931	20,677
Japan	8,860	13,956
Australia	13,444	12,815
Other	17,730	17,267
Total financial assets	**180,606**	**164,965**
Concentration of credit exposure by industry		
Individuals	36,337	32,905
Sovereign issuers	23,571	35,502
New Zealand banking	24,438	16,006
Foreign banking	13,597	16,800
Supranational	5,864	4,852
Other	76,799	58,900
Total financial assets	**180,606**	**164,965**

At 30 June 2021, 15.4% (2020: 15.6%) of student loan borrowers were overseas. As the total advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk.

Note 27: Financial Instruments (continued)

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.

	Actual	
Financial Liabilities (excluding derivatives)	**30 June 2021 $m**	**30 June 2020 $m**
Less than 1 year	91,303	93,667
1-2 years	14,553	5,380
2-5 years	34,598	38,703
5-10 years	34,968	24,508
More than 10 years	25,649	26,370
Total contractual cash flows	**201,071**	**188,628**
Total carrying value	177,939	167,100

At 30 June 2021 there are loan commitments of $31,143 million (2020: $4,881 million) which primarily all have contractual cash flows of less than 5 years. The majority of this increase relates to the Funding for Lending Programme (refer to note 16 for further detail).

In addition to the above financial liabilities, there are various financial guarantees and indemnities totalling $348 million (2020: $263 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 2021 was $2,172 million (2020: $2,006 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	
	2021 $m	**2020 $m**	**2021 $m**	**2020 $m**
Increase in NZ interest rates by 1% (100 basis points)	(1,116)	(476)	(1,026)	(459)
Decrease in NZ interest rate by 1% (100 basis points)	983	461	886	442
NZ dollar exchange rate strengthens by 10%	(1,350)	(1,381)	(1,315)	(1,378)
NZ dollar exchange rate weakens by 10%	1,559	1,577	1,521	1,582
Share prices strengthen by 10%	5,318	3,790	5,318	3,790
Share prices weaken by 10%	(5,318)	(3,790)	(5,318)	(3,790)

Note 27: Financial Instruments (continued)

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.

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 increased since last year. This movement is largely in relation to changes in the underlying financial instrument portfolios held by ACC and the NZS Fund. 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 remained relatively consistent during the current period. This sensitivity is largely in relation to financial instrument portfolios held by the Reserve Bank, 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 99.9% of the Government's total share investments (2020: 99.7%).

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

Note 28: 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 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 and are not on market terms and conditions or if they involve lending to or guaranteeing Ministers.

There were no related party transactions to be separately disclosed.

Note 29: Events Subsequent to Balance Date

August outbreak of COVID-19

During the 2020/21 fiscal year, New Zealand mainly remained at COVID-19 Alert Level 1 (including at 30 June 2021), which meant most sectors in the economy were able to continue operating as normal. Subsequently, on 17 August 2021, following the detection of a community case in Auckland, the Government moved all of New Zealand to Alert Level 4. The Government have subsequently revised down Alert Level restrictions with Auckland moving to Alert Level 3 on 21 September 2021, while the rest of New Zealand moved to Alert Level 2 from 7 September 2021. These Alert Level settings will next be reviewed by the Government on 4 October 2021.

Since the onset of the August outbreak, the Government have reinstated payments under the Wage Subsidy Scheme and Resurgence Support Scheme to support businesses through the Alert Level restrictions. Due to the high level of uncertainty around the fiscal costs of the current outbreak, any future outbreaks, and the on-going public health response, on 16 September 2021 the Government announced a further $10 billion of funding to respond to COVID-19. This was made up of $3.0 billion of previously allocated funding from the CRRF that was unused and $7.0 billion of new funding.

The fiscal impacts from the August outbreak, including the above-mentioned business support measures, will be reflected in Government's financial results through the 2021/22 fiscal year. At this stage it is difficult to quantify these impacts as this is somewhat dependent on the time Alert Level restrictions remain in place. While the Alert Level restrictions imposed since 17 August 2021 will have an impact on economic activity, based on the experience from last year this is likely only to be temporary and the economy could again rebound fairly quickly. Therefore, the overall impact is highly uncertain and potentially could have a positive or negative impact on the Government's finances by the end of the 2021/22 fiscal year. The Alert Level restrictions may also cause delays in the delivery of some Government programmes (including capital projects) over the 30 June 2022 year.

International Monetary Fund Special Drawing Rights Allocation

On 2 August 2021, the International Monetary Fund (IMF) Board of Governors approved a general allocation of Special Drawing Rights (SDRs) equivalent to US$650 billion, to boost global liquidity. The general allocation of SDRs was effective on 23 August 2021 and the newly created SDRs were credited to IMF member countries in proportion to their existing quotas in the fund.

The New Zealand share of the allocation is $1.2 billion SDRs which is approximately NZ$2.49 billion based on the exchange rate at the time of allocation. The allocation increases both assets and liabilities, with the increase in SDR holdings representing an increase in marketable securities and a corresponding increase in borrowings.

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 2021

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 requires validation 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.

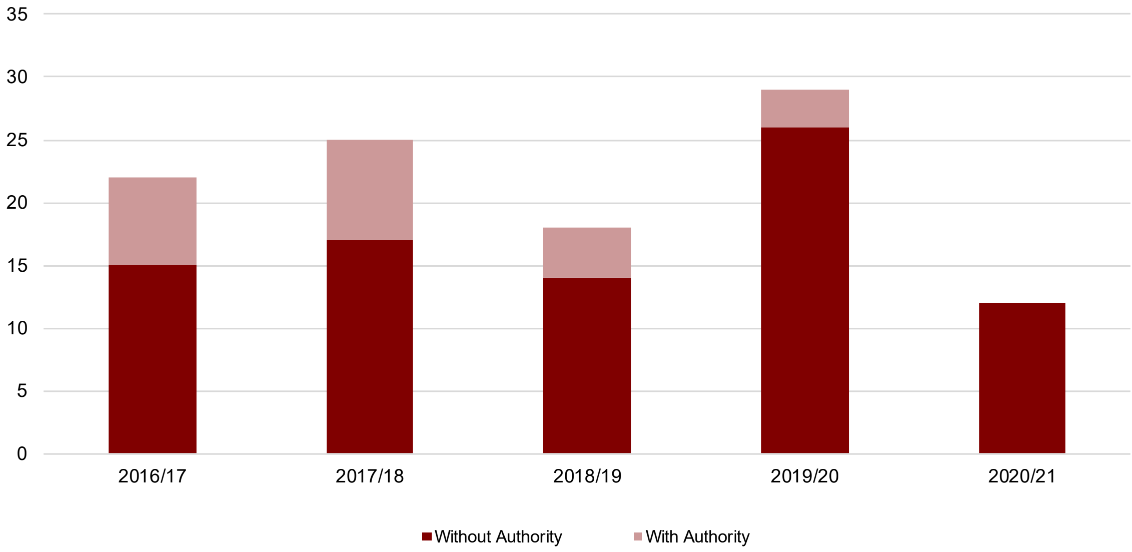
<table>
<tr><th>Category of unappropriated expenditure</th><th>Reporting requirements to Parliament under the Act</th></tr>
<tr><td>(A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989</td><td>Where the amount in excess (but within the scope) of an existing appropriation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



In 2021, there were a total of 859 appropriations (2020: 881). There were 12 instances of expenditure (2020: 29) that either exceeded the amount appropriated or did not have an appropriation.

The 2019/20 year reflected more unappropriated expenditure due to the COVID-19 pandemic with 7 of the instances directly in relation to expenditure for the Government's COVID-19 pandemic response.

30 June 2021 Number	30 June 2020 Number			30 June 2021 $m	30 June 2020 $m
		By category			
-	1	Approved by the Minister of Finance	A	-	-
-	2	Cabinet authority to use imprest supply but in excess of appropriation	B	-	15
-	-	Cabinet authority to use imprest supply but without appropriation	C	-	-
5	15	Without Cabinet authority and in excess of appropriation	D	82	701
3	2	Without Cabinet authority and outside scope	E	15	7
4	9	Without Cabinet authority and without appropriation	F	36	202
-	-	Other		-	-
12	**29**	**Total unappropriated expenditure**		**133**	**925**

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, $0.449 million 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

(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 Internal Affairs			
Vote Internal Affairs	*Non-Departmental Other Expenses*		
	Racing Safety Development Fund	990	28

Grants are provided for projects that help improve the safety of riders, spectators, officials and others involved in racing at racecourses, and improve the health and safety of animals at racecourses. Expenditure was unappropriated due to a grant payment that related to 2019/20 being recognised in 2020/21.

Department of Internal Affairs			
Vote Internal Affairs	*Benefits or Related Expenses*		
	Rates Rebate Scheme	53,500	1,623

Assistance is provided with rates for low-income residential ratepayers, as authorised by the Rates Rebate Act 1973. The demand for the Rates Rebates scheme exceeded forecast demand during 2020/21 resulting in expenses exceeding appropriation.

Department of Internal Affairs			
Vote Internal Affairs	*Departmental Output Expenses*		
	Royal Commission into Historical Abuse in State Care and in the Care of Faith-based Institutions – Operating Expenses		
	2020/21 – December	16,333	638
	2020/21 – February	22,333	331

Additional funding was required in 2020/21 to enable the Royal Commission of Inquiry into Historical Abuse in State Care and in the Care of Faith-based Institutions to continue its work pending government policy and funding decisions which were to be made later in 2020/21.

Risks were identified in advance of additional funding being sought and approved. However, on both occasions, the requests for additional funding were not completed early enough to avoid expenses exceeding appropriation for a period of time.

New Zealand Defence Force			
Vote Defence Force	*Non-Departmental Other Expenses*		
	Service Cost – Veterans' Entitlements	20,000	78,904

In the first quarter of the 2020/21 financial year, the veterans' entitlement for qualifying service was widened to include additional veterans who had qualifying operational service from other conflicts. A declaration by the Minister for Veterans and decisions by Cabinet, resulted in an increase in the obligations to former defence personnel to be charged against the *Service Cost – Veterans Entitlement* appropriation. As a result, the appropriation was exceeded.

Statement of Unappropriated Expenditure (continued)

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

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

Inland Revenue Department

Vote Revenue	*Benefits or Related Expenses*	
	Paid Parental Leave Payments	
	2020/21	1,450
	2019/20	1,800
	2018/19	1,600
	2017/18	1,250
	2016/17	1,200
	2015/16	250

In 2016, amendments were made to the Parental Leave and Employment Protection Act. The amendments included changes to the entitlement and income calculations for parental leave payments for recipients who had multiple employments. In the period 1 April 2016 to 28 February 2021, some payments made by Inland Revenue to a small group of recipients with multiple employers were incorrectly calculated.

The legislative requirements are for all employment to be ceased, and for income from all employments to be included, to determine entitlement. This small group of recipients potentially either did not qualify as they had not ceased all employment or did not include income from all employers when working out their average weekly income during their eligibility period. These payments were not within the parameters of the legislation and therefore were not within the scope of the appropriation.

Ministry of Business, Innovation and Employment

Vote Business, Science and Innovation	*Non-Departmental Output Expenses*	
	Tourism: Marketing of New Zealand as a Visitor Destination	
	2020/21	13,470
	2019/20	2,043

The appropriation *Tourism: Marketing of New Zealand as a Visitor Destination* is limited to promotion of New Zealand as a visitor destination in key overseas markets. Once the New Zealand border was closed to all countries the funding was set aside for the domestic campaign “Do something new NZ”, however this was out of scope of the existing appropriation. A new appropriation with sufficient scope was created in December 2020 and enables funding to be used for domestic tourism marketing.

Therefore, expenditure incurred for the domestic campaign against this appropriation is unappropriated. The amount in the 2019/20 year was confirmed after the completion of the Financial Statements of the Government 2020 and was therefore not included in the Statements for that year. As such, it has been included above.

Statement of Unappropriated Expenditure (continued)

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

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

Ministry of Education

Vote Education	*Non-Departmental Capital Expenditure*	
	School Support Project	
	2018/19	882
	2017/18	583
	2016/17	697

The *School Support Project* appropriation was established to fund capital costs of implementing approved school support and schooling improvement projects (other than costs related to school property assets). The Ministry of Education has identified that some historical expenditure was recognised as operating expenditure, as opposed to capital expenditure and, therefore, it was outside the scope of the capital appropriation.

It is considered impracticable to trace all the historical expenditure for the purpose of separating the operating expenses from the capital expenditure, so the Ministry of Education has focused on the financial years from 2016/17 onwards. No operating expenditure has been incurred under this appropriation in the last two financial years.

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

Ministry for Culture and Heritage

Vote Arts Culture and Heritage	*Non-Departmental Other Expenses*	
	COVID-19: Media Sector Response and Recovery MCA	
	2020/21	47

In response to the impact of COVID-19, the Crown agreed to provide payments in advance to local media businesses for advertising that were to be placed during 2020/21. The advances were to be returned as advertising was placed and paid for. The advance payments are interest free and were 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.

Statement of Unappropriated Expenditure (continued)

Department	***Expense type***	**Amount without or exceeding appropriation**
Vote	**Appropriation Name**	**$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 Other Expenses*	
	Energy and Resources: Fair Value Write Down on Loans and Investments	
	2020/21	37
	2019/20	108
	2018/19	189
	2017/18	201
	2016/17	178
	2015/16	290

Cabinet agreed that the Crown Energy Efficiency Loan Scheme, to assist public sector agencies in implementing energy efficiency and carbon emission reducing projects, would be administered by the Energy Efficiency & Conservation Authority (EECA) on behalf of the Crown. EECA enters into the loan agreements with third parties. These loans are not interest bearing. The principal is paid by the third parties to EECA, which then repays the amount to the Ministry of Business, Innovation and Employment (MBIE).

Concessionary loans provided at below market-interest rates are required to be measured at fair value, which requires a write down of the loan value. MBIE did not have an appropriation to cover the fair value write down expense.

Ministry of Education

Vote Tertiary Education	*Non-Departmental Capital Expenditure*	
	Tertiary Education Institutions' proceeds from disposal of Crown assets	
	2020/21	6,131
	2019/20	1,840
	2017/18	414

The Crown Asset Transfer and Disposal policy established in 2009 recognises Tertiary Education Institutions (TEI) beneficial ownership of land and/or buildings in Crown title. When a property asset is to be disposed of, a TEI may seek the approval from Joint Ministers to retain the 20% that is required to be repaid to the Crown; alternatively, the land and/or buildings can be identified as surplus to educational requirements and disposed of with 80-100% of the sale proceeds provided to the TEI.

When a TEI retains sale proceeds, it constitutes an equity injection for the TEI, and this expenditure requires authorising through a capital expenditure appropriation in Vote Tertiary Education. Since 2009, when the Crown Asset Transfer and Disposal policy was established, some TEIs have retained sale proceeds without the Ministry having received appropriation to authorise the capital expenditure, resulting in unappropriated expenditure.

It is considered impracticable to identify all unappropriated expenditure before 2016/17.

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 Housing and Urban Development

Vote Housing and Urban Development	*Non-Departmental Capital Expenditure*	
	Te Puke Tāpapatanga a Hape (Ihumātao)	29,900

On the 17th of February 2021, the Ministry of Housing and Urban Development purchased land in Mangere, the site is known as Te Puke Tāpapatanga a Hape or Ihumātao. A joint ministers paper sought to authorise a fiscally neutral transfer from the KiwiBuild Housing Multi Year Appropriation (MYA) but neglected to include wording that the changes to the appropriation be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2021

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.

There was no expenditure incurred under this provision (2020: no expenditure).

Statement of Trust Money

for the year ended 30 June 2021

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 2021

Department Trust Account	**As at 30 June 2020**	Contributions	Distributions	Revenue	Expenses	**As at 30 June 2021**
	$000	$000	$000	$000	$000	**$000**
Department of Conservation						
Bonds/Deposits Trust	8,216	114	(75)	73	-	8,328
Conservation Project Trust	1,275	575	(705)	5	-	1,150
National Parks Trust	207	30	(13)	1	-	225
Walkways Trust	12	-	-	-	-	12
Wildlife and Reserves Trusts [1]	-	-	-	-	-	-
Department of Corrections						
Prisons Trust	1,845	20,607	(20,230)	-	-	2,222
Crown Law Office						
Legal Claims Trust	5	112	(112)	-	-	5
Ministry of Business, Innovation and Employment						
Coal and Minerals Deposits Trust	464	45	(45)	-	-	464
Criminal Assets Management and Enforcement Regulators Association Trust	-	16	-	9	-	25
Employment Relations Service Trust	731	333	(376)	2	-	690
Employment Relations Act Security of costs Trust [1]	-	-	-	-	-	-
New Zealand Immigration Service Trust	375	-	(100)	1	-	276
Official Assignee's Office Trust	14,229	18,764	(10,309)	86	(7,719)	15,051
Radio Spectrum Auction Trust Account	-	-	-	-	-	-
Patent Co-operation Treaty Fees Trust	105	1,132	(1,149)	-	-	88
Petroleum Deposits Trust	80	50	(49)	-	-	81
Crimminal Proceeds (Recovery) Trust (formerly Proceeds of Crime Trust)	184,172	54,685	(17,666)	1,723	(15,072)	207,842
Residential Tenancies Bond Trust Account	633,143	300,317	(248,363)	18,694	(18,694)	685,097
Residential Tenancies Penalties Trust	-	50	(5)	-	-	45
Weathertight Services Financial Assistance Trust	-	3,704	(3,704)	-	-	-
Ministry for Culture and Heritage						
New Zealand Historical Atlas Trust	45	-	-	1	(36)	10
New Zealand History Research Trust	1,334	-	(89)	14	-	1,259
New Zealand Oral History Awards Trust	541	-	(100)	5	-	446
War History Trust	17	-	-	-	-	17
New Zealand Customs Services						
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	56,294	8,665	(39,534)	-	-	25,425
Health Promotion Agency Trust	767	4,485	(5,252)	-	-	-
Heavy Engineering Research Association Trust	112	467	(579)	-	-	-
New Zealand Customs Service IBM MSA Trust [1]	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	239	40,434	(40,532)	-	-	141
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	9	9,418	(9,177)	-	-	250
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	3,410	103	-	9	8	3,530
Conferences Trust [1]	-	-	-	-	-	-
Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund Board Trust	1,212	246	(144)	12	(54)	1,272
Capital Works Construction Funds Trust [1]	-	-	-	-	-	-

1 Inoperative trust account.

2 New trust account.

3 Closed during the year.

Statement of Trust Money (continued)

for the year ended 30 June 2021

Ministry of Foreign Affairs and Trade						
Afghanistan New Zealand Aid Programme Trust [3]	3	-	(3)	-	-	-
Government Administration Building, Niue Trust [3]	35	-	(35)	-	-	-
Egna Electrification Project, Papua New Guinea Trust	9,609	-	-	24	-	9,633
New Zealand/France Friendship Trust[3]	3	-	(3)	-	-	-
Niue Development Assistance Trust	4,689	1,286	(4,350)	6	-	1,631
Solomon Islands Provincial Airfields Trust[2]	-	2,893	-	6	-	2,899
Tonga Parliament Buildings Project Trust[2]	-	2,177	(848)	4	-	1,333
Pacific Community Coastal Fisheries and Aquaculture Activity Trust[2]	-	-	-	-	-	-
Pacific SME Finance[2]	-	2,675	-	1	-	2,676
Ministry of Health						
Medicines Review Objectors Deposit Trust [1]	-	-	-	-	-	-
Inland Revenue Department						
Child Support Agency Trust	17,503	266,579	(276,168)	-	-	7,914
KiwiSaver Returned Transactions Trust	314	66,962	(67,022)	-	-	254
KiwiSaver Employer Trust	-	297	-	-	-	297
Reciprocal Child Support Agreement Trust	413	13,978	(13,986)	-	-	405
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust	658	-	-	318	-	976
Interloan Billing System Trust	38	-	-	194	(195)	37
Macklin Bequest Fund Trust [1]	-	-	-	-	-	-
Retention Trust Account	304	-	(257)	-	-	47
Market Place Trust Account [1]	-	-	-	-	-	-
New Zealand 1990 Scholarship Trust [1]	-	-	-	-	-	-
Ministry of Justice						
Courts Law Trust	21,102	12,253	(23,145)	-	-	10,210
Election Candidates Deposit Trust [1]	-	-	-	-	-	-
Employment Court Trust	281	199	(210)	-	-	270
Fines Trust	36,758	208,904	(206,465)	-	-	39,197
Foreign Currency Euro Fund Trust [1]	-	-	-	-	-	-
Foreign Currency United States Dollar Trust	-	35,725	(25,592)	-	-	10,133
Legal Complaints Review Officer Trust [1]	-	-	-	-	-	-
Maori Land Court Trust	120	26	-	-	-	146
Supreme Court Trust	162	75	(126)	-	-	111
Victims' Claims Trust	498	604	(684)	-	-	418
Land Information New Zealand						
Crown Forestry Licences Trust	1,702	6,435	(7,102)	-	-	1,035
Deposits Trust [1]	-	-	-	-	-	-
Endowment Rentals Trust	2	516	(367)	-	-	151
Hunter Gift for the Settlement of Discharged Soldiers Trust	58	-	-	-	-	58
Crown Land Bond Trust[2]	-	-	-	-	-	-
New Zealand Police						
Bequests, Donations and Appeals Trust	2	-	(2)	-	-	-
Found Money Trust	113	135	(156)	-	-	92
Money in Custody Trust	18,727	20,087	(12,604)	-	-	26,210
Reparation Trust	1	1	(1)	-	-	1
Money forfeited to Crown	132	5,891	(5,904)	-	-	119

1 Inoperative trust account.

2 New trust account.

3 Closed during the year.

Statement of Trust Money (continued)

for the year ended 30 June 2021

Department Trust Account	As at 30 June 2020 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2021 $000
Ministry for Primary Industries						
MAF Overfishing Account Trust	9,262	4,953	(601)	44	-	13,658
MAF Fish Forfeit Property Trust	1,057	257	(65)	3	-	1,252
Meat Board Levies Trust	7	67,967	(67,974)	1	(1)	-
National Animal Identification Tracing Trust	-	2,186	(2,186)	-	-	-
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	750	9,800	(9,441)	2	-	1,111
Australian Recovery Debt Trust	-	4	(4)	-	-	-
Maintenance Trust	33	414	(243)	-	-	204
Netherlands Recovery Debt Trust	18	146	(152)	-	-	12
Overseas Debt Recovery Trust [1]	-	-	-	-	-	-
Ministry of Oranga Tamariki						
CYF Custody Trust Account	7	63	(7)	-	-	63
WR Wallace Trust	558	41	(50)	10	-	559
The Treasury						
Genesis Share Offer Trust	1	-	-	-	-	1
Mighty River Share Offer Trust	1	-	-	-	-	1
Trustee Act 1956 Trust	19,061	2,223	(443)	48	(40)	20,849
Total	**1,052,822**	**1,200,104**	**(1,124,504)**	**21,296**	**(41,803)**	**1,107,915**

1 Inoperative trust account.

2 New trust account.

3 Closed during the year.

Additional Financial Information

Fiscal Indicator Analysis

for the year ended 30 June 2021

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 41 to 153) and the fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

The fiscal analysis comprises the following statements:

Reconciliation between the Operating Balance and the Operating Balance before Gains and Losses

The 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.

Expenses by Functional Classification

This analysis is based on the Classification of Functions of Government as produced by the Organisation for Economic Co-operation and Development (OECD) and permits trends in government expenditure on particular functions to be examined over time.

Core Crown Residual Cash

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

Debt

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

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.

Net core Crown debt represents gross sovereign issued 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 – Reconciliation between the Operating Balance and the Operating Balance before Gains and Losses

for the year ended 30 June 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
		Operating Balance Calculation		
110,067	121,187	Total revenue	129,335	116,003
139,585	136,202	Less Total expenses	133,722	138,916
201	17,043	Total gains/(losses)	21,023	(8,722)
67	(535)	Net surplus from associates and joint ventures	(360)	1,193
(76)	(219)	Minority interests share of operating balance	(117)	402
(29,326)	**1,274**	**Operating balance[1]**	**16,159**	**(30,040)**
		OBEGAL Reconciliation to Operating Balance		
(29,326)	**1,274**	**Operating balance[1]**	**16,159**	**(30,040)**
		Less:		
(2,236)	(4,586)	Net gains/(losses) on large scale asset purchases	(3,976)	(3,258)
2,576	12,792	Net gains/(losses) on financial instruments	18,130	1,908
(139)	8,837	Net gains/(losses) on non-financial instruments	6,869	(7,372)
5	(107)	Minority interests share of total gains/(losses)	56	546
67	(535)	Net surplus from associates and joint ventures	(360)	1,193
(29,599)	**(15,127)**	**OBEGAL**	**(4,560)**	**(23,057)**

1 Operating balance excluding minority interests.

Fiscal Indicator Analysis – Expenses by functional classification

for the year ended 30 June 2021

Below is an analysis of total Crown expenses by functional classification. Losses are excluded from the presentation of expenses as they are not functionally classified for reporting purposes.

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		Total Crown expenses		
42,531	43,526	Social security and welfare	42,892	49,900
20,791	23,780	Health	22,598	20,469
17,761	17,837	Education	17,384	17,581
5,265	6,067	Core government services	5,602	5,869
5,683	5,803	Law and order	5,533	5,304
9,932	12,612	Economic and industrial services	13,429	11,246
10,792	10,545	Transport and communications	10,335	12,962
2,760	2,643	Defence	2,648	2,482
1,324	1,882	Environmental protection	1,889	1,472
2,844	3,428	Heritage, culture and recreation	3,023	2,904
2,751	2,794	Primary services	2,398	2,430
2,879	3,498	Housing and community development	3,351	2,393
96	106	GSF pension expenses	114	87
545	679	Other	254	63
3,615	2,527	Finance costs	2,272	3,754
10,991	500	Forecast new operating spending	-	-
(975)	(2,025)	Top-down expense adjustment	-	-
139,585	**136,202**	**Total Crown expenses (excluding losses)**	**133,722**	**138,916**

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 (NZS Fund) and the Reserve Bank, but not Crown Entities and State-owned Enterprises.

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	30 June 2020 $m
		Core Crown expenses		
37,170	37,411	Social security and welfare	36,759	44,028
20,919	23,837	Health	22,784	19,891
16,301	16,326	Education	16,039	16,322
5,317	6,161	Core government services	5,754	6,085
5,238	5,450	Law and order	5,202	4,911
3,379	4,959	Economic and industrial services	4,481	3,988
4,035	5,859	Transport and communications	5,656	3,179
2,765	2,659	Defence	2,664	2,499
1,332	2,034	Environmental protection	1,906	1,485
1,242	1,304	Primary services	1,015	961
1,058	1,550	Heritage, culture and recreation	1,420	1,106
1,252	2,000	Housing and community development	1,813	1,015
76	74	GSF pension expenses	99	73
545	679	Other	254	63
2,884	1,967	Finance costs	1,918	3,228
10,991	500	Forecast new operating spending	-	-
(975)	(2,025)	Top-down expense adjustment	-	-
113,529	**110,745**	**Total core Crown expenses (excluding losses)**	**107,764**	**108,834**

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2021

2021 Forecast at Budget 2020 $m	Budget 2021 $m		Actual 30 June 2021 $m	Actual 30 June 2020 $m
		Core Crown Cash Flows from Operations		
77,202	90,495	Tax receipts	96,551	84,310
1,410	2,219	Other sovereign receipts	2,287	1,226
653	227	Interest receipts	249	428
3,354	2,862	Sale of goods & services and other receipts	2,980	3,243
(37,001)	(37,021)	Transfer payments and subsidies	(36,574)	(43,916)
(60,143)	(67,981)	Personnel and operating costs	(63,894)	(56,583)
(3,776)	(2,723)	Finance costs	(2,642)	(3,016)
(10,991)	(500)	Forecast for future new operating spending	-	-
975	2,025	Top-down expense adjustment	-	-
(28,317)	**(10,397)**	**Net core Crown operating cash flows**	**(1,043)**	**(14,308)**
(3,261)	(3,536)	Net purchase of physical assets	(3,137)	(2,955)
(5,057)	(5,747)	Net repayment/(issue) of advances	(3,868)	(1,798)
(3,218)	(4,277)	Net purchase of investments	(3,599)	(3,171)
(2,120)	(2,120)	Contribution to NZS Fund	(2,120)	(1,460)
(1,990)	-	Forecast for future new capital spending	-	-
650	800	Top-down capital adjustment	-	-
(14,996)	**(14,880)**	**Net Core Crown capital cash flows**	**(12,724)**	**(9,384)**
(43,313)	**(25,277)**	**Residual cash surplus/(deficit)**	**(13,767)**	**(23,692)**
		Residual cash is (invested)/funded as follows:		
		Debt programme cash flows		
		Market:		
65,605	49,487	Issue of government bonds	48,497	31,951
(11,059)	(11,059)	Repayment of government bonds	(11,059)	(5,380)
490	(5,441)	Net issue/(repayment) of short-term borrowing	(4,148)	8,415
55,036	**32,987**	**Total market debt cash flows**	**33,290**	**34,986**
		Non market:		
-	-	Repayment of government bonds	-	-
-	-	Net issue/(repayment) of short-term borrowing	-	-
-	**-**	**Total non-market debt cash flows**	**-**	**-**
55,036	**32,987**	**Total debt programme cash flows**	**33,290**	**34,986**
		Other borrowing cash flows		
14,868	(25,918)	Net (repayment)/issue of other New Zealand dollar borrowing	(30,089)	(3,045)
(109)	(1,700)	Net (repayment)/issue of foreign currency borrowing	608	1,121
14,759	**(27,618)**	**Total other borrowing cash flows**	**(29,481)**	**(1,924)**
		Investing cash flows		
(26,453)	12,401	Other net sale/(purchase) of marketable securities and deposits	6,042	(14,911)
215	397	Issues of circulating currency	234	1,209
(244)	7,110	Decrease/(increase) in cash	3,682	4,332
(26,482)	**19,908**	**Total investing cash flows**	**9,958**	**(9,370)**
43,313	**25,277**	**Residual cash (invested) / funded**	**13,767**	**23,692**

Fiscal Indicator Analysis – Debt

as at 30 June 2021

2021 Forecast at			Actual	
Budget 2020 $m	Budget 2021 $m		30 June 2021 $m	30 June 2020 $m
		Net debt:		
203,673	136,919	Gross sovereign-issued debt	131,256	124,145
(74,184)	(23,264)	Less liquid financial assets (per net debt definition)	(29,176)	(40,770)
129,489	**113,655**	**Net core Crown debt**	**102,080**	**83,375**
		Analysis of financial liabilities and assets included in net debt		
		Net core Crown debt:		
208,243	139,892	Core Crown borrowings	133,473	126,820
(4,570)	(2,973)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(2,217)	(2,675)
203,673	**136,919**	**Gross sovereign-issued debt**	**131,256**	**124,145**
		Liquid financial assets:		
136,091	102,036	Core Crown financial assets	108,461	102,169
(46,725)	(58,363)	Less NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	(60,557)	(46,843)
-	(4,540)	Less FLP advances	(3,059)	-
(15,182)	(15,869)	Less other advances	(15,669)	(14,556)
(61,907)	(78,772)	NZS Fund and advances	(79,285)	(61,399)
74,184	**23,264**	**Liquird financial assets (per net debt definition)**	**29,176**	**40,770**
		Additional net debt analysis		
129,489	113,655	Net core Crown debt	102,080	83,375
(61,907)	(78,772)	Less NZS Fund and advances	(79,285)	(61,399)
67,582	**34,883**	**Net core Crown debt (incl. NZS Fund and advances)**	**22,795**	**21,976**
129,489	113,655	Net core Crown debt	102,080	83,375
-	(4,540)	less FLP advances	(3,059)	-
129,489	**109,115**	**Net core Crown debt (incl. FLP advances)**	**99,021**	**83,375**
		Gross debt:		
203,673	136,919	Gross sovereign-issued debt	131,256	124,145
(67,137)	(41,491)	Less Reserve Bank settlement cash and Reserve Bank bills	(30,421)	(23,488)
1,600	1,600	Add back changes to government borrowing owing to settlement cash	1,600	1,600
138,136	**97,028**	**Gross sovereign issued debt excluding Reserve Bank settlement cash and Reserve Bank bills**	**102,435**	**102,257**
		Moneary liabilities		
7,366	8,419	Issued currency	8,256	8,022
66,839	38,791	Settlement deposits with Reserve Bank	29,466	23,027
74,205	**47,210**	**Total monetary liabilities**	**37,722**	**31,049**

Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by other Crown reporting entities.

Core Crown borrowings, in this instance, includes the unsettled purchases of securities (classified as accounts payable in the Statement of Financial Position).

Core Crown financial assets exclude receivables, except for unsettled sales of securities.

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

Monetary liabilities facilitate payments to be effected in New Zealand dollars, thereby ensuring the smooth functioning of the economy.

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%	47.41%
Genesis Energy	48.61%	46.75%
Meridian Energy	49.00%	45.75%
Mercury NZ	47.44%	44.63%

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 2021. 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 2021
School boards of trustees	31 December	31 December 2020
Te Pūkenga—New Zealand Institute of Skills and Technology	31 December	30 June 2021
Universities and Wānanga	31 December	30 June 2021

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 2021				30 June 2020			
	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	147	142	6	-	209	239	(30)	8
AsureQuality Limited	233	217	19	12	256	237	20	17
Landcorp Farming Limited	250	234	31	5	256	225	(15)	5
New Zealand Post Limited	972	1,010	30	-	932	1,046	(104)	-
KiwiRail Holdings Limited	1,122	1,290	(163)	-	932	1,150	(206)	-
Transpower New Zealand Limited	920	731	165	147	992	804	234	165
Kordia Group Limited	128	117	(39)	-	228	219	10	-
Kiwi Group Holdings Limited	963	841	132	22	1,168	1,124	55	11
New Zealand Railways Corporation	-	-	-	-	-	-	3	-
Other State-owned enterprises	104	98	3	1	107	98	6	1
Total State-owned Enterprises	**4,839**	**4,680**	**184**	**187**	**5,080**	**5,142**	**(27)**	**207**
Air New Zealand Limited	2,628	3,050	(327)	-	4,956	5,237	(1,307)	123
Genesis Energy Limited	3,353	3,217	14	180	2,570	2,527	48	176
Meridian Energy Limited	4,295	4,123	429	433	3,405	3,010	233	546
Mercury NZ Limited	1,981	1,843	155	221	1,707	1,536	206	214
Less minority interests	-	-	139	(373)	-	-	382	(479)
Total mixed ownership companies	**12,257**	**12,233**	**410**	**461**	**12,638**	**12,310**	**(438)**	**580**
Intra-segmental eliminations	(231)	(163)	(340)	-	(318)	671	124	-
Total SOE segment	**16,865**	**16,750**	**254**	**648**	**17,400**	**18,123**	**(341)**	**787**
Crown entities								
Accident Compensation Corporation	6,195	8,196	9,969	-	5,729	7,885	(5,946)	-
Crown Infrastructure Partners	308	319	47	-	83	140	(55)	-
Crown Research Institutes	891	835	71	-	816	786	30	-
Callaghan Innovation	321	327	(6)	-	390	380	9	-
District Health Boards	18,350	18,931	(582)	-	16,763	17,678	(915)	-
Earthquake Commission	751	287	465	-	549	705	(154)	-
New Zealand Fire Service Commission	632	601	29	-	625	606	17	-
Housing New Zealand Corporation	-	-	-	-	385	379	(1)	-
Kāinga Ora - Homes and Communities	1,721	1,891	(112)	-	1,236	1,168	(58)	-
Museum of New Zealand Te Papa	84	74	9	-	70	75	(6)	-
New Zealand Lotteries Commission	1,426	1,047	378	-	1,311	978	333	-
New Zealand Transport Agency	3,789	3,726	334	-	3,131	3,451	(720)	-
Ōtākaro Limited	126	144	(18)	-	113	150	(41)	-
Public Trust	64	63	1	-	67	60	6	-
Schools	9,620	9,432	186	-	8,780	8,838	(60)	-
Southern Response Earthquake Services	-	119	(119)	-	2	43	(42)	-
Tamaki Regeneration Limited	81	105	(24)	6	69	84	(14)	7
Tertiary Education Commission	2,672	2,703	(31)	-	4,497	4,498	(1)	-
Te Pūkenga - New Zealand Institute of Skills and Technology	950	1,112	(167)	-	95	253	(158)	20
Universities and Wānanga	-	-	(367)	-	-	-	1,179	-
Television New Zealand	346	285	60	-	312	339	(27)	-
Other Crown entities	3,253	3,220	21	1	2,537	2,717	86	33
Total Crown entities	**51,580**	**53,417**	**10,144**	**7**	**47,560**	**51,213**	**(6,538)**	**60**
Intra-segmental eliminations	(1,529)	(1,229)	(354)	-	(955)	(555)	(658)	-
Total Crown entities segment	**50,051**	**52,188**	**9,790**	**7**	**46,605**	**50,658**	**(7,196)**	**60**

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

	30 June 2021 Purchase of PPE $m	Total PPE $m	Total assets $m	Borrow-ings $m	Total liabilities $m	Equity $m	30 June 2020 Equity $m
State-owned Enterprises							
Airways Corporation of New Zealand Limited	11	208	283	59	100	183	176
AsureQuality Limited	8	52	153	18	50	103	86
Landcorp Farming Limited	34	1,216	1,748	309	357	1,391	1,356
New Zealand Post Limited	44	91	1,559	37	251	1,308	1,134
KiwiRail Holdings Limited	960	8,295	8,990	104	677	8,313	7,490
Transpower New Zealand Limited	306	4,643	5,804	3,614	4,404	1,400	1,346
Kordia Group Limited	11	51	167	22	108	59	98
Kiwi Group Holdings Limited	15	57	28,151	26,251	26,358	1,793	1,650
New Zealand Railways Corporation	23	3,802	3,803	-	-	3,803	3,781
Other State-owned enterprises	2	17	76	11	31	45	43
Total State-owned Enterprises	**1,414**	**18,432**	**50,734**	**30,425**	**32,336**	**18,398**	**17,160**
Air New Zealand Limited	177	4,338	5,927	2,548	4,952	975	1,296
Genesis Energy Limited	68	3,695	5,139	1,913	3,093	2,046	2,061
Meridian Energy Limited	77	8,533	9,733	1,901	4,525	5,208	5,065
Mercury NZ Limited	254	6,787	7,957	2,010	3,743	4,214	3,743
Total mixed ownership companies	**576**	**23,353**	**28,756**	**8,372**	**16,313**	**12,443**	**12,165**
Intra-segmental eliminations	1	(171)	(1,840)	(364)	(514)	(1,326)	(1,247)
Total SOE segment	**1,991**	**41,614**	**77,650**	**38,433**	**48,135**	**29,515**	**28,078**
Crown entities							
Accident Compensation Corporation	14	25	55,004	600	60,994	(5,990)	(15,959)
Crown Infrastructure Partners	6	6	1,866	31	969	897	774
Crown Research Institutes	71	599	1,082	1	311	771	690
Callaghan Innovation	23	79	240	-	127	113	115
District Health Boards	574	9,093	11,341	154	5,134	6,207	4,873
Earthquake Commission	5	12	634	-	858	(224)	(689)
New Zealand Fire Service Commission	96	1,189	1,501	67	217	1,284	1,120
Housing New Zealand Corporation	-	-	-	-	-	-	-
Kāinga Ora - Homes and Communities	1,838	38,867	40,897	7,691	10,550	30,347	23,967
Museum of New Zealand Te Papa	6	1,472	1,522	-	11	1,511	1,433
New Zealand Lotteries Commission	4	14	198	1	136	62	54
New Zealand Transport Agency	1,652	61,171	62,087	3,268	4,023	58,064	50,807
Ōtākaro Limited	107	484	762	50	365	397	359
Public Trust	-	3	371	297	297	74	73
Schools	217	1,705	3,957	279	1,217	2,740	2,502
Southern Response Earthquake Services	-	-	254	-	356	(102)	(23)
Tamaki Regeneration Limited	52	2,461	2,577	-	45	2,532	1,946
Tertiary Education Commission	1	4	781	18	664	117	140
Te Pūkenga - New Zealand Institute of Skills and Technology	112	2,161	2,765	113	378	2,387	2,468
Universities and Wānanga	-	-	12,554	-	-	12,554	12,637
Television New Zealand	5	159	375	-	76	299	230
Other Crown entities	67	366	3,077	82	776	2,301	1,528
Total Crown entities	**4,850**	**119,870**	**203,845**	**12,652**	**87,504**	**116,341**	**89,045**
Intra-segmental eliminations	-	(188)	(1,371)	(816)	(1,174)	(197)	(363)
Total Crown entities segment	**4,850**	**119,682**	**202,474**	**11,836**	**86,330**	**116,144**	**88,682**

Glossary of Terms

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice, which are Public Sector PBE Accounting Standards based on International Public Sector Accounting Standards. All accounting terms defined in those standards can be found in the relevant glossary of defined terms at https://www.xrb.govt.nz/dmsdocument/3994. This glossary shows the definitions of other terms used in these financial statements.

Comparatives (Budget 2021 and Budget 2020)

Comparatives referred to as Budget 2020 were forecasts published in the *2020 Budget Economic and Fiscal Update* while comparatives referred to as Budget 2021 were forecasts published in *the 2021 Budget Economic and Fiscal Update*.

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand. For a list of all entities included in this segment, refer to the Government reporting entity (pages 52 to 56).

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 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.

Core Crown residual cash

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Core Crown residual cash is alternatively termed "Cash available/(shortfall to be funded)". Core Crown 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).

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 segment.

Corporate tax

The sum of net company tax, non-resident withholding tax (NRWT) and foreign-source dividend withholding payments (FDWP).

Departmental agency

The Public Service Act 2020 expanded the definition of department under the Public Finance Act 1989 to also include departmental agencies. A departmental agency is an operationally autonomous agency hosted by a public service department and is legally considered part of its host department. A departmental agency is headed by its own chief executive who is directly responsible to an appropriate Minister for its clearly identified, ring-fenced activities and performance. Part 2 of Schedule 2, Public Service Act 2020 includes a list of all departmental agencies and their host departments.

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 (LPG and petrol).

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. 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 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.

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).

Interdepartmental executive board

The Public Service Act 2020 expanded the definition of department under the Public Finance Act 1989 to also include interdepartmental executive boards. An interdepartmental executive board is a board of public service chief executives. It is a new model of public service agency, designed to draw together chief executives to deal with complex issues that have impacts and policy levers that sit across a wide range of portfolio areas and cannot be dealt with by one single agency. Part 3 of Schedule 2, Public Service Act 2020 includes a list of all interdepartmental executive boards and the department that services them.

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.

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

Large Scale Asset purchases (LSAP)

The purchase, in the secondary market of NZ Government Bonds, Local Government Funding Agency (LGFA) Bonds and NZ Government Inflation-Indexed Bonds by the Reserve Bank. The LSAP programme results in the expansion of the Reserve Bank's balance sheet, with the money created to pay for these purchases showing up as a liability through banks' settlement accounts with the Reserve Bank.

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 worth

Total assets less total liabilities. The change in net worth in any given year is largely driven by the operating balance and property, plant and equipment revaluations. Net worth provides a useful and comprehensive 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.

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.

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 the point at which the Government is entitled to the resource and the other party has the obligation to pay, 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 52 to 56). 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.