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Te Kāwanatanga o Aotearoa
New Zealand Government

Financial Statements of the Government of New Zealand

for the year ended 30 June 2023

5 October 2023

EMBARGO: Contents not for communication in any form before 1pm on Thursday 5 October 2023

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2703-1993 (ISSN Print)
2703-2000 (ISSN Online)

Internet

The URL for this document on the Treasury's website at October 2023 is
https://treasury.govt.nz/publications/year-end/financial-statements-2023

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Ministerial Statement

The 2022/23 financial year has been a challenging period for New Zealand, marked by global volatility as countries emerged from the Covid pandemic, high levels of inflation, and domestic challenges such as extreme weather events. The Government has continued to take a responsible and balanced approach in dealing with these challenges by supporting New Zealanders with cost of living pressures and investing in public services and growing the economy while ensuring we sustainably manage our resources.

The New Zealand economy has remained resilient in these uncertain times, with unemployment well below the long-term average and the economy nearly 8 percent larger than before the start of the pandemic. The economy has also benefited from growing exports, the return of tourists and international students and rising numbers of skilled overseas workers to help businesses fill job vacancies. Free trade agreements now cover almost three quarters of New Zealand's exports, up from less than half six years ago.

New Zealand has a solid base as we face the challenges ahead. The global economy continues to experience the reverberations from the 1-in-100 year economic shocks from the pandemic while New Zealand also experienced its second largest natural disaster following the impact of flooding and Cyclone Gabrielle.

This has been reflected in the Government's books. For the year to 30 June 2023, the Crown accounts show an operating balance before gains and losses (OBEGAL) deficit of $9.4 billion, which was broadly consistent with the result from the previous year but was $2.5 billion above what had been forecast in May's budget.

Core Crown tax revenue was $3.9 billion higher than last year at $112.4 billion, largely on the back of a growing economy with more people in work, but $3.0 billion lower where Treasury had forecast it to be in May's budget.

Core Crown expense were in line with forecasts at $127.6 billion and have fallen as a proportion of GDP to 32.2 percent of GDP in the year to June 2023 from 34.5 percent of GDP in the June 2022 as COVID-19 restrictions came to an end. In the 2022/23 financial year the Government has supported New Zealanders through the rising cost of living and invested in core public services and responding to extreme weather events. These investments include laying a foundation to tackle the inequities and intergenerational issues in the health system and addressing climate change.

In this uncertain environment the Government has continued to respond to ensure we meet our responsible and balanced fiscal goals of a surplus in the forecast period and net debt below the limit of 30 percent of GDP. We acted swiftly to the weaker outlook for tax revenue, by identifying close to $4 billion of savings through the Fiscal Sustainability and Effectiveness Programme on top of the $4 billion found in May's budget to ensure a sustainable fiscal path into the future.

Net debt ended the year at 18.0 per cent of GDP, in line with the Budget 2023 forecast. This level of debt is well below the Government's debt ceiling and means the government in well placed to respond to any future shocks. On a comparable measure of debt produced by the International Monetary Fund (IMF), our debt position as a percentage of GDP continues to be much lower than Australia, the United Kingdom and the United States.

We continue to invest in an economic plan that builds a stronger and more resilient economy that lifts productivity, profits, and wages. Valuations changes on the assets owned and liabilities owed by the Government in the 2022/23 year have strengthened the net worth position compared to last year. This includes an increase in assets of $34.8 billion, underpinned by our on-going investment programme including $13.3 billion building infrastructure in New Zealand, including roads, hospitals, houses and classrooms. We contributed $2.6 billion to the New Zealand Superannuation Fund (NZS Fund), an investment in the future of all Kiwis.

New Zealand is in a position of strength despite a challenging global environment. In the Pre-election Economic and Fiscal Update, the Treasury have forecast the economy to grow 2.4 percent on average per year between 2023 and 2027, add 101,000 new jobs and wages to grow faster than inflation. The economy is turning a corner, we have every reason to be optimistic about the country's future.

Hon Grant Robertson
Minister of Finance

29 September 2023

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.

Caralee McLiesh
Secretary to the Treasury

29 September 2023

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 2023 and its operations for the year ended on that date.

Hon Grant Robertson
Minister of Finance

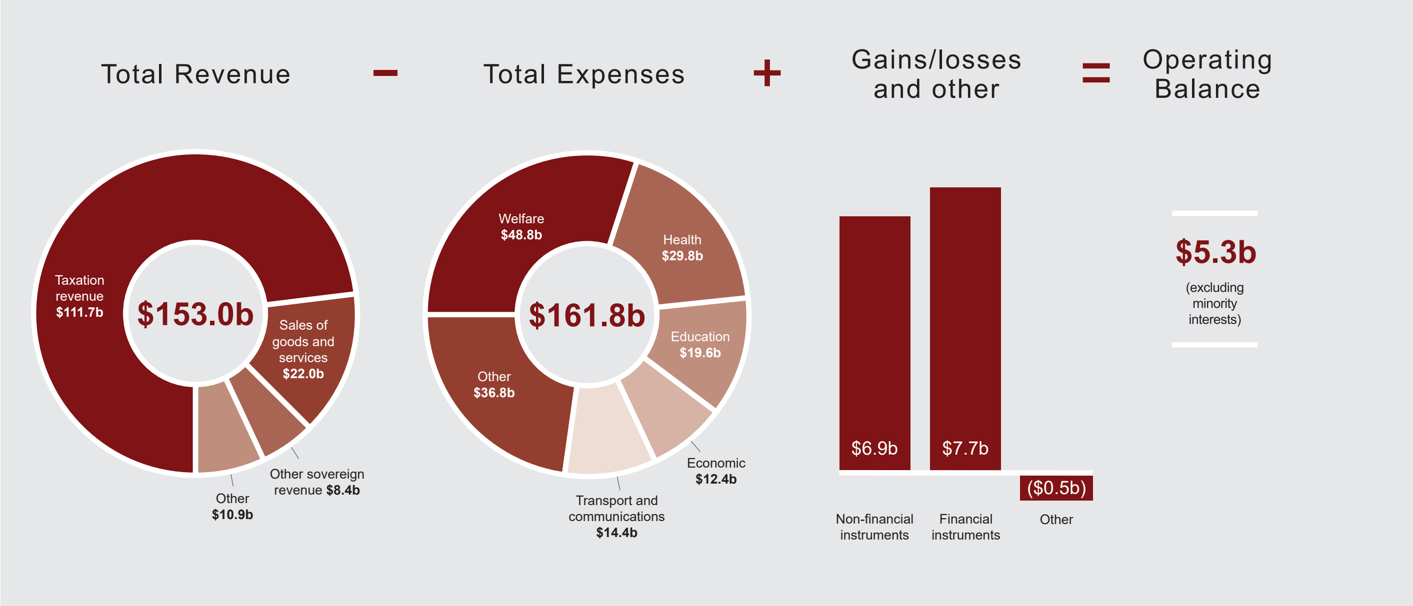
29 September 2023

Commentary on the Financial Statements

Fiscal Overview

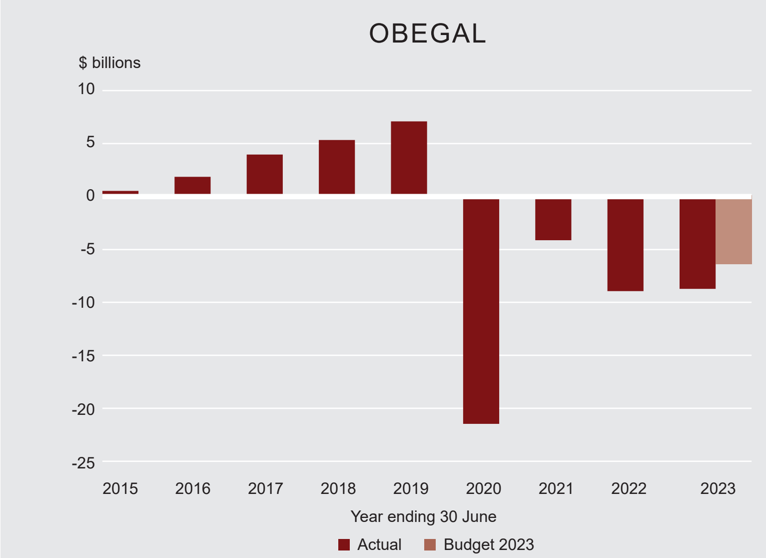
2023 Financial Results

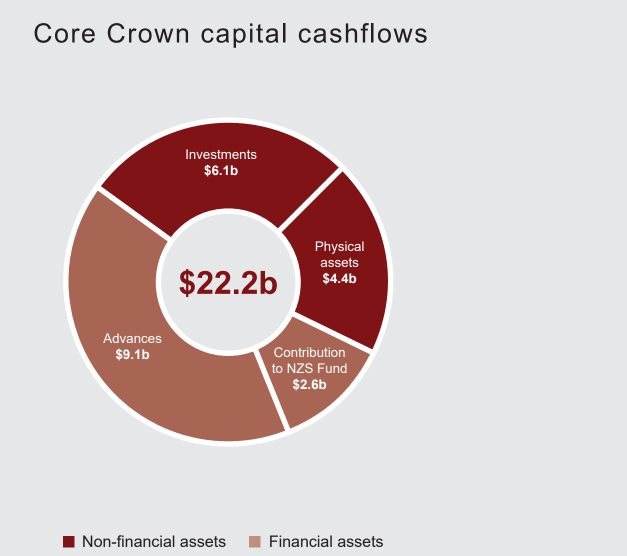
Fiscal Performance



Fiscal Rules

Under the Public Finance Act the Government is required to articulate a fiscal strategy following the principles of responsible fiscal management. Ahead of Budget 2022, the Government announced that their fiscal strategy will be underpinned by two fiscal rules. These rules aim to ensure that over time operating expenses do not add to net debt as a share of GDP, providing fiscal space for high-quality capital investment and ensures a sufficient fiscal buffer for any future shocks.

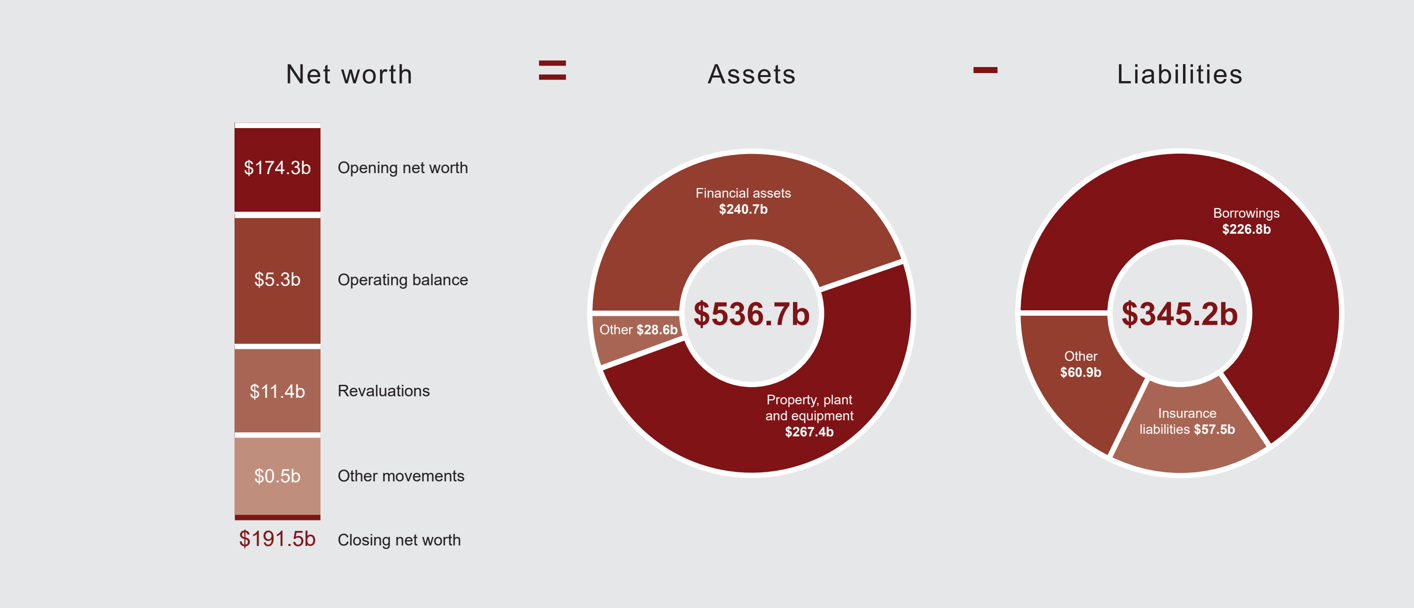




OBEGAL

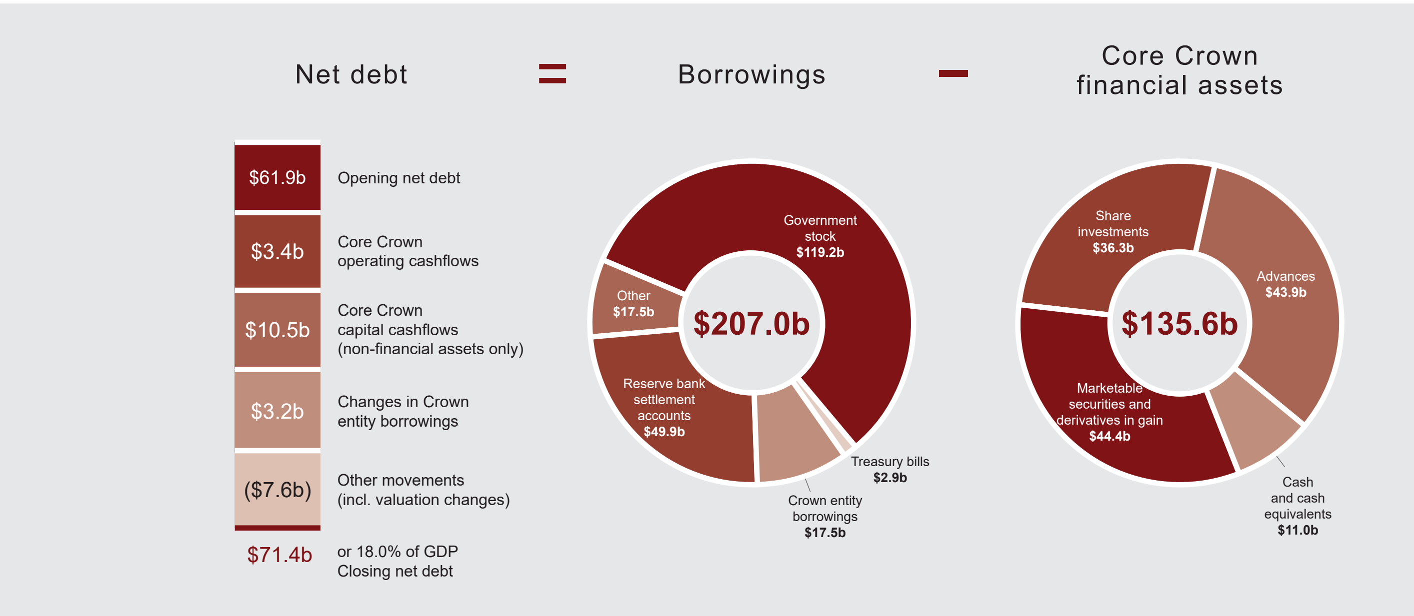
The Government's short-term intention is to return to OBEGAL surplus by 2026/27, subject to economic and fiscal conditions. Once the operating balance (before gains and losses) has returned to a surplus, the long-term objective is to maintain an average surplus in the range of 0 percent to 2 percent of GDP. This will ensure that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenue. The Government reported a deficit of $9.4 billion, which means some of this deficit will need to be funded by increasing net debt.
In addition, capital spending totalled $22.2 billion, with $10.5 billion resulting in an increase in net debt.

Fiscal Resilience



These rules were:

- returning the operating balance before gains and losses (OBEGAL) to a surplus and aiming for small surpluses thereafter, as the **primary fiscal rule**, and
- a net debt ceiling that complements the OBEGAL target while allowing more fiscal space to fund high-quality capital investments that will improve productivity and living standards.



Net Debt

The Government's short-term intention is to maintain net debt below 30% of GDP.
Net debt has increased by $9.5 billion to be $71.4 billion at 30 June 2023 (18.0% of GDP).

Financial Statements Summary

The financial results of the Government for the 2022/23-year show that revenue and expenses have grown at a similar pace since last year. Revaluation gains have had a significant favourable impact on the value of assets and liabilities, which has resulted in a stronger operating balance result and net worth position compared to last year. Since *Budget 2023*, tax outturns have fallen short of expectations which has led to a number of fiscal indicators coming in weaker than expected.

- Total revenue at $153.0 billion was $11.4 billion higher than last year, but lower than the *Budget 2023* forecast by $2.5 billion. These differences were largely due to changes in tax revenue (page 11).
- Total expenses were $161.8 billion, $10.9 billion higher than last year and consistent with the *Budget 2023* forecast (page 14). The increase from last year was largely due to economic factors and policy decisions (page 12).
- The operating balance was a surplus of $5.3 billion largely a result of net gains of $14.7 billion partially offset by expenses exceeding revenue by $8.8 billion (page 15).
- With revenue and expenses growing by a similar amount during the year, the operating balance before gains and losses (OBEGAL) deficit of $9.4 billion was broadly consistent with the deficit reported last year (page 18). However weaker tax outturns since *Budget 2023* have resulted in the OBEGAL deficit being $2.5 billion more than anticipated.
- Net worth increased by $17.2 billion to $191.5 billion (page 28), largely as a result of upward property, plant and equipment revaluations and the operating balance surplus (page 25).
- Net debt at $71.4 billion (18.0% of GDP), was $9.5 billion higher than the June 2022 level, but close to the $71.0 billion (18.0% of GDP) forecast in *Budget 2023* (page 21).

Table 1 – Key financial results

					Forecast		
	Actual	Actual			Budget 2023		
Year ended 30 June	2023	2022	Variance		2023	Variance	
	$ millions	$ millions	$ millions	%	$ millions	$ millions	%
Total revenue	153,011	141,627	11,384	8.0	155,556	(2,545)	(1.6)
Total expenses	161,822	150,956	10,866	7.2	161,924	(102)	(0.1)
Operating balance[1]	5,321	(16,932)	22,253	(131.4)	4,219	1,102	26.1
Total net worth	191,472	174,319	17,153	9.8	178,956	12,516	7.0
Total assets	536,666	501,844	34,822	6.9	519,192	17,474	3.4
Total liabilities	345,194	327,525	17,669	5.4	340,236	4,958	1.5
OBEGAL[1]	(9,446)	(9,691)	245	(2.5)	(6,959)	(2,487)	35.7
Net debt	71,367	61,850	9,517	15.4	70,957	410	0.6
% of GDP[2]							
Total revenue	38.6	38.9		(0.3)	39.5		(0.9)
Total expenses	40.9	41.5		(0.6)	41.1		(0.2)
Operating balance	1.3	(4.7)		6.0	1.1		0.2
Total net worth	48.4	47.9		0.5	45.4		3.0
Total assets	135.6	138.0		(2.4)	131.8		3.8
Total liabilities	87.2	90.1		(2.9)	86.4		0.8
OBEGAL	(2.4)	(2.7)		0.3	(1.8)		(0.6)
Net debt	18.0	17.0		1.0	18.0		0.0

1 Excluding minority interests.

2 Actual GDP is updated to reflect the most recently published numbers – refer historical time series on page 181 for the nominal GDP figures (Source: Stats NZ).

Source: The Treasury

Financial Statements Summary (continued)

This commentary should be read in conjunction with the audited financial statements on pages 44 to 166. The Financial Statements of the Government received an unmodified auditor's opinion for the year ended 30 June 2023.

The 2022/23 fiscal year coincided with an economic backdrop of high inflation and rising interest rates. These conditions have contributed to a number of the trends in the Government's key fiscal indicators compared to last year. At 30 June 2023, the annual percentage change in the Consumer Price Index was 6.0%. This has supported strong wage growth and private consumption through the year and led to steady growth in the nominal economy, with nominal GDP increasing by 8.9%. Tax revenue has grown on the back of growth in the economy, however at a slightly slower pace reflecting the impact of weaker business profits. Inflation has also contributed to the growth in expenses, with a large part of the *Budget 2022* package funding cost pressures and policy initiatives to support New Zealanders through the rising cost of living (eg, the cost-of-living payment).

With the objective of easing the rate of inflation, the Reserve Bank of New Zealand (the Reserve Bank) has lifted the official cash rate (OCR) from 2.5% in July 2022 to 5.5% by June 2023, which in turn flows through to an increase in interest rates. Overall, the increase in interest rates have had an adverse impact on the Government fiscal results with the increase in finance cost exceeding the increase in interest revenue.

The 2022/23 fiscal year also covers a period where COVID-19 restrictions have mostly come to an end and significant temporary Government support measures (for example, the wage subsidy scheme and resurgence support payments), have been minimal compared to the last few years, resulting in a reduction in expenses. The removal of most COVID-19 restrictions has also meant activity in some sectors (eg, air travel) has rebounded back to pre-COVID-19 levels, which has increased both revenue and expenses. However, the North Island weather events early in the 2023 calendar year have resulted in some one-off costs being incurred in the 2022/23 fiscal year. This includes costs to settle insurance claims, asset impairment and immediate response costs.

As a result of the above factors, total Crown revenue at $153.0 billion has increased by $11.4 billion and total Crown expenses at $161.8 billion were higher by $10.9 billion from the 2021/22 fiscal year. With both revenue and expenses growing at a similar rate the OBEGAL deficit of $9.4 billion for 2022/23 is broadly consistent with the deficit reported last year.

Similarly, the residual cash deficit of $25.6 billion was broadly consistent with the deficit reported in 2021/22. The funding of the cash shortfall in 2022/23 contributes to the increase in net debt. However, this is somewhat offset by stronger investment market conditions through the 2022/23 year which has increased financial assets. Overall, net debt in 2022/23 was $9.5 billion more than the prior year increasing from $61.9 billion (17.0% of GDP) to $71.4 billion (18.0% of GDP).

The valuation of assets and liabilities have contributed to a stronger operating balance result and net worth position compared to last year. Stronger investment market conditions have increased the value of financial instruments, predominately held by the NZS Fund and the Accident Compensation Corporation (ACC). The value of the New Zealand Emissions Trading Scheme (NZ ETS) liability has reduced, resulting in the recognition of a valuation gain. Overall, net valuation gains recognised in the operating balance result totalled $14.7 billion and were the key driver for the operating balance surplus of $5.3 billion being stronger than the result from last year.

The Government's net worth position is $17.2 billion stronger than the prior year mainly as a result of the operating balance surplus reported in 2022/23 and revaluation uplifts in some of the Government's physical assets. The revaluation increases largely reflect higher material costs required to replace existing assets.

Most of the Government's key fiscal indicators have come in weaker than what was forecast at *Budget 2023*.

The weaker result is largely owing to tax revenue, which came in $2.9 billion lower than expected. This was mostly due to weaker than expected corporate and net other persons tax revenue, as taxable profits for the 2022 tax year were lower than what was assumed in the *Budget 2023* forecast.

The results are compared against the previous year and against forecasts for the 2022/23 year:

- *Budget 2022* refers to the *2022 Budget Economic and Fiscal Update* published in May 2022, and
- *Budget 2023* refers to the *2023 Budget Economic and Fiscal Update* published in May 2023.

Year end results compared to the unaudited results included in the *Pre-election Update*

The *Pre-election Economic and Fiscal Update* (*Pre-election Update)* was published on 12 September 2023 and included the unaudited results for the year ended 30 June 2023. This section compares the year end results with the unaudited results published in the *Pre-election Update*.

Overall, most financial indicators were close to the unaudited results presented in the *Pre-election Update* (Table 2), with most differences relating to reclassifications and the finalisation of valuations. The nature of the changes mean they have minimal implications to the fiscal outlook presented in the *Pre-election Update*.

Table 2 – 30 June 2023 results compared to the *Pre-election Update*

Year ended 30 June	**Actual 2023 $ millions**	**Pre-election Update 2023 $millions**	**Variance $millions**	**%**
Total revenue	153,011	152,474	537	0.4
Total expenses	161,822	161,873	(51)	0.0
Operating balance[1]	5,321	5,086	235	4.6
Total net worth	191,472	191,437	35	0.0
Total assets	536,666	536,187	479	0.1
Total liabilities	345,194	344,750	444	0.1
OBEGAL[1]	(9,446)	(10,034)	588	(5.9)
Net debt	71,367	71,421	(54)	(0.1)

1 Excluding minority interests.

Source: The Treasury

Total revenue was $0.5 billion higher than the unaudited result, largely reflecting a reclassification from gains on financial instruments into interest revenue on the income from the Funding for Lending Programme (FLP). This flows through to improve OBEGAL but has a neutral impact on the operating balance.

Total expenses were $0.1 billion lower than the unaudited result. An additional $0.4 billion of expenses were recognised to reflect the back pay portion of the recent nurses pay equity settlement on 31 July 2023. However, this was more than offset by the reversal of impairment losses and depreciation changes on assets held by KiwiRail. This change reflects that some assets are now considered as primarily held for public benefit, rather than assets solely held to generate cash, which has changed the valuation approach for Crown reporting purposes this year.

As a result of the changes in total revenue and total expense, the OBEGAL deficit was $0.6 billion smaller than the unaudited result. As mentioned above, the gains on financial instruments have reduced, therefore the operating balance is broadly consistent with the unaudited result.

Although total net worth was close to the unaudited result, both total assets and total liabilities were higher by a similar amount. The changes in total assets largely relate to the valuations of physical assets. While the change in total liabilities, largely reflects the provision from the back pay of the nurses pay equity settlement.

There have been no significant changes in net debt.

Fiscal Performance

Fiscal performance looks at the revenue earned, and expenses incurred by the Government over the financial year. The Government's fiscal performance helps to assess the ability of the Government to sustain public finances at a credible and serviceable position over the long term. It shows whether the Government can maintain its current level of expenditure and revenue without major adjustments, or whether its policies would lead to excessive accumulation of public debt unless the Government takes action to change its policies. There are a number of fiscal indicators that help determine the fiscal performance of the Government, which are discussed in more detail in this section.

Total Revenue

Total Crown revenue for the year ended 30 June 2023 was $153.0 billion. Table 3 shows that around three quarters of the Crown's revenue comes from tax revenue at $111.7 billion. Of this, $77.1 billion relates to direct taxes earned from individuals (eg, source deductions such as PAYE) and businesses (eg, corporate tax), with the remainder coming from indirect taxes (eg, GST). Sales of goods and services at $22.0 billion was the second largest component making up about 14% of the total Crown revenue and largely comprises the revenue earned from the activities of entities within the State-owned enterprise (SOE) reporting segment, such as selling electricity and air travel. Other sovereign revenue (eg, fines and levies) was $8.4 billion or 5% of total Crown revenue, with ACC levies and NZ ETS revenue making up a large part of sovereign revenue.

Table 3 – Breakdown of revenue

Year ended 30 June	Actual 2023 $ millions	Actual 2022 $ millions	Variance $ millions	%	Forecast Budget 2023 2023 $ millions	Variance $ millions	%
Tax revenue	111,712	107,873	3,839	3.6	114,626	(2,914)	(2.5)
Other sovereign revenue	8,407	8,894	(487)	(5.5)	9,086	(679)	(7.5)
Sales of goods and services	21,954	17,442	4,512	25.9	22,596	(642)	(2.8)
Interest revenue	5,012	2,292	2,720	118.7	4,110	902	21.9
Other revenue	5,926	5,126	800	15.6	5,138	788	15.3
Total Crown revenue	**153,011**	**141,627**	**11,384**	**8.0**	**155,556**	**(2,545)**	**(1.6)**
By segment							
Core Crown	123,398	117,515	5,883	5.0	126,678	(3,280)	(2.6)
Crown entity	63,665	54,441	9,224	16.9	64,626	(961)	(1.5)
SOE	19,777	16,725	3,052	18.2	20,325	(548)	(2.7)
Inter-entity eliminations	(53,829)	(47,054)	(6,775)	14.4	(56,073)	2,244	(4.0)
Total Crown revenue	**153,011**	**141,627**	**11,384**	**8.0**	**155,556**	**(2,545)**	**(1.6)**

Source: The Treasury

Total Crown revenue at $153.0 billion was $11.4 billion higher than for the 2022 year. The increase was largely spread across sale of goods and services, tax revenue and interest revenue.

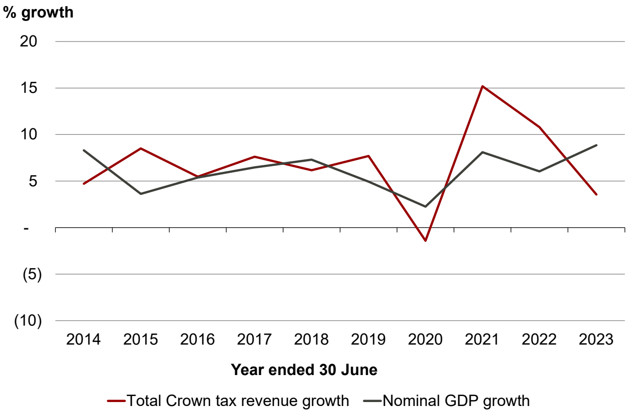
Sales of goods and services was $4.5 billion higher than in the 2022 year. This is largely reflective of the increased demand for air travel as domestic and international flights returned to near pre-COVID-19 levels, which has increased revenue earned by Air New Zealand. This increase in revenue was partially offset by changes in wholesale electricity prices which have reduced the revenue earned by the Government's electricity generators. Both of these changes in sales of goods and services also have a similar impact on expenses.

Fiscal Performance (continued)

Total Crown tax revenue increased by $3.8 billion in the 2022/23 year, which has seen strong wage growth, a strong labour market and inflation increasing. On the other hand, corporate and other individuals tax revenue decreased as a result of lower terminal and provisional tax when compared to 2022 (see Figure 1).

Overall, tax revenue is higher than the previous year, but this comprises a number of under and overs within the major tax types (see Table 4). These movements are discussed below.

Figure 1 – Total Crown tax revenue and nominal GDP growth



Source: The Treasury, Stats NZ

Table 4 – Increase in total Crown tax revenue

Year ended 30 June	$ billions
2022 total Crown tax revenue	**107.9**
Source deductions	4.9
GST	2.0
Other direct taxes	1.3
Other individuals' tax	(1.6)
Corporate tax	(1.9)
Other movements	(0.9)
2023 total Crown tax revenue	**111.7**

Source: The Treasury

- Source deductions increased by $4.9 billion (11.6%) largely owing to a strong labour market, characterised by strong wage growth. Around a quarter of the increase reflects the impact of fiscal drag (increase in a person's average tax rate as their income increases).

- Goods and Services Tax (GST) revenue was $2.0 billion (7.7%) higher than last year. The year-on-year growth in nominal consumption is driven in part by the high rate of consumer price inflation through the year.

- Other direct taxes, which mainly compromises of resident withholding tax (RWT), was $1.3 billion (65.1%) higher than the previous year. This is largely reflective of higher interest rates through the year.

- Other individuals' tax revenue decreased by $1.6 billion (15.6%) reflecting a decline in terminal tax revenue. Actual 2022 tax-year returns filed through the 2023 fiscal year were close to the provisional tax estimated in the 2022 fiscal year, which meant that net terminal tax revenue made a small contribution to total net revenue. In the 2022 fiscal year, terminal tax revenue made a larger contribution to total net revenue.

- Corporate tax revenue decreased by $1.9 billion (9.6%), reflective of a decrease in both terminal and provisional tax revenue (of approximately $0.9 billion each). This was largely driven by a decrease in the value of actual assessments filed by taxpayers, likely reflective of lower level of taxable profits in the 2023 tax year compared to 2022 (though this will not be confirmed until the 2023 tax returns are filed). Portfolio Investment Entity (PIE) tax revenue was $0.2 billion less than last year, reflecting the lower investment returns in the year compared to 2022.

- The other movements of $0.9 billion, mainly reflect the impact of the Government's cost of living support in 2022/23 through the reduction in the rates of fuel excise duty and road user charges, which have reduced tax revenue.

Interest revenue has increased by $2.7 billion which is more than double the amount of interest revenue earned in the previous year. To help ease inflationary pressures the Reserve Bank have increased the OCR throughout the year, which has resulted in an increase in interest rates.

Other sovereign revenue includes revenue from levies (eg, ACC, fire and emergency and EQC levies) as well as revenue from the NZ ETS and other miscellaneous items. The decrease of $0.5 billion from the previous year was predominantly driven by a $1.4 billion reduction in the NZ ETS, reflecting the price changes of the NZUs which decreased from $76.00 per NZU at 30 June 2022 to $41.75 per NZU at 30 June 2023. This was offset by an increase in ACC levies of $0.4 billion, largely as a result of ACC levy rate increases.

Total Revenue compared to *Budget 2023*

Total revenue was $2.5 billion, or 1.6% lower than expected in *Budget 2023*. Tax revenue was the main driver, contributing $2.9 billion to the variance (Table 5).

Table 5 – Total Crown tax revenue compared to *Budget 2023*

Year ended 30 June	$ billions
***Budget 2023* total Crown tax revenue**	**114.6**
Corporate tax	(2.4)
Other individuals' tax	(1.4)
Source deductions	0.3
Other direct taxes	0.5
Other taxes	0.1
Actual 2023 total Crown tax revenue	**111.7**

Source: The Treasury

Corporate and other individuals' tax revenue were the drivers for the lower than forecast tax-take, somewhat offset by stronger outturns for source deductions and RWT on interest:

- Corporate tax revenue was $2.4 billion (11.8%) below forecast and net other individuals' tax revenue was $1.4 billion (13.9%) below forecast. This was primarily the result of terminal tax revenue, ie, income tax revenue relating to the 2022 and earlier tax years, being $1.3 billion lower than forecast with taxable profits being lower than expected. Provisional tax revenue, ie, income tax revenue relating to the current tax year, was $1.9 billion lower than forecast as the below forecast 2022 tax returns reduced the provisional tax estimates for 2023. PIE tax revenue was also lower than forecast ($0.6 billion) owing to weaker than expected investment returns.
- Source deductions revenue was $0.3 billion (0.7%) above forecast, owing to a stronger than anticipated growth in employment. The June quarter labour market statistics showed that labour force participation increased by 0.4%, as net migration increased the labour market, while wage pressures remained.
- Other direct taxes are primarily made up of RWT on interest and was $0.5 billion (16.3%) above forecast. The RWT on interest increase was largely a result of interest rates being higher than expected through the last quarter of the 2023 fiscal year.

The movement from *Budget 2023* in the other revenue types largely offset each other, with other sovereign revenue and sales of goods and services, being lower than forecast by $0.7 billion and $0.6 billion respectively, and other revenue and interest revenue being higher than forecast by $0.8 billion and $0.9 billion respectively.

The decrease in other sovereign revenue was driven by lower than forecast NZ ETS revenue (reflecting the price changes of NZUs which decreased from the 31 March 2023 market price of $54.50 per NZU, which the forecast was based on).

The decrease in sales of goods and services mainly reflects lower than forecast wholesale electricity prices. As mentioned above, this has a negative impact on the revenues of the Government's electricity generators.

The increase in interest revenue largely reflects higher than forecast interest rates following the further rising of the OCR by the Reserve Bank.

Fiscal Performance (continued)

Total Expenses

Total Crown expenses were $161.8 billion in the current year and as a share of the economy, total expenses were 40.9% of GDP which was lower than the 41.5% of GDP for 2021/22.

Table 6 below shows the composition of total Crown expenses by key areas of spending included in the Statement of Financial Performance. Together transfer payments and subsidies (eg, NZS payments) and personnel expenses made up just under half of all Crown spending. Other operating expenses makes up 40% of total Crown expenses and comprises many different areas of government spending (refer Note 10: Other Operating Expenses of the financial statements for a further breakdown of other operating expenses).

Table 6 – Breakdown of expenses

					Forecast		
	Actual	**Actual**			**Budget 2023**		
Year ended 30 June	**2023**	**2022**	**Variance**		**2023**	**Variance**	
	$ millions	**$ millions**	**$ millions**	**%**	**$ millions**	**$ millions**	**%**
Transfer payments and subsidies	38,803	44,087	(5,284)	(12.0)	38,926	(123)	(0.3)
Personnel expenses	36,052	32,648	3,404	10.4	35,308	744	2.1
Depreciation	6,601	6,152	449	7.3	6,571	30	0.5
Other operating expenses	64,134	58,273	5,861	10.1	68,665	(4,531)	(6.6)
Interest expenses	7,448	3,349	4,099	122.4	7,236	212	2.9
Insurance expenses	8,784	6,447	2,337	36.2	8,918	(134)	(1.5)
Forecast new operating spending	-	-	-	-	-	-	-
Top-down expense adjustment	-	-	-	-	(3,700)	3,700	(100.0)
Total Crown expenses	**161,822**	**150,956**	**10,866**	**7.2**	**161,924**	**(102)**	**(0.1)**
By segment							
Core Crown	127,574	125,641	1,933	1.5	128,195	(621)	(0.5)
Crown entity	68,401	56,540	11,861	21.0	69,125	(724)	(1.0)
SOE	17,842	15,059	2,783	18.5	19,086	(1,244)	(6.5)
Inter-entity eliminations	(51,995)	(46,284)	(5,711)	12.3	(54,482)	2,487	(4.6)
Total Crown expenses	**161,822**	**150,956**	**10,866**	**7.2**	**161,924**	**(102)**	**(0.1)**

Source: The Treasury

Total Crown expenses were $10.9 billion or 7.2% more than last year. With COVID-19 restrictions coming to an end government support measures have been much smaller compared to the last few years. In 2022/23 there were no payments for the wage subsidy scheme ($4.7 billion in 2021/22) or the COVID-19 resurgence and support payments ($4.0 billion in 2021/22). So, when looking through the significant temporary COVID-19 support payments from last year, the increase in expenses is closer to $19.6 billion. The increased government spending was largely reflective of the economic conditions of a high inflationary and interest rate environment, activity rebounding back from COVID-19 and costs to respond to the North Island weather events.

The decisions announced in the *Budget 2022* package were expected to add around $6.7 billion of expenditure in 2022/23, while initiatives funded from the Climate Emergency Response Fund also added to the growth in expenses. A large part of the *Budget 2022* package represented funding provided to meet the costs of maintaining existing services impacted from inflationary pressures. In addition, the Government introduced a number of temporary measures (eg, cost-of-living payments and discounted public transport) to support households from the impact of rising cost of living during the year.

The higher-than-normal inflationary environment through the year has resulted in high wage growth. As most main benefit types are indexed to wage growth, this has been a key factor in benefit expenses (excluding the temporary COVID-19 and cost of living measures) increasing by $2.8 billion in 2022/23. The other key driver for the increase in benefit payments is a rise in the recipient numbers of NZS payments.

Fiscal Performance (continued)

To help ease inflationary pressures the Reserve Bank have increased the OCR throughout the year, which flows through to interest rates. For example, the average yield rate on 10-year government bonds was 2.6% in 2021/22 compared to an average of 4.2% in 2022/23. This has contributed to interest expenses increasing by $4.1 billion (122%), since last year. In addition, an increase in borrowings compared to last year (refer to the balance sheet analysis on page 23) also contribute to the increase in the interest expense.

The easing of the COVID-19 restrictions has meant some sectors have returned to pre-COVID-19 levels of activity. In particular, the demand for air travel has increased and has led to a recovery for Air New Zealand. The increase in demand has led to higher operating costs of around $1.8 billion with fuel costs almost tripling since the year before and increased personnel costs ($0.4 billion). These increased operating costs, however, were more than offset by the higher revenue (refer page 9).

The severe North Island weather events occurring in early 2023 has caused widespread damage across a number of regions in the North Island. The Government provided initial business and primary sector support, funding to help assess and fix roads, silt and solid waste removal, repairs for school property as well as other support. Of the initial operating expenditure appropriated ($0.7 billion) for 2022/23, about $0.5 billion was incurred. The weather events have also increased insurance claims and impairments by around $0.7 billion and $0.5 billion respectively. For further details refer to Note 3: North Island Weather Events in the financial statements. At *Budget 2023* the Government announced the National Resilience Plan of $6.0 billion, which in the first instance, starting from 2023/24, will be used to fund asset repairs and replacement from the North Island weather events.

Health New Zealand (Te Whatu Ora[1]) expense increases were also a large driver of the year-on-year change. *Budget 2022* provided $1.8 billion in funding to the new health sector entities for the health system reform as well as to address cost pressures. Te Whatu Ora also saw an increase in personnel expenditure of $1.5 billion, reflecting wage increases for medical and nursing staff, an increase in the holiday pay costs, and pay equity settlements, and an increase of $1.0 billion for clinical supplies.

The above factors have been the key influences on the trend of expense types when compared to the previous year, with:

- Transfer payments and subsidies decreased by $5.3 billion (12.0%) on the prior year. This decrease was largely owing to a reduction in the COVID-19 related support payments of $8.7 billion, offset by the one-off cost of living payment of $0.6 billion and increases in main benefit types by $2.8 billion (discussed above).
- Personnel costs increased by $3.4 billion (10.4%) on the prior year. This increase is spread across a number of areas and largely reflects the flow on impact of the high inflation rate. The recovery in air travel and increased health sector costs also contribute to the increase in personnel costs (discussed above). The majority of the increase in personnel costs in the core Crown and Crown entity segments is funded from the *Budget 2022* package.
- Insurance expenses increased by $2.3 billion (36.2%) on the prior year. The movement largely comprised of a $1.8 billion increase in the ACC insurance expense and a $0.6 billion in Toke Tū Ake Earthquake Commission (EQC) insurance expenses (of which, $0.7 billion relates to the North Island weather events discussed above). The ACC increases largely reflect a higher number of claims under the ACC scheme, after seeing a supressed number of claims the year before due to the COVID-19 lockdowns, and a broader scope of accidents able to be processed.
- Other operating expenses increased by $5.9 billion (10.1%) on the prior year. The increase in other operating expenses was largely driven by costs funded from the *Budget 2022* package, the increase in Te Whatu Ora and Air New Zealand costs (eg, fuel) as explained above, and increases in impairment costs. The impairment increase includes costs in relation to the North Island weather events and a reversal of previous year's impairments on aircraft. These increases were partially offset by a reduction in wholesale electricity prices.

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1 Te Whatu Ora replaced the District Health Boards (DHB) in 2022. Year-on-year comparisons are made against the 2021/22 DHB result.

Total Expenses compared to *Budget 2023*

Total expenses at $161.9 billion were in line with expectation, $0.1 billion lower than forecast.

While Crown expenses were close to forecast at a total level, a $3.7 billion operating top-down adjustment was included in Budget 2023. This adjustment is included in every forecast to compensate for departments' tendency to forecast at their upper limits of approved spending rather than a best estimate of what will be spent. When looking through the top-down adjustment, the variance is closer to $3.8 billion below forecast.

The major differences from forecast within the core Crown segment (as shown in Table 7) were:

Table 7 – Core Crown expenses compared to *Budget 2023*

Year ended 30 June	**$ billions**
***Budget 2023* core Crown expenses**	**128.2**
Health expenditure	(1.0)
Environmental protection expenditure	(0.8)
Transport and communications	(0.7)
Housing and community development	(0.6)
Education expenses	(0.4)
Top-down operating adjustment	3.7
Finance costs	0.3
Other movements	(1.1)
2023 core Crown expenses	**127.6**

Source: The Treasury

- Health expenses were $1.0 billion lower than forecast, most of which is timing related with the expenditure now expected to be incurred in 2023/24. This included $0.3 billion lower than forecast spend on COVID-19 vaccines, due to the availability of shipping as well as a global shortage of the vaccine, and $0.2 billion lower than anticipated costs on planned care, which was impacted by the system reforms and the ongoing impact of resource availability.
- Environmental protection expenses were $0.8 billion less than forecast. This was predominantly due to lower NZ ETS expenses owing to a drop in the price of the NZU's since *Budget 2023.* The forecast used a price per unit of $54.50 based on the price at 31 March 2023.
- Transport and communications expenses were $0.7 billion less than forecast. This is primarily driven by lower-than-expected expenditure on the eastern busway project in Auckland ($0.2 billion), the clean vehicle discount scheme rebates ($0.1 billion) and a delay in the shovel ready grant payments. This expenditure is likely to be incurred in the 2023/24 fiscal year.
- Housing and community development spending was less than expected, being $0.6 billion lower than forecast. Most of the lower than forecast spend relates to the Water Services Reform – Better Off Support Package, which had funding set aside to support the establishment of the new water services entities on behalf of the Crown. This expenditure was delayed following a review into the water services reform in early 2023. The remaining variance related to lower than forecast spend across different housing initiatives.
- Education expenses were $0.4 billion less than forecast. Part of the variance reflects that the collective bargaining process has not yet concluded as settlement has not been reached for all agreements. The remaining variance consists of small variances across a range of initiatives where lower than forecast demand was the key driver.
- Core Crown finance costs were $0.3 billion higher than forecast, mainly as a result of higher than forecast interest rates following increases in the OCR and higher than forecast financial liabilities. The OCR has increased three times since the forecasts were set (*Budget 2023* forecasts were based on the OCR at 31 January 2023 (4.25%)).

The other movements in core Crown expenses were spread across a number of other areas of expenditure and across all departments.

SOE expenditure was $1.2 billion lower than forecast, largely reflecting the energy companies' actual performance, driven by lower electricity prices as a result of market conditions.

Crown entity expenditure was $0.7 billion lower than forecast, largely due to Waka Kotahi funding provided to local councils. The timing of *Budget 2023* meant that Crown entities were able to capture estimated North Island weather event costs (such as insurance expenses and asset impairments).

Fiscal Performance (continued)

Net Gains/(Losses)

Net gains and losses include the valuation changes in some of the Crown's assets and liabilities. The two key categories of gains and losses reflected in the statement of financial performance relate to valuation changes on financial instruments (eg, changes in fair value and foreign exchange movements on financial assets and liabilities and derivatives) and on non-financial instruments (eg, the ACC outstanding claims liability and the NZ ETS liability).

Net gains for the year totalled $14.7 billion and comprised $7.7 billion net gains on financial instruments and $6.9 billion net gains on non-financial instruments, as shown below in Table 8.

Table 8 – Net gains/(losses)

Year ended 30 June	Actual 2023 $ millions	Actual 2022 $ millions	Variance $ millions	Variance %	Forecast Budget 2023 2023 $ millions	Variance $ millions	Variance %
Net gains/(losses) on financial instruments	7,711	(9,687)	17,398	179.6	5,888	1,823	31.0
Net gains/(losses) on non-financial instruments	6,947	2,965	3,982	134.3	5,301	1,646	31.1
Total Gains/(Losses)	**14,658**	**(6,722)**	**21,380**	**318.1**	**11,189**	**3,469**	**31.0**

Source: The Treasury

Net gains on financial instruments of $7.7 billion, compared to net losses of $9.7 billion recognised last year, reflected changes in investment market conditions which have favourably impacted on the returns of the Crown's investment portfolios (primarily NZS Fund and ACC portfolios).

Net gains on non-financial instruments of $6.9 billion compared to $3.0 billion of net gains last year, largely consisted of gains on the NZ ETS liability and actuarial gains on the ACC long term liability:

- The NZ ETS gain of $5.6 billion was largely a result of a decrease in the carbon price (from $76.00 per NZU at 30 June 2022 to $41.75 per NZU at 30 June 2023) used to value the NZ ETS liability. The units outstanding are revalued using the spot price at year end. This compares to a NZ ETS loss of $4.9 billion recognised last year.
- While the actuarial gains on the ACC liability were lower than the previous year, it still had a favourable valuation movement of $1.3 billion (actuarial gains of $6.7 billion in 2021/22). This was driven by an increase in discount rates used to estimate the present value of the liability, partially offset by revisions to inflation forecasts. The increase in discount rates is owing to higher interest rates (which have a favourable impact on the ACC liability reported in present-day values).

Both financial instruments and non-financial instruments are sensitive to external factors, so gains and losses can be very volatile year to year. For example, the valuation of the NZ ETS liability is heavily influenced by changes in the price of NZUs, financial instruments are sensitive to market conditions, and the long-term liabilities (such as the ACC outstanding claims liability) is particularly sensitive to changes in the discount rates. These are further described in Note 2: Key Assumptions and Estimations in the financial statements.

Net Gains/(Losses) compared to *Budget 2023*

Net gains of $14.7 billion were $3.5 billion more than the gains forecast in *Budget 2023*. Gains on financial instruments were $1.8 billion more than the *Budget 2023* forecast owing to an improvement in financial markets impacting on ACC and NZS Fund investment portfolios. There were also favourable movements in non-financial instruments, with the gains on the NZ ETS being $2.2 billion more than forecast at *Budget 2023*, largely owing a change in the carbon price (*Budget 2023* was based on the 31 March 2023 market price of $54.50 per NZU which was higher than the 30 June 2023 carbon price of $41.75 per NZU). This was slightly offset by a smaller actuarial gain on the ACC liability of $0.4 billion.

Fiscal Performance (continued)

Operating Balance

The operating balance (excluding minority interests) represents the net position of total Crown revenues, expenses and, net gains/(losses) on financial and non-financial instruments. Refer to the previous sections for the discussion of the key drivers of each of these. Overall, the operating balance was a surplus of $5.3 billion in 2022/23 which was stronger than the prior year result by $22.3 billion. It was also stronger than the *Budget 2023* forecast surplus by $1.1 billion (Table 9).

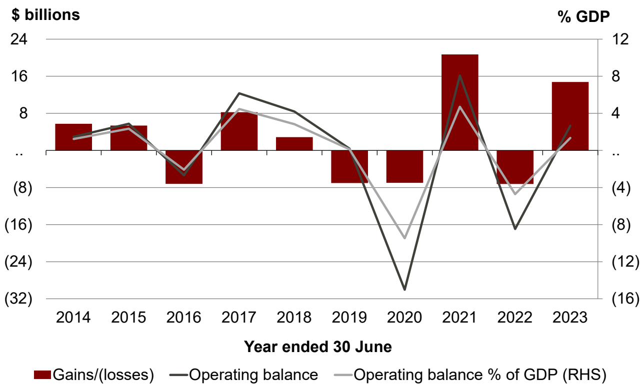
Table 9 – Components of the operating balance (excluding minority interests)

Year ended 30 June	Actual 2023 $ millions	Actual 2022 $ millions	Variance $ millions	%	Forecast Budget 2023 2023 $ millions	Forecast Variance $ millions	%
Total revenue	153,011	141,627	11,384	8.0	155,556	(2,545)	(1.6)
Total expenses	161,822	150,956	10,866	7.2	161,924	(102)	(0.1)
Net gains/(losses)	14,658	(6,722)	21,380	318.1	11,189	3,469	31.0
Other	(526)	(881)	355	(40.3)	(602)	76	(12.6)
Total Operating Balance	**5,321**	**(16,932)**	**22,253**	**131.4**	**4,219**	**1,102**	**26.1**

Source: The Treasury

Similar to the previous year, total revenue is lower than total expenses. However, when net gains/(losses) are combined the operating balance (excluding minority interests) resulted in a surplus of $5.3 billion. Figure 2 shows the historical operating balance which highlights the volatility in net gains/(losses) from year to year.

Figure 2 – Operating balance (excluding minority interests)



Source: The Treasury

Fiscal Indicators used for the Government's Fiscal Strategy

Under the Public Finance Act 1989, the Government must articulate its fiscal strategy in accordance with the principles of responsible fiscal management. The Government will use fiscal indicators to help communicate its progress against its fiscal strategy. In some instances, the Government may use fiscal indicators not prescribed under Generally Accepted Accounting Practice (GAAP), as they may provide more meaningful insights into the fiscal sustainability and fiscal resilience objectives that the Government is looking to achieve.

The Government's Fiscal Strategy

The Government's fiscal strategy has two primary fiscal rules. The rules are:

- returning the OBEGAL to a surplus and aiming for small surpluses thereafter, as the primary fiscal rule
- a net debt ceiling that complements the OBEGAL target while allowing more fiscal space to fund high-quality capital investments that will improve productivity and living standards. Maintaining net debt below this ceiling will also ensure a sufficient fiscal buffer to address economic shocks or natural disasters.

In the short-term the Government is aiming to return OBEGAL to a surplus by the end of the forecast period (which is currently the 2026/27 year) and has set a net debt ceiling of 30% of GDP.

This section discusses the headline fiscal indicators the Government is using to target for its fiscal strategy, OBEGAL and net debt. In addition, this section also discusses core Crown residual cash, which helps explain a large part of the movement in net debt and gross debt, which indicates the amount of borrowings of the core Crown (provided in Table 10). Other indicators such as core Crown expenses, core Crown revenue and core Crown tax revenue are also useful for reporting progress on the Government's fiscal strategy. These can be found in the historical time series on page 181.

Further information on the Government's fiscal strategy can be found in *The Wellbeing Budget 2023: Support for today Building for tomorrow* published with the Government's budget on 18 May 2023.

Table 10 – Fiscal strategy and other supporting indicators

Year ended 30 June	Actual 2023 $ millions	Actual 2022 $ millions	Variance $ millions	Variance %	Forecast Budget 2023 2023 $ millions	Variance $ millions	Variance %
OBEGAL	(9,446)	(9,691)	245	(2.5)	(6,959)	(2,487)	35.7
Core Crown residual cash	(25,648)	(27,043)	1,395	(5.2)	(22,426)	(3,222)	14.4
Net debt	71,367	61,850	9,517	15.4	70,957	410	0.6
Gross debt	135,789	118,950	16,839	14.2	134,950	839	0.6
% of GDP							
OBEGAL	(2.4)	(2.7)		0.3	(1.8)		(0.6)
Core Crown residual cash	(6.5)	(7.4)		0.9	(5.7)		(0.8)
Net debt	18.0	17.0		1.0	18.0		0.0
Gross debt	34.3	32.7		1.6	34.3		0.0

Source: The Treasury

Fiscal Indicators used for the Government's Fiscal Strategy (continued)

OBEGAL (Operating Balance before Gains and Losses)

OBEGAL represents the difference between total Crown revenue and total Crown expenses. It excludes gains and losses that impact the operating balance. It shows whether the Government has generated enough revenue to cover expenses in any given year. In general, if the OBEGAL is in a surplus, the Government could use this to fund its capital investments. However, if the OBEGAL is in a deficit the Government will need to increase borrowings or dispose of financial assets to fund this deficit.

Total Crown revenue was $153.0 billion, while total Crown expenses were $161.8 billion in the 2022/23 year. The difference between these two balances, plus an adjustment for the minority interests, leaves an OBEGAL deficit of $9.4 billion.

The Crown entities segment is the biggest contributor to the OBEGAL deficit in the 2022/23 year, with a $4.7 billion deficit, while core Crown also had a deficit of $4.2 billion for the year. Figure 3 shows the composition of OBEGAL from the different reporting segments of the Government.

Table 11 – OBEGAL

Year ended 30 June	Actual 2023 $ millions	Actual 2022 $ millions	Variance $ millions	Variance %	Forecast Budget 2023 2023 $ millions	Forecast Variance $ millions	Forecast Variance %
OBEGAL	**(9,446)**	**(9,691)**	**245**	**(2.5)**	**(6,959)**	**(2,487)**	**35.7**
By segment							
Core Crown	(4,176)	(8,126)	3,950	(48.6)	(1,517)	(2,659)	175.3
Crown entity	(4,736)	(2,100)	(2,636)	125.5	(4,499)	(237)	5.3
SOE	1,277	1,289	(12)	(0.9)	626	651	104.0
Inter-entity eliminations	(1,811)	(754)	(1,057)	140.2	(1,569)	(242)	15.4
OBEGAL	**(9,446)**	**(9,691)**	**245**	**(2.5)**	**(6,959)**	**(2,487)**	**35.7**

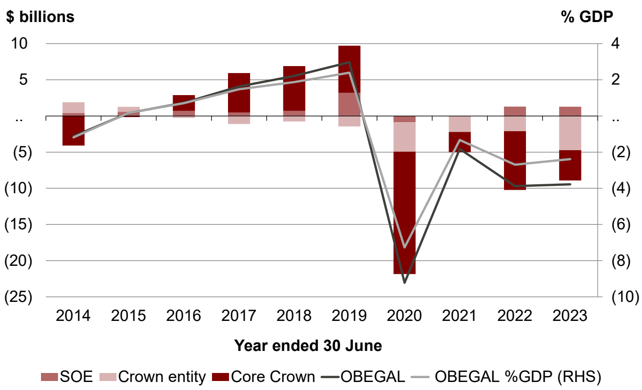
Source: The Treasury

The OBEGAL deficit was similar to the previous year's deficit, at $9.4 billion compared to $9.7 billion in 2022/23 (Table 11). Both revenue and expenses grew at a similar pace during the year. The changes in revenue and expenses are discussed further on pages 9 to 12

The core Crown segment reported an OBEGAL deficit of $4.2 billion, an improvement from the $8.1 billion deficit reported last year. The improvement is mainly underpinned by growth in core Crown tax revenue being more than the increase in core Crown expenses.

The Crown entity segment reported a deficit of $4.7 billion, which was $2.6 billion more than the previous year's deficit. An increase in insurance expenditure has been a main contributor to the weaker result, reflecting higher costs to settle claims under the ACC scheme and costs for EQC to settle claims from the North Island weather events. Increased Waka Kotahi funding to local councils for road maintenance has also contributed to the increase in the deficit.

Figure 3 – Components of OBEGAL by segment



Source: The Treasury

Fiscal Indicators used for the Government's Fiscal Strategy (continued)

For the year ended 30 June 2023, the SOE segment reported a surplus of $1.3 billion, which was similar to the previous years reported surplus.

OBEGAL compared to *Budget 2023*

The OBEGAL deficit of $9.4 billion was $2.5 billion larger than the deficit forecast primarily owing to the lower than forecast tax revenue, discussed previously.

Core Crown Residual Cash and Gross Debt

Core Crown residual cash provides an insight into the funding the Government needs to raise or has available to invest, in any given year, and, therefore, will influence the level of net debt. Unlike OBEGAL it is a cash measure and excludes the activity of the SOE and Crown entity segments as their cashflows are not available to fund the activity of the core Crown.

For the year ended 30 June 2023, there was a residual cash deficit of $25.6 billion. This deficit was the result of a net core Crown operating cash flow deficit of $3.4 billion, combined with a $22.2 billion deficit in net cash flows from core Crown capital spending.

The residual cash deficit was $1.4 billion smaller than the residual cash deficit of $27.0 billion last year (see Figure 4).

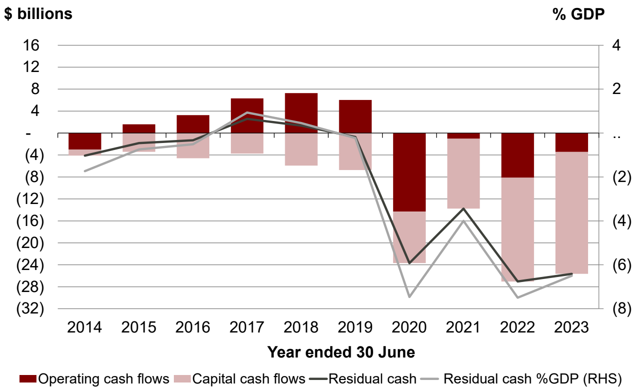
Net core Crown operating outflows were $3.4 billion, $4.7 billion less than last year.

Core Crown tax receipts were $111.3 billion, an increase of $5.8 billion on the year to 30 June 2022. The main areas of growth were source deductions ($4.5 billion), GST receipts ($1.7 billion), and other direct tax receipts ($1.2 billion), for reasons similar to the corresponding revenue variances discussed on page 10. Corporate tax and net other individuals tax receipts were $1.0 billion and $0.8 billion higher than the previous year. This was almost entirely due to growth in provisional tax receipts.

Operating payments were $1.9 billion more than last year, which was broadly consistent with the increase in core Crown expenses.

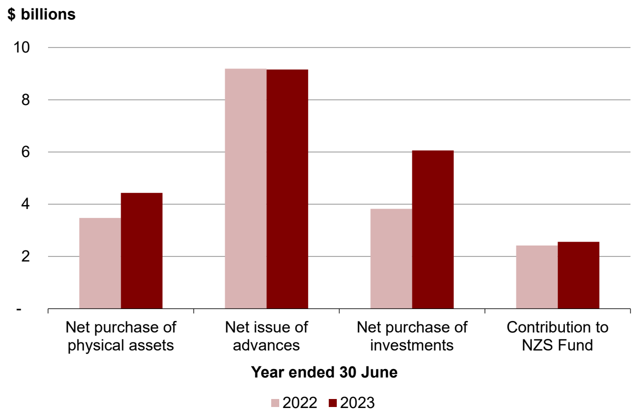
Net core Crown capital spending for 2022/23 totalled $22.2 billion, an increase of $3.3 billion from the previous year. The capital spending for the year included $4.4 billion in net purchases of physical assets, $9.2 billion in net advances, $6.1 billion in net investment in Crown entities and SOEs and $2.6 billion in contributions to the NZS Fund. The increase from last year (Figure 5) is largely owing to the combined impact of an increase of $2.2 billion in net purchase of investments (reflecting the core Crown investment in Kiwi Group Capital Limited) and a $1.0 billion increase in net purchase of physical assets. There were minimal increases on the prior year from the remaining capital spending components.

Figure 4 – Core Crown residual cash



Source: The Treasury

Figure 5 – Net core Crown capital cashflows



Source: The Treasury

For the purposes of looking at how the cash shortfall is funded, it is best to look through the impact of the FLP on residual cash, as the FLP issuances included in the residual cash deficit are funded from settlement deposits instead of the Government's bond programme. So, when looking through the impacts from FLP, the residual cash shortfall for the year would be $19.1 billion. This has been funded by the Government's bond programme (see Table 12), and a reduction in the level of financial assets held by the Crown which have, in part, accumulated from previous bond issuances.

Fiscal Indicators used for the Government's Fiscal Strategy (continued)

Table 12 – Cash proceeds from the Crown's debt programme

Year ended 30 June	Actual 2023 $ millions	Actual 2022 $ millions	Variance $ millions	%	Forecast Budget 2023 $ millions	Variance $ millions	%
Issue of government bonds	26,076	19,275	6,801	35.3	26,967	(891)	(3.3)
Repayment of government bonds	(21,879)	-	(21,879)	-	(21,891)	12	(0.1)
Net issue/(repayment) of short-term borrowing[1]	(66)	(4,158)	4,092	(98.4)	(327)	261	(79.8)
Total market debt cash flows	**4,131**	**15,117**	**(10,986)**	**(72.7)**	**4,749**	**(618)**	**(13.0)**
Net issue/(repayment) of short-term borrowing	(300)	(412)	112	(27.2)	(400)	100	(25.0)
Total non-market debt cash flows	**(300)**	**(412)**	**112**	**(27.2)**	**(400)**	**100**	**(25.0)**
Total debt programme cash flows	**3,831**	**14,705**	**(10,874)**	**(73.9)**	**4,349**	**(518)**	**(11.9)**

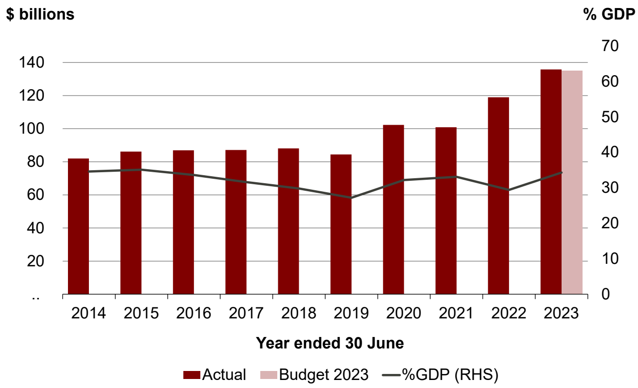
1 Short-term borrowings consist of Treasury Bills and may include Euro-Commercial Paper.

Source: The Treasury

Gross debt shows the debt issued by the Crown. Gross debt consists largely of core Crown borrowings with adjustments for NZS Fund's holdings of sovereign debt and borrowings, less the Reserve Bank's holdings of settlement cash and Reserve Bank bills[2]. Gross debt was $135.8 billion at 30 June 2023 (refer Figure 6).

Gross debt has increased by $16.8 billion. Most of this reflects an increase in government stock held of $16.5 billion, as well as an increase in the Euro Commercial Paper liability. This was slightly offset by a decrease in Treasury Bills of $0.6 billion.

Figure 6 – Gross Debt



Source: The Treasury

The Crown's debt programme (refer to Table 12) included $26.1 billion of issuances and $21.9 billion of repayments of government bonds during the year. The repayment of government bonds includes repayments relating to managing down of the Reserve Bank's large scale asset purchase programme (including both bonds maturing and the selling back of bonds to NZDM). As the repayments to the Reserve Bank are within the Crown, they do not flow through to reduce the balance of gross debt.

2 There has been a change in the calculation of gross debt to reflect looking through settlement deposits held with the Reserve Bank for central banks and the International Monetary Fund. For more information, refer to the Fiscal Indicator Analysis on page 168.

Fiscal Indicators used for the Government's Fiscal Strategy (continued)

Core Crown Residual Cash and Gross Debt compared to *Budget 2023*

The core Crown residual cash deficit of $25.6 billion was $3.2 billion more than the deficit of $22.4 billion that was forecast for the 30 June 2023 year.

Net core Crown operating cashflows at $3.4 billion were $2.0 billion higher than forecast. Tax receipts were $2.4 billion unfavourable compared to forecast mainly owing to lower-than-forecast corporate tax receipts and net other individuals tax receipts. The corporate and other net individuals' cash receipts variance is lower than the revenue variance due to the timing lag between when tax revenue is recognised and when the receipt of this tax is due. Net core Crown operating payments were also lower than forecast for the same reasons as core Crown expenses discussed previously.

Net core Crown capital outflows at $22.2 billion were $1.2 billion more than forecast due to higher than forecast issue of advances primarily relating to issuances of advances under the Reserve Bank's FLP, offset by both purchases of property, plant and equipment and investments.

Gross debt at $135.8 billion was $0.8 billion higher than forecast owing to a combination of factors. This includes core Crown derivatives in loss which were $1.0 billion higher than forecast and Euro Commercial Paper liabilities which were $0.7 billion higher than forecast. These were partly offset by government stock, which was lower than forecast by $0.8 billion.

Net Debt

Net debt provides information about the sustainability of the Government's accounts. Net debt represents core Crown and Crown entity borrowings (excluding Kiwi Group Capital) less core Crown financial assets (including advances). It includes the financial assets and borrowings of the NZS Fund. Table 13 below shows the year-on year movement in net debt.

Table 13 – Movement in net debt

Year ended 30 June	Actual 2023 $ millions	Actual 2022 $ millions	Variance $ millions	Forecast Budget 2023 2023 $ millions	Variance $ millions
Opening net debt	**61,850**	**35,921**	**25,929**	**61,850**	**-**
Core Crown residual cash (surplus)/deficit	25,648	27,043	(1,395)	22,426	3,222
Less net increase in advances	(9,159)	(9,192)	33	(8,601)	(558)
Less contributions to the NZS Fund	(2,558)	(2,420)	(138)	(2,558)	-
Net increase/(decrease) in Crown entity borrowings (excluding Kiwi Group Capital Limited)	3,191	2,509	682	2,876	315
Net (issues)/returns of circulating currency	60	(805)	865	(196)	256
Other fair value movements in financial assets and financial liabilities (including NZS Fund)	(7,665)	8,794	(16,459)	(4,840)	(2,825)
Closing net debt	**71,367**	**61,850**	**9,517**	**70,957**	**410**
Net debt as a % of GDP	**18.0**	**17.0**		**18.0**	

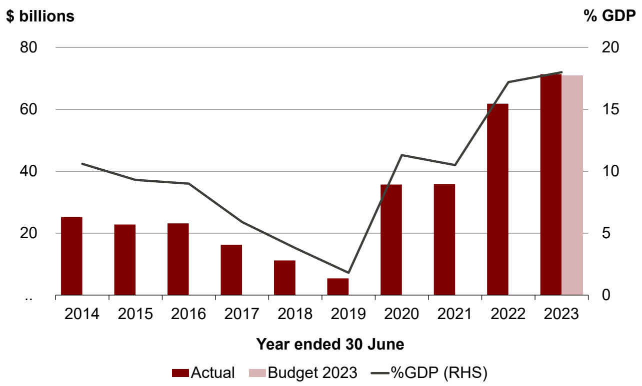
Source: The Treasury

Fiscal Indicators used for the Government's Fiscal Strategy (continued)

Net debt was $71.4 billion as at 30 June 2023, an increase of $9.5 billion from $61.9 billion at 30 June 2022. As a share of the economy, net debt increased to 18.0% of GDP (compared to 17.0% of GDP a year earlier) (see Figure 7).

This movement in net debt since last year comprises the impact of funding the core Crown operating deficit of $3.4 billion and capital investments of $22.2 billion. However only around a half of the capital investment will impact on the level of net debt[3]. In addition, the net debt measure is also impacted by changes in the level of Crown entity borrowings (excluding Kiwi Group Capital Limited) and the financial assets and financial liabilities of the NZS Fund.

Figure 7 – Net debt



Source: The Treasury

Crown entity borrowings (excluding Kiwi Group Capital Limited) have increased by $3.2 billion from $14.3 billion in 2021/22 to $17.5 billion in the current year. This is mainly driven by increases in the borrowings of Kāinga Ora which increased by $2.5 billion and Waka Kotahi borrowings which increased by $0.7 billion.

Favourable investment market conditions through the year, mainly on the investment portfolio of the NZS Fund have helped reduce the overall increase in net debt.

Net Debt compared to *Budget 2023*

Net debt at $71.4 billion was close to forecast coming in at $0.4 billion higher than forecast. As a percentage of GDP net debt was 18.0%, the same as forecast in *Budget 2023*.

While net debt was close to forecast, there were two key drivers with large variances that largely offset each other:

- net core Crown operating cashflows and net core Crown capital cash flows were respectively $2.0 billion and $1.2 billion more than forecast respectively, which results is a higher than forecast cash outflow, and
- fair value movements in financial instruments, mainly within the NZS Fund investment portfolio, were $2.8 billion favourable to forecast driven by stronger investment market conditions since the *Budget 2023* forecasts were finalised.

3 Since core Crown advances and the NZS Fund are now included in the key net debt indicator, the additional cash required to fund increases in advances and Government contributions to the NZS Fund no longer impact on net debt (as both the asset and liability are included in the measure, so the impact of any change is neutral). The residual cash surplus or deficit excluding these items will continue to impact net debt.

Fiscal Resilience

Fiscal resilience is the ability of the Government's public finances to absorb a shock and to adapt settings for welfare, health, pension and other policies to maintain and approve wellbeing following a shock. It refers both to the Government's capacity to withstand or survive a shock such as a war, pandemic, global credit crunch or natural disaster and also whether it can thrive in the aftermath. There are a number of fiscal indicators that help determine whether the Government's fiscal position is resilient, which are discussed in more detail in this section.

Total Crown Balance Sheet

Total Crown assets were $536.7 billion at 30 June 2023. Property, plant and equipment makes up 50% of the total Crown's asset holdings, while 45% relates to financial assets with 5% in other assets (Table 14).

Total Crown liabilities were $345.2 billion at 30 June 2023 with 66% of this in borrowings, 17% insurance liabilities, and the remaining 17% other liabilities.

Table 14 – Composition of the total Crown balance sheet

					Forecast		
Year ended 30 June	**Actual 2023 $millions**	**Actual 2022 $millions**	**Variance $millions**	**%**	**Budget 2023 2023 $millions**	**Variance $millions**	**%**
Financial assets	240,681	225,442	15,239	6.8	233,314	7,367	3.2
Property, plant and equipment	267,390	249,182	18,208	7.3	259,280	8,110	3.1
Other assets	28,595	27,220	1,375	5.1	26,598	1,997	7.5
Total assets	**536,666**	**501,844**	**34,822**	**6.9**	**519,192**	**17,474**	**3.4**
Borrowings	226,755	203,965	22,790	11.2	222,465	4,290	1.9
Insurance liabilities	57,511	55,301	2,210	4.0	56,850	661	1.2
Other liabilities	60,928	68,259	(7,331)	(10.7)	60,921	7	0.0
Total liabilities	**345,194**	**327,525**	**17,669**	**5.4**	**340,236**	**4,958**	**1.5**
Total net worth	**191,472**	**174,319**	**17,153**	**9.8**	**178,956**	**12,516**	**7.0**
Minority interests	(7,958)	(7,283)	(675)	9.3	(7,908)	(50)	0.6
Net worth attributable to the Crown	**183,514**	**167,036**	**16,478**	**9.9**	**171,048**	**12,466**	**7.3**

Source: The Treasury

Total Crown assets increased by $34.8 billion compared to 30 June 2022, mainly due to increases in property, plant and equipment and financial assets. At the same time, total Crown liabilities have increased by $17.7 billion from the previous year to reach a total of $345.2 billion, the increase primarily owing to increased borrowings of $22.8 billion, partially offset by a reduction in the NZ ETS liability. In addition, there was a $2.2 billion increase in insurance liabilities. The combination of the movements above and the exclusion of minority interests resulted in an overall increase in net worth attributable to the Crown of $16.5 billion as at 30 June 2023.

Many of the assets and liabilities on the Crown's balance sheet are measured at fair value in order to show current estimates of what the Crown owns and owes. While measurement at fair value is intended to reflect the current value of these items, it can be volatile, resulting in fluctuations in the value of the assets and liabilities, which reflect changes in the market and underlying assumptions.

Valuations are also subject to a number of judgements and estimates and are based on underlying assumptions made at the time the valuations were prepared. In general, as time goes on, better information becomes available and initial estimates are updated to reflect current information.

Fiscal Resilience (continued)

Financial Assets

The Crown's financial assets are across a number of asset categories. The most significant categories are advances (28%), marketable securities, long-term deposits and derivatives (28%), share investments (20%), and receivables (14%).

Financial assets at $240.7 billion were $15.2 billion higher than last year. The following key areas contributed to the increase:

- Advances at $66.5 billion increased by $11.8 billion with the Reserve Bank's FLP increasing by $6.8 billion. This reflects the uptake of the FLP additional allocations – in the previous year, only a small portion ($0.2 billion) of the additional allocation facility ($8.9 billion) had been drawn down. Kiwi Group Capital Limited advances grew by $2.0 billion primarily due to additional mortgage lending.
- Share investments and investments in controlled enterprises (totalling $55.4 billion) both increased compared to the prior year (by $1.8 billion and $1.2 billion respectively) largely due to the structure of the asset portfolio managed by ACC and NZS Fund. The primary purpose of these assets is to help pay for ACC claims and fund future New Zealand superannuation costs.

These increases were slightly offset by a reduction in receivables from $33.5 billion, on the previous year by $1.6 billion, largely the result of a decrease in NZS Fund's unsettled trades (unsettled sales of securities are recorded as receivables), which were settled shortly after balance date. The level of these can vary depending on the timing of these sales.

Fiscal Resilience (continued)

Property, Plant and Equipment

Property, plant and equipment (PPE) was $267.4 billion at 30 June 2023. Land, buildings and state highways are the most significant asset classes totalling $207.4 billion.

PPE has increased by $18.2 billion compared to last year and this increase was largely a result of movements across land, buildings, state highways, and the rail network asset classes (see Figure 8). The increase is mainly due to asset additions (2023: $14.8 billion, 2022: $11.8 billion) and net revaluation changes this year of $10.9 billion. This was partially offset by depreciation on asset classes (except land). Land valuations have generally decreased, reflecting market conditions, while construction costs to replace assets have increased significantly which has resulted in upward revaluations of buildings, state highways and the rail network.

The largest movements in PPE related to the following:

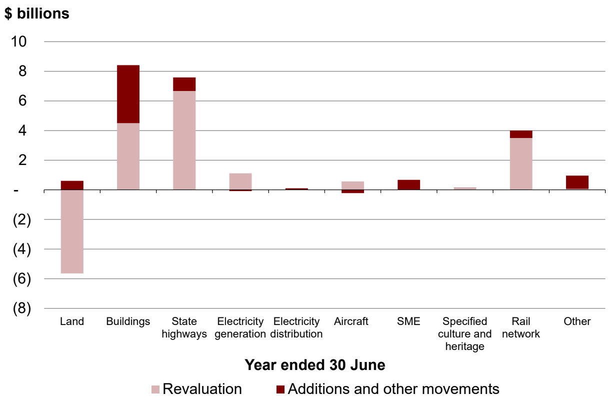
- The carrying value of buildings has increased by $8.4 billion. This predominately reflects $6.6 billion of additions, largely driven by Kāinga Ora and education portfolios (administered by the Ministry of Education), with additions of $3.2 billion and $1.7 billion respectively. Building valuation uplifts were $4.5 billion, largely reflecting the school building revaluations which increased, due to rising building costs.

- The carrying value of state highways increased by $7.6 billion, reflecting valuation increases of $5.9 billion largely driven by increased construction costs, as well as $1.7 billion of additions.

- The carrying value of the rail network increased by $4.0 billion, reflecting valuation increases of $3.5 billion largely due to increases in the valuation of earthworks and bridges (reflecting increased material costs), and additions of $0.9 billion partially offset by depreciation and other movements.

- The above increases were partially offset by land carrying value decreases of $5.0 billion from the prior year. This is reflective of the slowing housing market over the past year. The decrease was predominantly driven by a decrease in value of the Kāinga Ora portfolio by $3.8 billion, and the education portfolio (administered by the Ministry of Education) of $1.3 billion.

Figure 8 – Movements in PPE by asset classes



Source: The Treasury

The valuation of PPE 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 value generally does not represent an investment gain or increased future cash flows.

Total Assets compared to *Budget 2023*

Total assets are $17.5 billion higher than the Budget forecast. Of this, revaluations of physical assets have been the most significant driver (refer discussion above) resulting in a $8.1 billion increase in PPE. PPE revaluations are generally completed at 30 June and are not forecast in Budgets.

In addition, total financial assets have increased by $7.4 billion. The most significant increase compared to forecast were in relation to the $3.3 billion increase in share investments mainly owing to market movements, while marketable securities, long-term deposits and derivatives in gain increased by $2.6 billion. Advances were $1.2 billion more than forecast.

Fiscal Resilience (continued)

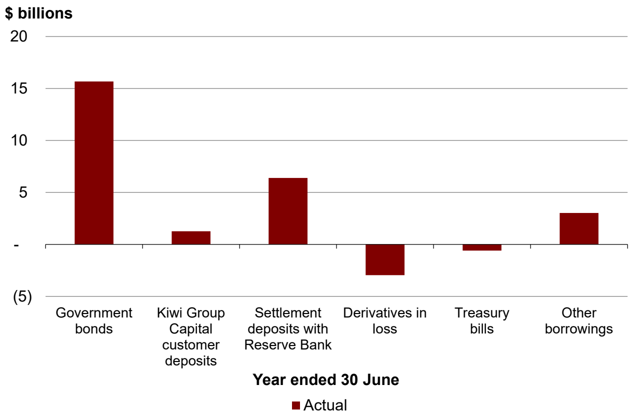
Borrowings

Total Crown borrowings represent the borrowings undertaken by the core Crown, Crown entities and SOEs.

The Crown's borrowings totalled $226.8 billion at 30 June 2023 and were largely comprised of Government bonds (46%), settlement deposits (22%), and Kiwi Group Capital Limited customer deposits (11%) with the remainder across a number of borrowing types.

Borrowings were $22.8 billion more than last year, largely to fund the residual cash deficit. The overall increase is driven by a combination of borrowing types as seen in Figure 9 and explained below:

Figure 9 – Increase in borrowings by types



Source: The Treasury

- Government bonds have increased by $15.7 billion compared to the previous year. This reflects both an overall increase in the Government bond programme of $4.1 billion and a change in composition of the government bonds with more bonds being held by parties outside of the government reporting entity. This was largely driven by Reserve Bank and ACC holding less government stock than last year. The level of government bond issuances largely depends on what is needed to meet additional cash requirements to fund cash shortfalls arising from additional operating and capital expenditure.

- Settlement deposits have increased by $6.4 billion from the prior year. A large portion of the increase relates to funding of issuance of advances under the FLP. For further information on what settlement deposits are, refer to Note 20: Borrowings in the financial statements.

- Other borrowings have increased by $3.0 billion, primarily driven by an increase in Reserve Bank bills of $2.1 billion.

- Kiwi Group Capital Limited borrowings (eg, customer deposit held) increased by $1.3 billion. The steady increase of interest rate increases has encouraged higher levels of customer deposits with the bank.

- Derivatives in loss decreased by $3.0 billion because of favourable market movements, predominantly driven by a change in the NZS Fund's foreign exchange contract derivatives ($2.2 billion) and other derivatives ($0.4 billion). The ACC's derivative holdings also had a $0.3 billion decrease.

Insurance Liabilities

The Crown's insurance liabilities totalled $57.5 billion as at 30 June 2023. These liabilities are comprised of the ACC claim insurance obligations arising from the accident compensation scheme provision of no-fault personal injury cover, plus natural disaster insurance liabilities managed by the EQC and Southern Response Earthquake Services.

As at 30 June 2023, $55.7 billion (97%) of the insurance liability related to the ACC insurance liability, a $1.5 billion increase on the previous year. The increase in this claims liability (a long-term liability) was largely owing to valuation changes impacting ACC's outstanding claims liability (the most significant portion of the ACC insurance liability). ACC's outstanding claims liability is influenced by changes in economic assumptions, such as discount rates and inflation.

Table 15 – Movement in the ACC insurance liability

Year ended 30 June	$ billions
2022 ACC insurance liability	**54.1**
Inflation	2.2
Claims experience and modelling assumption changes	0.9
Claims anticipated	7.8
Claims payments and handling	(6.8)
Discount rates	(4.4)
Discount rate unwind	1.6
Other movements	0.2
2023 ACC insurance liability	**55.7**

Source: The Treasury

Fiscal Resilience (continued)

The increase in the ACC's outstanding claims liability was primarily driven an increase in the inflation assumption, resulting in an increase of $2.2 billion in the year to 30 June 2023, a discount rate unwind of $1.6 billion, and a $0.9 billion increase in claims experience and modelling assumption. In addition, movements in anticipated claims and claims payments together increased the liability by $1.0 billion (refer Table 15). These increases were offset by discount rate increases which decreased the ACC's insurance liability by $4.4 billion (when discount rates increase, the liability in today's dollar reduces).

The EQC insurance liability at $1.6 billion increased this year and is now more than double that of the liability at 30 June 2022. This is a direct result of the North Island weather events as the EQC covers damage to residential property caused by earthquake, landslip, tsunami, volcanic eruption, hydrothermal activity, storm or flood (land only), and fire following any of these events. For further details refer to Note 3: North Island Weather Events in the financial statements.

Other Liabilities

Other liabilities of the Crown totalled $60.9 billion at 30 June 2023, a reduction from the prior year of $7.3 billion (10.7%). Other liabilities include payables and provisions ($34.2 billion), issued currency ($9.0 billion), retirement plan liabilities ($8.0 billion), the NZ ETS liability ($6.1 billion), and deferred revenue ($3.6 billion).

The largest movements from the prior year are as follows:

- The NZ ETS liability has decreased by $5.2 billion from $11.3 billion last year to $6.1 billion at 30 June 2023. The majority of this decrease relates to the fall in the carbon price used to calculate the value of the outstanding units at 30 June 2023. At 30 June 2023, the price was $41.75 per NZU compared to $76.00 per NZU last year. This decrease in the carbon price has led to a reduction in the value of the NZ ETS liability, and a corresponding valuation gain of $5.6 billion this year.

- Payables have decreased by $2.7 billion, from $21.4 billion to $18.7 billion. This is largely due to lower unsettled trade balances at year-end which are categorised as payables in the financial statements. These will fluctuate depending on investment activity and timing and usually settle within 1-2 days of balance date.

- Retirement plan liabilities, which primarily comprises of the Government Superannuation Fund net liability, decreased by $0.8 billion from $8.8 billion to $8.0 billion. This was largely due to the increases in the discount rate in the year to 30 June 2023.

Total Liabilities compared to *Budget 2023*

Total liabilities are higher by $5.0 billion compared to the *Budget 2023* forecast. This was mainly driven by higher than forecast borrowings and accounts payable balances, of $4.3 billion and $1.6 billion, respectively.

The higher than anticipated forecast Crown borrowings was driven by an increase in settlement deposits by $3.8 billion, a $1.0 billion increase in government stock. This was offset by lower than forecast Kiwi Group customer deposits of $0.3 billion.

The accounts payable movement was the result of lower unsettled trade balances at year-end which are categorised as payables in the financial statements. These will fluctuate depending on investment activity and timing and usually settle within 1-2 days of the month end.

The variances above were slightly offset by the NZ ETS liability, which was lower than forecast by $2.2 billion. This was largely the result of a reduction in the carbon price used to value the NZ ETS liability since the forecasts were prepared. The year end liability was based on the price at 30 June 2023, whereas the *Budget 2023* forecasts applied the price at 31 March 2023, as outlined on page 11.

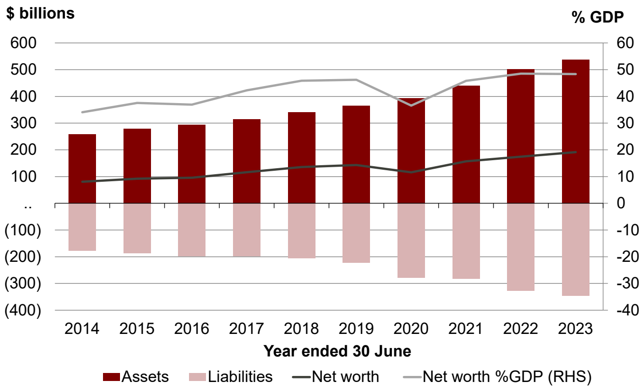
Fiscal Resilience (continued)

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 $191.5 billion as at 30 June 2023. Of this, $174.6 billion related to the Crown's property plant and equipment revaluation reserve, $8.4 billion of taxpayers' funds and $8.0 billion of net worth attributable to minority interests (see Table 16).

Figure 10 – Net worth



Source: The Treasury

Table 16 – Breakdown of net worth

Year ended 30 June	Actual 2023 $ millions	Actual 2022 $ millions	Variance[1] $ millions	%	Forecast Budget 2023 2023 $ millions	Variance[1] $ millions	%
Taxpayers' funds	8,380	2,681	5,699	212.6	6,932	1,448	20.9
Property, plant and equipment revaluation reserve	174,575	164,385	10,190	6.2	164,188	10,387	6.3
Other reserves	559	(30)	589	-	(72)	631	-
Net worth attributable to the Crown	**183,514**	**167,036**	**16,478**	**9.9**	**171,048**	**12,466**	**7.3**
Net worth attributable to minority interests	7,958	7,283	675	9.3	7,908	50	0.6
Total net worth	**191,472**	**174,319**	**17,153**	**9.8**	**178,956**	**12,516**	**7.0**
Net worth as a % of GDP	**48.4%**	**47.9%**		**0.5**	**45.4%**		**3.0**

1 Percentage variances greater than 500% are presented as '-' as the variance is not meaningful.

Source: The Treasury

Net worth has increased by $17.2 billion from a year earlier (see Figure 10). The increase in net worth this year is primarily a result of the revaluation uplifts of physical assets of $10.2 billion, as well as the operating balance surplus for the year and an increase in other reserves. Favourable revaluations of liabilities such as the Government Superannuation Fund and veterans' disability entitlements contributed $0.6 billion to the increase in net worth (reflected in other reserves in Table 16), as these revaluations are presented directly in net worth (not in the operating balance like ACC valuation gains). Net worth attributable to minority interests has increased by $0.7 billion reflecting the SOE's performance during 2022/23.

As a share of the economy, net worth is broadly consistent with the prior year at 48.4% of GDP.

Net Worth compared to *Budget 2023*

Net worth at $191.5 billion was $12.5 billion higher than forecast. The key drivers were the revaluations of physical assets at 30 June 2023 which were $10.4 billion higher than forecast (only revaluations that have already been completed at the time of the forecast are included in Budget forecasts), as well as the higher-than-expected operating balance result.

Year End Results Compared to *Budget 2022*

The Treasury's *Budget 2022* forecast for the 30 June 2023 fiscal year was released on 19 May 2022. When the forecasts were set CPI inflation had reached a 30 year high, border restrictions were easing and the labour market was strong. Since then, the OCR has increased rapidly, dampening demand, inflationary pressure and GDP. Overall, this has had a negative impact on total Crown tax revenue and expenditure has increased as a result of cost pressures as well as the impact of the North Island weather event recovery and support measures.

Table 17 – Key variances compared to *Budget 2022*

Year ended 30 June	Actual 2023 $ millions	Budget 2022 2023 $ millions	Variance $ millions	%
Total revenue	153,011	152,154	857	0.6
Total expenses	161,822	158,528	3,294	2.1
Operating balance (excluding minority interests)	5,321	(1,632)	6,953	426.0
Total assets	536,666	485,318	51,348	10.6
Total liabilities	345,194	356,464	(11,270)	(3.2)
Net worth	191,472	128,854	62,618	48.6

Source: The Treasury

Economic activity was weaker than expected leading to lower tax revenue, while market conditions have reduced revenue earned from the ETS…

At *Budget 2022*, the Treasury was expecting nominal GDP growth for 2022/23 to be 10.8%, mainly as a result of CPI inflation. Nominal GDP came in lower than expected, which is a key reason for tax revenue coming in weaker than expected.

Overall, tax revenue was $3.8 billion lower than forecast at *Budget 2022*. Corporate tax, other individuals and GST were $3.3 billion, $1.5 billion and $1.3 billion lower than forecast respectively. Corporate tax was down as a result of declines in provisional and terminal tax revenue, other persons was down as a result of terminal tax revenue and GST was down due to lower-than-expected economic activity. Source deductions were higher by $2.4 billion mainly owing to stronger employment and wage growth. Although other taxes were close to forecast there were some offsetting factors. The most notable being higher revenue from RWT on interest reflecting the impact of higher interest rates, while revenue from fuel excise duty and road user charges was lower following the Government's decision to extend the reduction in rates for the full year rather than the initial two-month period which was reflected in the *Budget 2022* forecasts.

Table 18 – Change in total Crown tax revenue compared to *Budget 2022*

Year ended 30 June	$ billions
***Budget 2022* total Crown tax revenue**	**115.5**
Corporate tax	(3.2)
Other individuals' tax	(1.4)
GST	(1.3)
Source deductions	2.4
Other taxes	(0.3)
2023 total Crown tax revenue	**111.7**

Source: The Treasury

Revenue from the NZ ETS was around half of what had been forecast at *Budget 2022*. The lower NZ ETS revenue, of $1.6 billion compared to a forecast of $3.2 billion, largely due to the drop in the price of NZUs, since the completion of the *Budget 2022* forecast.

…but this was largely offset by other factors.

Interest revenue was $2.2 billion higher than forecast reflecting higher interest rates compared to what has been forecast at Budget 2022. In addition, sales of goods and services were $2.5 billion higher than forecast, primarily reflecting that the recovery in the air travel industry has rebounded stronger than anticipated at Budget 2022. When combined with other revenue (which was also higher than forecast), these increases more than offset the lower tax and NZ ETS revenue and so total Crown revenue for the year ended 30 June 2023 was ended up being slightly higher than forecast at *Budget 2022*.

Year End Results Compared to *Budget 2022* (continued)

Expenses were higher than forecast, with rising interest rates being a key contributor…

Overall total Crown expenses were $3.3 billion higher than forecast. Finance costs made up a significant portion of the higher-than-expected expenditure. The higher interest rate track has been a key contributor for finance costs being $2.2 billion higher than forecast.

The faster rebound in the air travel industry has meant costs were higher-than-expected, which was the main reason for the variance in Transport and communication expenses.

Table 19 – Change in total Crown expenses by functional classification compared to *Budget 2022*

Year ended 30 June	$ billions
***Budget 2022* total Crown expenses**	**158.5**
Health	4.3
Transport and communications	1.9
Finance costs	2.2
Social security and welfare	(1.4)
Other movements	(3.7)
2023 total Crown expenses	**161.8**

Source: The Treasury

Health spending was also higher than forecast, largely due to additional funding provided for the response to COVID-19, the procurement of vaccines and pay equity settlements. Most of the funding for these expenses was held as a tagged contingency (reflected in other movements in Table 19) in the *Budget 2022* forecast, so overall there is a minimal impact on expenses. A portion of the increase in health spending relates to the increase in the estimated costs to remedy non-compliance with the Holidays Act 2003.

These were offset in part by a reduction in social security and welfare costs mostly due to ACC insurance expenses which were $1.4 billion below forecast. This was due to lower-than-expected claims volumes as a result of the COVID-19 waves and constraints in the health sector as a result of higher demand for services outside of injury related needs and lower capacity across providers as a result of staffing shortages.

…while stronger market conditions have contributed to a stronger operating balance result...

Through 2022/23 financial markets have strengthened, and as mentioned interest rates have increased.

As a result, net gains recognised in the Statement of Financial Performance totalled $14.7 billion, significantly stronger than the $4.8 billion forecast at *Budget 2022.* Net gains on the Government's financial instrument portfolio were $7.7 billion, $2.8 billion greater than the forecast of $4.9 billion. The result is largely driven by stronger financial markets leading to an increased investment portfolio for the NZS Fund and ACC. Net gains on non-financial instruments are not forecast beyond the base month used for the forecast (eg, the first few months of the 2022 calendar year). They were $6.9 billion in 2022/23, mainly owing to gains on the NZ ETS of $5.6 billion as a result of a decrease in the carbon price used to value the NZ ETS liability (from $75.90 per unit at 31 March 2022 to $41.75 per unit at 30 June 2023). The remaining gain reflects the reduction in the ACC liability, partly reflecting changes in discount rates.

The stronger gains more than offset the weaker net results from revenue and expenses, resulting in the operating balance improving by $7.0 billion, compared to the *Budget 2022* forecast.

… and coupled with valuation gains on physical assets lead to a stronger net worth position ...

Valuation gains on physical assets are not forecast and since the *Budget 2022* forecast cumulative valuation gains on physical assets of $40.5 billion ($10.9 billion in 2023 and $29.6 billion in 2022) have been recorded. These valuation gains were largely for state highways which increased in value as a result of price movements driven from the construction sector, the rail networks which increased as a result if an increase in the valuation of earthworks and bridges, and non-residential education buildings which increased due to continuing building activities and a rise in construction costs.

Net worth attributable to the Crown was $61.1 billion higher than forecast, largely as a result of the valuation gains on physical assets and the stronger operating balance result that were underpinned by valuation gains on financial and non-financial instruments (mentioned above).

…with the value of assets being higher…

Total assets were higher than forecast by $51.3 billion. The value of property, plant and equipment was $36.6 billion higher than forecast largely owing to the valuation gains of physical assets in both the 2022 and 2023 years. In addition, market conditions have improved in 2023 which has correspondingly increased the value of financial assets which are $12.6 billion higher than forecast.

Year End Results Compared to *Budget 2022* (continued)

…and liabilities being lower

Total liabilities were lower than forecast by $11.3 billion, primarily reflecting the valuation changes in the ACC and NZ ETS liabilities. Insurance liabilities are lower as a result of a $12.7 billion reduction in the ACC liability, mainly carried forward from 2021/22 reflecting the impact of higher-than-expected discount and inflation rates used to value the liability. The NZ ETS liability is $4.6 billion lower that forecast due to a decrease in the carbon price used to value the NZ ETS liability.

In addition, borrowings were $3.9 billion lower than forecast, which was spread across a number of instruments. While provisions were higher than forecast by $5.4 billion, partly reflecting the increase in the estimated costs for Te Whatu Ora and the Ministry of Education to remedy non-compliance with the Holidays Act 2003 and health pay equity settlement.

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 2023

I have audited the financial statements of the Government of New Zealand (the financial statements of the Government) for the year ended 30 June 2023 using my staff and resources and appointed auditors and their staff. The financial statements of the Government on pages 29 to 31 and 44 to 166 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2023, 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, a statement of borrowings as at 30 June 2023, and other explanatory information;
- a statement of unappropriated expenditure for the year ended 30 June 2023;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended 30 June 2023; and
- a statement of trust money administered by departments for the year ended 30 June 2023.

Opinion

In my opinion, the financial statements of the Government on pages 29 to 31 and 44 to 166:

- present fairly, in all material respects, the Government's:
  - financial position as at 30 June 2023;
  - financial performance and cash flows for the year ended on that date;
  - borrowings as at 30 June 2023;
  - unappropriated expenditure for the year ended 30 June 2023;
  - expenses or capital expenditure incurred in emergencies for the year ended 30 June 2023; and
  - trust money administered by departments for the year ended 30 June 2023; and
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity Accounting Standards.

My audit was completed on 29 September 2023 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 for the financial statements of the Government and my responsibilities for the audit. 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.

The key audit matters for my audit are described below.

Calculating the value of other persons and companies tax revenue	How we addressed this matter
As disclosed in note 4 on page 68, the Government recognised other persons tax revenue of $9.9 billion and companies tax revenue of $18.3 billion. Tax revenue for the year from other persons and companies 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 estimate is based on forecasting other persons and companies taxable profits, which relies on assumptions and projecting how the economy will perform in the future. Estimating tax revenue is inherently uncertain and judgement is used to estimate: - the performance of the New Zealand and global economy and how it relates to tax revenue; - the amount of tax to be collected from provisional taxpayers who have not yet filed their final tax return; and - the amount of tax revenue where payments have been received but no provisional or final tax return has been filed. I considered other persons and companies tax revenue a key audit matter because the calculation is complex and subject to a high degree of judgement and estimation.	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 forecast tax revenue estimation models to confirm that it was relevant and used appropriately. We reviewed the main judgements and assumptions applied in the models and considered the sensitivity of the models to changes in assumptions. 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 companies. We satisfied ourselves on the continuing appropriateness of net operating surplus as a macro-economic indicator used to estimate tax revenue from other persons and companies. We reviewed any changes in tax policy in terms of the likely impact on tax revenue recognition. We also: - carried out a retrospective review of the 2022 tax estimation to tax return information received from taxpayers to assess the robustness of the methodology used for the estimation of tax revenue; - reviewed the accounting adjustments to tax revenue processed by Inland Revenue; - reviewed the year-end procedures and testing carried out 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 companies tax revenue for the year ended 30 June 2023 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 93, the Government owns property, plant, and equipment with a carrying value of $267.4 billion at 30 June 2023. Revaluations are carried out regularly or when there is a material difference between fair value and carrying value. Considerable judgement is needed in determining the valuation approaches and assumptions for some of these assets. Valuers have considered the impact of prevailing economic conditions on the significant estimates and judgements applied in the valuation process, such as the effect of interest rates and inflation. For assets valued using the optimised depreciated replacement cost approach, supply chain disruptions and labour supply constraints have caused increases in construction costs, which affected valuations. Valuers have needed to assess the extent to which these cost changes are short-term or ongoing and need to be taken into account for cost-based valuations. I considered the valuation of the classes of property, plant, and equipment outlined below a key audit matter because of the significance of the amounts involved, the level of complexity, and the judgements applied.	
Land As outlined on page 97, land was valued at $79.7 billion at 30 June 2023. The value of land is based on different valuation approaches. The approach selected will be informed by how that land is used. The most significant approaches used include market-based sales evidence, rateable values per square metre of adjacent land, and sales indices. There are significant judgements involved in these valuations.	*For land that was not subject to a revaluation this financial year* We assessed the reasonableness of the method used to confirm the valuation was not materially different from the land's fair value and reperformed the calculations. Where indices or market data was used, we compared the information to external sources of information. *For land that was subject to a revaluation this financial year* We assessed the appropriateness of the valuation approach applied by independent valuers or entities. We confirmed the competence, capabilities, and objectivity of the independent valuers and considered the valuers' main assumptions and tested that information provided to the independent valuers was consistent with the information held by entities. We discussed with valuers, and considered the appropriateness of, how economic factors and market conditions have affected the valuations. Where entities used an index as a basis for recording a valuation movement, we assessed the appropriateness of the index used to other external data sources and compared the retrospective accuracy of indices applied in previous periods. I am satisfied that the value of land at 30 June 2023 is reasonable and that the disclosures are appropriate.

Valuing property, plant, and equipment	How we addressed this matter
State highways	
As outlined on page 99, the state highways (excluding land) were valued at $59.5 billion at 30 June 2023. The value of the state highways cannot be measured precisely due to the unique nature of the state highway network. Significant estimates and assumptions are made, including assumptions about quantities and unit rates used to construct the state highways, and the remaining useful life of the assets. The early 2023 severe weather events further complicated the valuation of parts of the state highway due to the need to determine the impairment or write-off of assets. 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 considered how the valuer took the current economic environment into account, including the judgements applied in assessing whether recent cost increases are temporary or reflect sustainable market conditions that need to be taken into account in assessing replacement cost rates. We also assessed the reasonableness of the impairments and write-off of assets. I am satisfied that the value of the state highways at 30 June 2023 is reasonable and that the disclosures are appropriate.
Electricity generation assets	
As outlined on page 101, the electricity generation assets were valued at $20.1 billion at 30 June 2023. Valuing electricity generation assets is complicated and relies on significant assumptions about the future prices of electricity, generation costs, generation capacity, and demand. 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 considered the reasonableness of valuation approaches and assumptions. 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 current economic environment into account in the valuations and the effect of any estimation uncertainties on the final valuations of electricity generation assets. We also considered whether the valuers took into account the future of the New Zealand Aluminium Smelter at Tiwai Point in determining their valuation assumptions. I am satisfied that the value of electricity generation assets at 30 June 2023 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 28 on page 145, the Government had financial assets that were valued using significant non-observable inputs (that is, where market data is not available) of $24.4 billion at 30 June 2023. These financial assets include loans (including student loans as discussed below), investments, and deposits. 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. I considered the valuation of financial assets where market data is not available, including student loans, a key audit matter as their calculation is complex and subject to a high degree of judgement and estimation.	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 2023 is reasonable and that the disclosures are appropriate.
Student loans As outlined in note 16 on page 90, at 30 June 2023 the Government had advanced student loans with a value of $9.4 billion. Student loans are measured using actuarial and predictive models, which reflect current student loan policy and macro-economic assumptions. The value is sensitive to changes in several assumptions, including future income levels, repayment behaviour, inflation, and discount rates.	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 risk-free discount rate and risk premium used to determine the fair value of loans, and adjustments for employment and overseas non-compliance; - assessed the controls and valuation approaches applied by the valuer and tested the operational effectiveness of controls over the valuation model; and - carried out 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. I am satisfied that the value of student loans at 30 June 2023 is reasonable and that the disclosures are appropriate.

Valuing Accident Compensation Corporation's outstanding claims liability	How we addressed this matter
As outlined in note 12 on page 81, the outstanding claims liability of the Accident Compensation Corporation (ACC) has been valued at $51.5 billion at 30 June 2023. Estimating the value of the outstanding claims liability is complicated because it consists of many sub-components that are aggregated to arrive at the overall estimate. Assumptions used to determine the value of the outstanding claims liability include: - the risk-free discount rates and consumer price index assumptions published by the Treasury and used in calculating 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 from injuries. The sensitivity of assumptions is outlined on pages 82 and 83. 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). I considered the valuation of the outstanding claims liability a key audit matter as the calculation is complex and subject to a high degree of judgement and estimation.	We examined how ACC's outstanding claims liability is valued. We confirmed the competence, capabilities, and objectivity of the actuary that carried out the valuation, and tested their procedures. We assessed the reasonableness of the methodology applied. We also reviewed ACC's main assumptions about each significant type of claim to see whether these were appropriate. We engaged an independent expert to consider the appropriateness of the risk-free discount rates and consumer price index assumptions published by the Treasury. We tested the systems and controls and, in particular, tested the process for recording claims. We tested the reconciliations of the underlying claims data with ACC's systems. 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 engaged an actuary to review the scope, approach, and reasonableness of the estimated liability. We 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 2023 is reasonable and that the disclosures are appropriate.

Entitlements under the Holidays Act 2003	How we addressed this matter
As outlined in note 23 on page 119, the provision for employee entitlements includes $2.5 billion at 30 June 2023 for amounts owing to employees who have been paid less than their legal entitlements under the Holidays Act 2003. $2.1 billion of the provision relates to employees of Te Whatu Ora Health New Zealand and $0.4 billion to some school employees paid through the Ministry of Education. These entities have not yet finished determining the final amounts they owe to those employees. They have made a sufficiently reliable estimate based on a sample of former and current employees, applying assumptions, and projecting the result over the affected employees. Applying the Holidays Act 2003 to complex employment arrangements requires a good understanding of both the legislation and employees' contractual terms. To determine the entitlements also often requires judgement and negotiation, and agreement with employee representatives. As outlined in note 27 on page 137, where an obligation is uncertain or cannot be reasonably measured at 30 June 2023, there is an unquantified contingent liability. This is the case for known areas of non-compliance for some school employees paid through the Ministry of Education because analysis has not yet progressed to the point where a calculated estimate of payments is possible. I have reported this as a key audit matter since 2018 because of its nature and effect on many public employees.	For Te Whatu Ora and the Ministry of Education (on behalf of school employees), we considered the progress made during the year in resolving the holiday pay calculation issues. We reviewed the changes in the provision since the previous year and considered the support for any significant movements. For the calculations for Te Whatu Ora, we: - obtained an understanding of the changes made to methodology, assumptions, and sample sizes compared to the previous estimate and the updated employee information; and - considered the expertise of those engaged to undertake the calculations. For the Ministry of Education (on behalf of school employees), we obtained an update on the Holidays Act compliance programme and reviewed management's assessment of their best estimate in line with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* and requirements of the Holidays Act 2003. We reviewed the disclosures for compliance with relevant financial reporting standards. I am satisfied that the provision for entitlements under the Holidays Act 2003 at 30 June 2023 is reasonable and that, where a liability is uncertain or 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.

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 entities that are consolidated into the financial statements of the Government;

- application by those entities 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 entities 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 28 and pages 167 to 181.

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 2023

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Note	Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Revenue			
115,509	114,626	Taxation revenue	4	111,712	107,873
9,297	9,086	Other sovereign revenue	4	8,407	8,894
124,806	**123,712**	**Total sovereign revenue**		**120,119**	**116,767**
19,441	22,596	Sales of goods and services	5	21,954	17,442
2,829	4,110	Interest revenue	6	5,012	2,292
5,078	5,138	Other revenue	7	5,926	5,126
27,348	**31,844**	**Total revenue earned through operations**		**32,892**	**24,860**
152,154	**155,556**	**Total revenue (excluding gains)**		**153,011**	**141,627**
		Expenses			
39,444	38,926	Transfer payments and subsidies	8	38,803	44,087
32,998	35,308	Personnel expenses	9	36,052	32,648
6,613	6,571	Depreciation	17	6,601	6,152
61,968	68,665	Other operating expenses	10	64,134	58,273
5,233	7,236	Interest expenses	6	7,448	3,349
9,368	8,918	Insurance expenses	12	8,784	6,447
4,904	-	Forecast new operating spending		-	-
(2,000)	(3,700)	Top-down expense adjustment		-	-
158,528	**161,924**	**Total expenses (excluding losses)**		**161,822**	**150,956**
		Gains/(losses)			
4,894	5,888	Net gains/(losses) on financial instruments	6	7,711	(9,687)
(49)	5,301	Net gains/(losses) on non-financial instruments	11	6,947	2,965
4,845	**11,189**	**Total gains/(losses)**		**14,658**	**(6,722)**
		Other interests			
149	42	Net surplus/(deficit) from associates and joint ventures		29	(126)
(252)	(644)	Less minority interests' share of operating balance	24	(555)	(755)
(1,632)	**4,219**	**Operating balance (excluding minority interests)**		**5,321**	**(16,932)**
252	644	Minority interests' share of operating balance	24	555	755
(1,380)	**4,863**	**Operating balance (including minority interests)**		**5,876**	**(16,177)**

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 2023

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Note	Actual 30 June 2023 $m	Actual 30 June 2022 $m
(1,380)	**4,863**	**Operating balance (including minority interests)**		**5,876**	**(16,177)**
		Other comprehensive revenue and expense			
-	243	Revaluation of physical assets	17	10,307	29,662
-	-	Share of associates' revaluation of physical assets	17	563	1,258
162	141	Revaluations of defined benefit retirement plan schemes	22	354	1,615
-	-	Revaluations of veterans disability entitlements	23	173	93
(61)	(135)	Transfers into/(out of) cash flow hedge reserve		417	697
49	17	Transfers into/(out of) other reserves		(22)	(23)
(10)	(64)	(Gains)/losses transferred to the statement of financial performance		(230)	(12)
-	(1)	Foreign currency translation differences on foreign operations		(3)	39
44	(15)	Other movements		76	(385)
184	**186**	**Total other comprehensive revenue and expense**		**11,635**	**32,944**
(1,196)	**5,049**	**Total comprehensive revenue and expense**		**17,511**	**16,767**
		Attributable to:			
256	1,037	- minority interests		1,033	999
(1,452)	4,012	- the Crown		16,478	15,768
(1,196)	**5,049**	**Total comprehensive revenue and expense**		**17,511**	**16,767**

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 2023

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Note	Actual Taxpayer funds $m	Reserves $m	Minority interests $m	Total net worth $m
156,895	**156,992**	**Net worth at 30 June 2021**		**19,656**	**131,612**	**5,724**	**156,992**
(27,674)	(16,177)	Operating balance		(16,932)	-	755	(16,177)
216	30,920	Revaluation of physical assets	17	-	30,767	153	30,920
711	1,615	Revaluation defined benefit retirement plans	22	-	1,615	-	1,615
-	93	Revaluation veterans disability entitlements	23	-	93	-	93
223	697	Transfers into/(out of) cash flow hedge reserve		-	661	36	697
1	(23)	Transfers into/(out of) other reserves		385	(471)	63	(23)
(74)	(12)	(Gains)/losses transferred to the statement of financial performance		-	(12)	-	(12)
(5)	39	Foreign currency translation differences on foreign operations		-	39	-	39
(455)	(385)	Other movements		(428)	51	(8)	(385)
(27,057)	**16,767**	**Total comprehensive revenue and expense**		**(16,975)**	**32,743**	**999**	**16,767**
901	949	Increase in minority interest from equity issues		-	-	949	949
(371)	(389)	Transactions with minority interests	24	-	-	(389)	(389)
130,368	**174,319**	**Net worth at 30 June 2022**		**2,681**	**164,355**	**7,283**	**174,319**
(1,380)	4,863	Operating balance		5,321	-	555	5,876
-	243	Revaluation of physical assets	17	-	10,498	372	10,870
162	141	Revaluation defined benefit retirement plans	22	-	354	-	354
-	-	Revaluation veterans disability entitlements	23	-	173	-	173
(61)	(135)	Transfers into/(out of) cash flow hedge reserve		-	312	105	417
49	17	Transfers into/(out of) other reserves		303	(325)	-	(22)
(10)	(64)	(Gains)/losses transferred to the statement of financial performance		-	(230)	-	(230)
-	(1)	Foreign currency translation differences on foreign operations		-	(3)	-	(3)
44	(15)	Other movements		75	-	1	76
(1,196)	**5,049**	**Total comprehensive revenue and expense**		**5,699**	**10,779**	**1,033**	**17,511**
-	72	Increase in minority interest from equity issues		-	-	66	66
(318)	(484)	Transactions with minority interests	24	-	-	(424)	(424)
128,854	**178,956**	**Net worth at 30 June 2023**		**8,380**	**175,134**	**7,958**	**191,472**

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

Statement of Cash Flows

for the year ended 30 June 2023

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Note	Actual 30 June 2023 $m	30 June 2022 $m
		Cash Flows From Operations			
		Cash was provided from			
113,567	113,414	Taxation receipts	4	110,787	102,712
7,275	7,945	Other sovereign receipts	4	7,631	7,803
19,353	22,403	Sales of goods and services		22,284	17,834
2,199	3,207	Interest receipts		3,611	1,961
4,867	5,362	Other operating receipts		4,922	4,802
147,261	**152,331**	**Total cash provided from operations**		**149,235**	**135,112**
		Cash was disbursed to			
39,777	39,212	Transfer payments and subsidies		39,170	44,273
99,046	105,585	Personnel and operating payments		99,414	92,965
4,558	6,087	Interest payments		6,126	3,251
4,904	-	Forecast new operating spending		-	-
(2,000)	(3,700)	Top-down expense adjustment		-	-
146,285	**147,184**	**Total cash disbursed to operations**		**144,710**	**140,489**
976	**5,147**	**Net cash flows from operations**		**4,525**	**(5,377)**
		Cash Flows From Investing Activities			
		Cash was provided from			
181	80	Sale of physical assets		246	635
154,918	178,843	Sale of shares and other securities		173,523	125,068
4	20	Sale of intangible assets		27	43
2,721	2,860	Repayment of advances		2,974	2,281
8	332	Sale of investments in associates		312	605
157,832	**182,135**	**Total cash provided from investing activities**		**177,082**	**128,632**
		Cash was disbursed to			
16,569	17,279	Purchase and construction of physical assets		14,517	11,207
141,420	180,277	Purchase of shares and other securities		178,429	130,054
1,387	1,146	Purchase of intangible assets		895	753
16,875	11,534	Advances made		11,189	15,239
592	607	Acquisition of investments in associates		514	1,053
1,311	-	Forecast new capital spending		-	-
(1,060)	(1,850)	Top-down capital adjustment		-	-
177,094	**208,993**	**Total cash disbursed to investing activities**		**205,544**	**158,306**
(19,262)	**(26,858)**	**Net cash flows from investing activities**		**(28,462)**	**(29,674)**
(18,286)	**(21,711)**	**Net cash flows from operating and investing activities**		**(23,937)**	**(35,051)**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2023

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
(18,286)	(21,711)	**Net cash flows from operating and investing activities**	(23,937)	(35,051)
		Cash Flows From Financing Activities		
		Cash was provided from		
-	196	Issue of circulating currency	-	805
25,722	28,069	Issue of Government bonds	26,076	19,275
-	3,532	Issue of foreign currency borrowings	6,955	7,847
22,479	29,269	Issue of other New Zealand dollar borrowings	26,646	39,299
-	-	Issue of equity to minority interests	5	898
48,201	**61,066**	**Total cash provided from financing activities**	**59,682**	**68,124**
		Cash was disbursed to		
-	-	Return of circulating currency	59	-
10,362	11,479	Repayment and repurchases of Government bonds	10,332	902
1,159	7,639	Repayment of foreign currency borrowings	7,068	5,588
17,757	18,505	Repayment of other New Zealand dollar borrowings	17,348	27,420
269	387	Dividends paid to minority interests	377	304
29,547	**38,010**	**Total cash disbursed to financing activities**	**35,184**	**34,214**
18,654	**23,056**	**Net cash flows from financing activities**	**24,498**	**33,910**
368	**1,345**	**Net movement in cash**	**561**	**(1,141)**
17,317	17,835	Opening cash balance	17,835	18,755
28	(96)	Foreign exchange gains/(losses) on opening cash	395	221
17,713	**19,084**	**Closing cash balance**	**18,791**	**17,835**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2023

2023 Forecast at Budget 2022 $m	Budget 2023 $m	Reconciliation Between the Net Cash Flows from Operations and the Operating Balance	Actual 30 June 2023 $m	Actual 30 June 2022 $m
976	**5,147**	**Net Cash Flows from Operations**	**4,525**	**(5,377)**
		Gains/(losses) and other interests		
4,894	5,888	Net gains/(losses) on financial instruments	7,711	(9,687)
(49)	5,301	Net gains/(losses) on non-financial instruments	6,947	2,965
149	42	Net surplus/(deficit) from associates and joint ventures	29	(126)
4,994	**11,231**	**Total gains/(losses) and other interests**	**14,687**	**(6,848)**
		Other Non-cash Items in Operating Balance		
(6,613)	(6,571)	Depreciation	(6,601)	(6,152)
(964)	(1,345)	Amortisation and net impairment of non-financial assets	(734)	224
(1,097)	(851)	Cost of concessionary lending	(738)	(858)
(89)	(52)	Impairment of financial assets (excl receivables)	(97)	(38)
(3,642)	(3,298)	Change in accumulating insurance expenses	(3,525)	(1,696)
1,730	960	Change in NZ ETS liability	395	1,529
61	59	Change in accumulating pension expenses	61	95
(10,614)	**(11,098)**	**Total other non-cash items in operating balance**	**(11,239)**	**(6,896)**
		Movements in Working Capital		
2,017	1,430	Increase/(decrease) in receivables	1,155	5,027
(114)	(361)	Increase/(decrease) in accrued interest	183	197
292	200	Increase/(decrease) in inventories	(27)	874
(27)	144	Increase/(decrease) in prepayments	113	303
(122)	(52)	Decrease/(increase) in deferred revenue	(244)	(819)
1,218	(1,778)	Decrease/(increase) in payables/provisions	(3,277)	(2,638)
3,264	**(417)**	**Total movements in working capital**	**(2,097)**	**2,944**
(1,380)	**4,863**	**Operating balance (including minority interests)**	**5,876**	**(16,177)**

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

Statement of Financial Position

as at 30 June 2023

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Note	Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Assets			
17,713	19,084	Cash and cash equivalents		18,791	17,835
28,906	33,383	Receivables	13	33,548	35,135
51,202	63,866	Marketable securities, deposits and derivatives in gain	14	66,490	65,456
53,423	44,710	Share investments	15	48,046	46,261
5,991	7,024	Investments in controlled enterprises	15	7,317	6,096
70,883	65,247	Advances	16	66,489	54,659
2,908	3,268	Inventory		3,041	3,068
4,027	4,324	Other assets		4,612	4,208
230,776	259,280	Property, plant & equipment	17	267,390	249,182
15,816	16,678	Equity accounted investments	18	17,034	16,247
4,209	4,178	Intangible assets and goodwill		3,908	3,697
2,274	-	Forecast new capital spending		-	-
(2,810)	(1,850)	Top-down capital adjustment		-	-
485,318	**519,192**	**Total assets**		**536,666**	**501,844**
		Liabilities			
9,159	9,256	Issued currency		9,002	9,061
15,057	17,147	Payables	19	18,726	21,420
2,807	3,420	Deferred revenue		3,610	3,368
230,618	222,465	Borrowings	20	226,755	203,965
10,694	8,360	New Zealand Emissions Trading Scheme	21	6,125	11,308
69,026	56,850	Insurance liabilities	12	57,511	55,301
9,061	8,254	Retirement plan liabilities	22	8,039	8,769
10,042	14,484	Provisions	23	15,426	14,333
356,464	**340,236**	**Total liabilities**		**345,194**	**327,525**
128,854	**178,956**	**Total assets less total liabilities**		**191,472**	**174,319**
		Net Worth			
(10,254)	6,932	Taxpayer funds		8,380	2,681
134,146	164,188	Property, plant and equipment revaluation reserve	17	174,575	164,385
(687)	196	Defined benefit retirement plan reserve	22	409	55
(659)	(566)	Veterans disability entitlements reserve	23	(392)	(566)
(145)	298	Other reserves		542	481
122,401	**171,048**	**Total net worth attributable to the Crown**		**183,514**	**167,036**
6,453	7,908	Net worth attributable to minority interests	24	7,958	7,283
128,854	**178,956**	**Total net worth**		**191,472**	**174,319**

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

Statement of Segments

	Core Crown		Crown entities		State-owned Enterprises		Inter-segment eliminations		Total Crown	
	Actual 2023 $m	Actual 2022 $m	Actual 2023 $m	Actual 2022 $m	Actual 2023 $m	Actual 2022 $m	Actual 2023 $m	Actual 2022 $m	Actual 2023 $m	Actual 2022 $m
Revenue										
Taxation revenue	112,358	108,458	-	-	-	-	(646)	(585)	111,712	107,873
Other sovereign revenue	3,292	4,327	7,321	6,574	-	-	(2,206)	(2,007)	8,407	8,894
Revenue from core Crown funding	-	-	45,402	40,049	770	933	(46,172)	(40,982)	-	-
Sales of goods and services	1,631	1,386	3,507	2,741	17,509	14,068	(693)	(753)	21,954	17,442
Interest revenue	2,862	858	2,097	827	675	957	(622)	(350)	5,012	2,292
Other revenue	3,255	2,486	5,338	4,250	823	767	(3,490)	(2,377)	5,926	5,126
Total Revenue (excluding gains)	**123,398**	**117,515**	**63,665**	**54,441**	**19,777**	**16,725**	**(53,829)**	**(47,054)**	**153,011**	**141,627**
Expenses										
Transfer payments and subsidies	40,003	45,266	-	-	-	-	(1,200)	(1,179)	38,803	44,087
Personnel expenses	10,449	9,945	22,326	19,897	3,330	2,861	(53)	(55)	36,052	32,648
Other operating expenses	70,550	67,545	36,430	29,903	13,822	11,531	(50,067)	(44,554)	70,735	64,425
Interest expenses	6,569	2,884	872	301	682	660	(675)	(496)	7,448	3,349
Insurance expenses	3	1	8,773	6,440	8	7	-	(1)	8,784	6,447
Total Expenses (excluding losses)	**127,574**	**125,641**	**68,401**	**56,541**	**17,842**	**15,059**	**(51,995)**	**(46,285)**	**161,822**	**150,956**
Gains/(losses) and other items	12,469	(11,406)	3,080	1,377	(659)	82	(758)	2,344	14,132	(7,603)
Operating Balance (excluding minority interests)	**8,293**	**(19,532)**	**(1,656)**	**(723)**	**1,276**	**1,748**	**(2,592)**	**1,575**	**5,321**	**(16,932)**
Assets										
Financial assets	161,269	149,427	99,769	63,811	8,187	38,443	(28,544)	(26,239)	240,681	225,442
Property, plant and equipment	63,034	56,519	151,042	145,186	53,314	47,476	-	1	267,390	249,182
Investments in associates, CEs and SOEs	64,817	57,801	14,680	14,239	414	470	(62,877)	(56,263)	17,034	16,247
Other assets	5,574	5,574	3,431	2,695	2,983	3,186	(427)	(482)	11,561	10,973
Total Assets	**294,694**	**269,321**	**268,922**	**225,931**	**64,898**	**89,575**	**(91,848)**	**(82,983)**	**536,666**	**501,844**
Liabilities										
Borrowings	191,029	168,986	48,110	14,345	11,671	41,098	(24,055)	(20,464)	226,755	203,965
Other liabilities	44,324	55,050	73,097	70,218	11,424	10,480	(10,406)	(12,188)	118,439	123,560
Total Liabilities	**235,353**	**224,036**	**121,207**	**84,563**	**23,095**	**51,578**	**(34,461)**	**(32,652)**	**345,194**	**327,525**
Net Worth	**59,341**	**45,285**	**147,715**	**141,368**	**41,803**	**37,997**	**(57,387)**	**(50,331)**	**191,472**	**174,319**
Purchase and construction of physical assets (cash)	**4,165**	**3,563**	**7,414**	**5,534**	**2,938**	**2,110**	**-**	**-**	**14,517**	**11,207**

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

Statement of Segments (continued)

Current Year Actual vs Estimated Actuals (Budget 2023)

	Core Crown		Crown entities		State-owned Enterprises		Inter-segment eliminations		Total Crown	
	Actual 2023 $m	Forecast Budget 2023 $m	Actual 2023 $m	Forecast Budget 2023 $m	Actual 2023 $m	Forecast Budget 2023 $m	Actual 2023 $m	Forecast Budget 2023 $m	Actual 2023 $m	Forecast Budget 2023 $m
Revenue										
Taxation revenue	112,358	115,349	-	-	-	-	(646)	(723)	111,712	114,626
Other sovereign revenue	3,292	4,109	7,321	7,210	-	-	(2,206)	(2,233)	8,407	9,086
Revenue from core Crown funding	-	-	45,402	47,557	770	813	(46,172)	(48,370)	-	-
Sales of goods and services	1,631	1,714	3,507	3,389	17,509	18,147	(693)	(654)	21,954	22,596
Interest revenue	2,862	2,235	2,097	1,877	675	628	(622)	(630)	5,012	4,110
Other revenue	3,255	3,271	5,338	4,593	823	737	(3,490)	(3,463)	5,926	5,138
Total Revenue (excluding gains)	**123,398**	**126,678**	**63,665**	**64,626**	**19,777**	**20,325**	**(53,829)**	**(56,073)**	**153,011**	**155,556**
Expenses										
Transfer payments and subsidies	40,003	40,112	-	-	-	-	(1,200)	(1,186)	38,803	38,926
Personnel expenses	10,449	10,533	22,326	21,563	3,330	3,261	(53)	(49)	36,052	35,308
Other operating expenses	70,550	74,968	36,430	37,715	13,822	15,153	(50,067)	(52,600)	70,735	75,236
Interest expenses	6,569	6,278	872	942	682	663	(675)	(647)	7,448	7,236
Insurance expenses	3	4	8,773	8,905	8	9	-	-	8,784	8,918
Forecast new operating spending	-	-	-	-	-	-	-	-	-	-
Top-down expense adjustment	-	(3,700)	-	-	-	-	-	-	-	(3,700)
Total Expenses (excluding losses)	**127,574**	**128,195**	**68,401**	**69,125**	**17,842**	**19,086**	**(51,995)**	**(54,482)**	**161,822**	**161,924**
Gains/(losses) and other items	12,469	8,389	3,080	2,696	(659)	(278)	(758)	(220)	14,132	10,587
Operating Balance (excluding minority interests)	**8,293**	**6,872**	**(1,656)**	**(1,803)**	**1,276**	**961**	**(2,592)**	**(1,811)**	**5,321**	**4,219**
Assets										
Financial assets	161,269	158,568	99,769	96,891	8,187	6,910	(28,544)	(29,055)	240,681	233,314
Property, plant and equipment	63,034	58,381	151,042	151,561	53,314	49,338	-	-	267,390	259,280
Investments in associates, CEs and SOEs	64,817	65,307	14,680	14,285	414	376	(62,877)	(63,290)	17,034	16,678
Other assets	5,574	5,382	3,431	3,705	2,983	3,119	(427)	(436)	11,561	11,770
Forecast adjustments	-	(1,850)	-	-	-	-	-	-	-	(1,850)
Total Assets	**294,694**	**285,788**	**268,922**	**266,442**	**64,898**	**59,743**	**(91,848)**	**(92,781)**	**536,666**	**519,192**
Liabilities										
Borrowings	191,029	187,819	48,110	48,268	11,671	11,523	(24,055)	(25,145)	226,755	222,465
Other liabilities	44,324	45,666	73,097	72,278	11,424	10,889	(10,406)	(11,062)	118,439	117,771
Total Liabilities	**235,353**	**233,485**	**121,207**	**120,546**	**23,095**	**22,412**	**(34,461)**	**(36,207)**	**345,194**	**340,236**
Net Worth	**59,341**	**52,303**	**147,715**	**145,896**	**41,803**	**37,331**	**(57,387)**	**(56,574)**	**191,472**	**178,956**
Purchase and construction of physical assets (cash)	**4,165**	**4,328**	**7,414**	**9,386**	**2,938**	**3,565**	**-**	**-**	**14,517**	**17,279**

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 (SOE) Act 1986.

These financial statements were authorised for issue by the Minister of Finance on 29 September 2023.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2023.

Where necessary, the financial information for SOEs and Crown entities that have a balance date other than 30 June have 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 reporting date differing from 30 June are listed on page 175.

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. These 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.

Critical accounting judgements

NZ GAAP requires accounting judgements to be made in determining accounting policies that impact on the presentation of these financial statements. The most critical of these judgements, and their impact, are:

Entities included in the consolidated financial statements of the Government Reporting Entity

Judgement is required to determine what entities are controlled and therefore consolidated in financial statements. The Government Reporting Entity is defined as the Sovereign in right of New Zealand and the legislative, executive, and judicial branches of the Government of New Zealand. The Government Reporting Entity is assessed as controlling another entity when it is exposed to, or has rights to, variable benefits from its involvement with that entity and can affect the nature or amount of those benefits through the exercise of its power over that entity. The list of entities judged to have met these criteria are listed on pages 58 to 60.

Note 1: Basis of Reporting (continued)

Recognition of taxation revenue and assets

Taxation is required to be measured when the taxable event occurs and when recognition criteria (probable inflow of resources and ability to reliably measure their fair value) are met. Judgement is required to determine if these criteria are met, particularly in the case of corporate and other persons taxes where limited evidence is available to the Government at the time corporate and other persons income is earned. The judgement has been made that, statistical models based on the history of tax in prior periods, taking account of current legislative and economic factors, provides sufficient evidence to enable fair value to be reliably measured at the point the taxable event occurs.

Recognition of non-exchange expenses and liabilities

Expenses (and related liabilities) are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Judgement is required in assessing each of these conditions, and therefore reporting if an expense and a present obligation should be reported.

Governments pursue a considerable number of policy targets and outcomes. However the commitment to these targets and outcomes, generally, do not of themselves constitute a present obligation unless the Government is clear on the cost it intends to incur, when payment will be made, and to whom and as a consequence has raised a valid expectation in those affected that they will benefit either because the criteria for the payment has been met or the entity, as a result of the expectation, has been influenced to incur expenditure, or acted in the expectation of receiving assistance.

As a consequence, liabilities are not reported for costs associated with the Government’s policy objectives and targets because such commitments made are ongoing and adjustable future costs and are not considered a present obligation, as they do not exist independently of a government’s future actions. While future costs will be incurred in pursuit of these objectives and targets, these costs will be reported in the future as they are incurred.

Policy choices by Government contribute to targets and outcomes. Where a policy choice gives rise to an obligation that exists independently of a government’s future actions, expenses (and related liabilities) are recognised for that policy. The recognition point is when there is a present obligation and it is probable there will be an outflow of resources in settling the obligation and the amount can be reliably measured.

Purpose and nature of financial instruments

Judgement is required in determining whether financial assets (including investments in securities and advances) and financial liabilities are held for trading or are managed on a fair value basis, or to provide a return (or be settled) through interest and principal transactions. Depending on that judgement, financial instruments will be reported at fair value or on an amortised cost basis. Note 28 provides further information on the application and consequences of this judgement.

Climate change obligations

New Zealand's current Nationally Determined Contribution (NDC) to deliver on the goals of the Paris Agreement sets a headline target of a 50 per cent reduction of net emissions below our gross 2005 level by 2030. This follows New Zealand’s ratification of the Paris Agreement in October 2016, the introduction in New Zealand of the Climate Change Response (Zero Carbon) Amendment Act 2019, with a target of net zero carbon emissions by 2050 and the Government’s declaration of a climate emergency in December 2020 (joining at the time, over 1,800 jurisdictions in 32 countries to declare a climate emergency and commit to reducing emissions to avoid a more than 1.5°C rise in global warming).

As there is no enforceable obligation in the Paris Agreement to enforce the achievement of the NDC, no liability is recognised in these financial statements as at 30 June 2023. Liabilities are not reported at balance date for costs associated with the Government’s policy objectives and targets (even if included in legislation or declared in international treaties) if there is no clear financial liability that the Government will incur if these targets are not met.

The Government’s commitment to climate change action does not constitute a present obligation on the Government’s balance sheet unless the Government is clear on the cost it intends to incur, when payment will be made, and to whom and as a consequence, has raised a valid expectation in those affected that they will benefit, either because the criteria for the payment has been met or the entity, as a result of the expectation, has been influenced to incur expenditure, or acted in the expectation of receiving assistance. Climate change commitments made are ongoing and adjustable future costs which are not considered a present obligation, as they do not exist independently of a government’s future actions. While future costs will be incurred in pursuit of these objectives and targets, any costs will be reported in the future as they are incurred.

Note 1: Basis of Reporting (continued)

Physical assets

Judgement is required whether assets are held for commercial purposes or for public benefit purposes. Assets 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 net proceeds from its sale). Assets that are held for public benefit purposes are generally valued at optimised depreciated replacement cost. An example of an asset held for public benefit purposes is the rail network. 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.

The social housing asset portfolio is treated as an operational asset providing social housing services rather than as an investment generating a rental return. As there is an active property market in housing, market values can be used to determine fair value. As the social housing asset portfolio is not reported as investment property, gains or losses in its value are reported in a revaluation reserve rather than being included in the operating balance.

Judgement is also required to estimate the economic lives of physical assets when determining depreciation.

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 2022 were 2023 forecasts published in the 2022 *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). 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 SOEs 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 NZS Fund, most closely represents the budget sector. Investments in Crown entities and SOEs are reported at historic cost in this segment with no impairment. This ensures losses in those entities are reflected in the appropriate segment.

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

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

Transactions and balances between these segments are eliminated on consolidation of the Government Reporting Entity. Refer to a breakdown of the above components on pages 58 to 60.

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:

Insurance Contracts

The public sector modified version of PBE IFRS 17 *Insurance Contracts* was issued in June 2023. This standard supersedes PBE IFRS 4 *Insurance Contracts.* It is effective for reporting periods beginning on or after 1 January 2026, with early adoption permitted.

PBE IFRS 17 is based on IFRS 17 *Insurance Contracts* (issued by the International Accounting Standards Board) to standardise insurance accounting globally. However, several modifications have been made to PBE IFRS 17 for application by public sector entities, for example, additional guidance has been added for identifying insurance contracts in the public sector and determining contract boundaries. Concessions have also been given in respect of sub-grouping insurance contracts.

A detailed assessment of this standard has not been performed and therefore, the impact of the standard on these financial statements has not yet been determined.

Note 1: Basis of Reporting (continued)

Government Reporting Entity as at 30 June 2023

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 2023:

- Health New Zealand (Te Whatu Ora) and the Māori Health Authority (Te Aka Whai Ora) are operating and have been added as Crown entities from 1 July 2022, replacing the District Health Boards and the Health New Zealand and Māori Heath Authority Departmental Agencies.
- Kiwi Group Capital Limited has been added as a Crown Entity. Kiwi Group Capital Limited purchased Kiwi Group Holdings Limited on 30 November 2022. The results of Kiwi Group Holdings Limited prior to 30 November 2022 are included in the SOE segment. Where Kiwi Group Capital Limited has been disclosed separately in the financial statements, the comparative columns (Actuals 2022, Budget 2022) represent balances previously disclosed as Kiwi Group Holdings Limited.

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
- 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 NZS 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: Equity Accounted Investments.

As a consequence of the agreements with Auckland Council, City Rail Link Limited (CRLL) is reported as a joint venture in these financial statements and is, therefore, equity accounted. This treatment recognises the Government's share of CRLL'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	Ministry of Health (hosts Cancer Control Agency, as a departmental agency)
Department of Conservation	Ministry of Housing and Urban Development
Department of Corrections	Ministry of Justice (hosts Te Arawhiti – Office for Māori Crown Relations as a departmental agency) (services Executive Board for the Elimination of Family Violence and Sexual Violence as an interdepartmental executive board)
Department of Internal Affairs (services Digital Executive Board as an interdepartmental executive board) (hosts Ministry for Ethnic Communities as a departmental agency)	Ministry of Māori Development – Te Puni Kōkiri
Department of the Prime Minister and Cabinet (hosts National Emergency Management Agency as a departmental agency)	Ministry of Social Development (hosts Ministry of Disabled People as a departmental agency)
Education Review Office (hosts Aroturuki Tamariki – Independent Children's Monitor as a departmental agency)	Ministry of Transport
Government Communications Security Bureau	New Zealand Customs Service (services Border Executive Board as an interdepartmental executive board)
Inland Revenue Department	New Zealand Defence Force
Land Information New Zealand	New Zealand Police
Ministry for Culture and Heritage	New Zealand Security Intelligence Service
Ministry for Pacific Peoples	Office of the Clerk of the House of Representatives
Ministry for Primary Industries	Oranga Tamariki – Ministry for Children
Ministry for the Environment (services Strategic Planning Reform Board and Climate Change Chief Executives Board as interdepartmental executive boards)	Parliamentary Counsel Office
Ministry for Women	Parliamentary Service
Ministry of Business, Innovation, and Employment	Public Service Commission (hosts Social Wellbeing Agency as a departmental agency)
Ministry of Defence	Serious Fraud Office
Ministry of Education	Statistics New Zealand
Ministry of Foreign Affairs and Trade	The Treasury
Offices of Parliament	**Others**
Controller and Auditor-General	New Zealand Superannuation Fund
Office of the Ombudsman	Reserve Bank of New Zealand
Parliamentary Commissioner for the Environment	
State-owned Enterprises Segment	
State-owned Enterprises	
Airways Corporation of New Zealand Limited	Landcorp Farming Limited
Animal Control Products Limited	Meteorological Service of New Zealand Limited
AsureQuality Limited	New Zealand Post Limited
Electricity Corporation of New Zealand Limited	New Zealand Railways Corporation
KiwiRail Holdings Limited	Quotable Value Limited
Kordia Group Limited	Transpower New Zealand Limited
Mixed ownership model companies (Public Finance Act Schedule 5)	**Other**
Genesis Energy Limited	Air New Zealand Limited
Mercury NZ Limited	
Meridian Energy Limited	

Note 1: Basis of Reporting (continued)

Crown entities Segment

Crown entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Auckland Light Rail Limited
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)
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 New Zealand
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
Māori Health Authority
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 and Organ 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 (2,426)
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 (20)

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

Education Payroll Limited

Kiwi Group Capital Limited

New Zealand Green Investment Finance Limited

Ngāpuhi Investment Fund Limited

Rau Paenga Limited (formerly 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

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 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 Estimation

These financial statements reflect the Government's financial position (service potential and financial capacity), as at 30 June 2023, 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).
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 2023 and the extent to which experience has shown that payments owing to the Government will be honoured, and when and the extent to which 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 Government Superannuation Fund (GSF) obligation and repayment rates of student loans.

Note 2: Key Assumptions and Estimation (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 https://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. The longest term of a New Zealand government bond is 28 years from now. Discount rates beyond 28 years are smoothed over a minimum of 10 years to eventually attain the long-term risk-free discount rate of 4.30%. This long-term rate is based on an examination of average New Zealand government bonds over an extended period of time (4.30% nominal, and 2.30% real after inflation expectations).

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 statement of financial position. 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 2023	30 June 2022
Risk-free discount rates	From 5.43% in the first year (2024) down to 4.30% for the 39th year (2062) and beyond	From 3.34% in the first year (2023) up to 4.30% for the 40th year (2062) and beyond
CPI inflation	From 3.36% in the first year (2024) down to 2.00% for the 37th year (2060) and beyond	From 3.87% in the first year (2023) down to 2.00% for the 39th year (2061) and beyond

Note 2: Key Assumptions and Estimation (continued)

Specific accounting estimates and assumptions

Financial statement item	Judgements and Impact on assumptions	Note
Tax revenue	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 accrual basis in the period the taxable event occurs. Estimating the income tax revenue of other persons and corporates requires a high degree of estimation 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 2023 (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 goods and services tax (GST) and pay as you earn (PAYE) in July and August relating to taxable events in the financial year ended 30 June 2023 can be used to support GST and PAYE estimates made at 30 June 2023. **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 2023 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 2023 (ie, an estimate of three quarters of annual tax revenue for the full tax year to 31 March 2023), and • the three-month period for the tax year ending 31 March 2024 (ie, an estimate of one quarter of annual tax revenue for the full tax year to 31 March 2024). The filing of terminal tax returns for these years could happen more than a year after the tax year. For example, the March-year 2023 return may not be filed until March 2024 (or after) and the March-year 2024 return may not be filed until March 2025 (or after). Tax revenue from other persons and corporates is estimated for a particular tax year by applying a single growth or reduction percentage (referred to as an "uplift percentage") to taxpayers' previous year's terminal tax return (or estimates of previous year's return), where taxpayers have opted to pay provisional tax using the standard uplift method under legislation. Most taxpayers elect this option rather than another provisional tax payment method, such as the estimation option. The uplift percentage assumption used to estimate tax revenue relies on estimated *firms' net operating surplus*, which is a component of the income measure of nominal GDP. This macro-economic assumption is designed to measure firms' profits and therefore is considered the most reasonable basis for estimating income tax.	4 and 13

Note 2: Key Assumptions and Estimation (continued)

Financial statement item	Judgements and Impact on assumptions	Note
Tax revenue (continued)	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 2023 of 2.41% has been applied to relevant March 2022 terminal tax returns filed (or estimates of March 2022 returns), to estimate tax revenue for the March 2023 year. Three quarters of the estimated income tax revenue for the March 2023 tax year is accrued in these financial statements. This assumption is derived directly from the Treasury's most recent forecast of net operating surplus growth in the *Pre-election Economic and Fiscal Update* (Pre-election Update) 2023 which was finalised on 2 August 2023 and published on 12 September 2023. The March 2023 assumption also aligns with the 2.35% annual growth rate derived from Statistics New Zealand's (Stats NZ) quarterly data series released 22 July 2023. This series was developed for institutional sector accounts, balance sheets, and the nominal income measure of quarterly GDP, to provide more timely data on New Zealand's economy. Details of the quarterly release can be found here: https://www.stats.govt.nz/experimental/national-accounts-income-saving-assets-and-liabilities-march-2023-quarter. Net operating surplus is derived from gross operating surplus and gross mixed income less consumption of fixed capital. • An annual average growth in the Treasury's forecasted firms' net operating surplus for the tax year to 31 March 2024 of 0.98% has been applied to relevant March 2023 terminal tax returns filed (or estimates of March 2023 returns) to estimate tax revenue for the March 2024 year. One quarter of the estimated income tax revenue for the full March-year 2024 is accrued in these financial statements. The uplift assumption of 0.98% for the March 2024 year is derived from the Treasury's forecast net operating surplus growth for the March 2024 year from Pre-election Update 2023. Other key features of income tax revenue estimation include: • adjusting for 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 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, they may not necessarily reflect actual tax returns when filed. In any particular year, there can be significant differences in tax revenue and tax receipts reported for other persons and corporate tax. One of the reasons for the difference is most taxpayers make provisional tax payments using the standard option under legislation, which is based on taxpayers' previous year's residual income tax plus 5%. However, for those taxpayers, tax revenue estimates are driven by assuming a single growth assumption based on estimated firms' net operating surplus growth for a particular tax year and these rates can significantly differ from the standard option uplift of 5%.	

Note 2: Key Assumptions and Estimation (continued)

Financial statement item	Judgements and Impact on assumptions	Note
Advances	The student loans scheme included in advances and are carried at fair value. Fair value is the amount the loans could theoretically be sold to unrelated buyers 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).	16
Property, plant and equipment	Property, plant and equipment elected to be revalued (in accordance with the accounting policies of these financial statements) has been revalued at 30 June 2023 where there was a valuation due in the valuation cycle, or there was a material change in fair value. Significant assumptions underlying these valuations are as follows: *Electricity generation assets* – The assets are made up mainly of hydro, thermal, 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: Property, Plant and Equipment. 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: Property, Plant and Equipment.	17
Climate change commitments and risks	The Treasury's assessment of the possible economic and fiscal impacts of climate change on New Zealand are brought together in Ngā Kōrero Āhuarangi Me Te Ōhanga: Climate Economic and Fiscal Assessment 2023. Climate change will create multiple cost pressures for the Crown and is likely to negatively affect its tax base through changes to economic activity. The choices the Government will make, including around revenue and expenditure and the balance of spending and non-spending levers used as part of a wider climate policy portfolio, will be key drivers of any fiscal impacts. The New Zealand Emissions Trading Scheme is New Zealand's main emissions pricing tool and is a key tool for meeting climate change targets. Refer to Note 21: New Zealand Emissions Trading Scheme for more information on the scheme's direct fiscal impact on these financial statements.	21

Note 3: North Island Weather Events

In January and February 2023, the North Island experienced two severe weather events causing widespread damage as a result of heavy rainfall and Cyclone Gabrielle. These events (collectively referred to as North Island weather events) have impacts across the financial statements of the Government.

The Government announced the provision of financial support directly to the impacted regions and through local authorities which included meeting its legal obligations and providing additional support above these obligations. Toka Tū Ake EQC provides insurance coverage and has recognised additional expenditure relating to insurance claims. In addition, a number of Crown assets have been impaired and written-off as a result of the damage sustained. The total impact for the year ended 30 June 2023 is estimated at $1.7 billion. At Budget 2023 the Government announced fiscal support of $7.1 billion and after balance date funding of $1.6 billion to provide additional support has been committed to.

Fiscal impacts reflected in the 30 June 2023 financial statements

These financial statements include known fiscal impacts associated with the weather events based on information available for the year ended 30 June 2023. The fiscal impacts can be broadly grouped into the below categories.

Government decisions and policies in response to the weather events

The Government has provided direct funding to individuals and businesses to rebuild and recover from the weather events as well as providing financial support to the affected regions. Government decisions have resulted in $541 million being incurred for the 2022/23 fiscal year. Most of these costs related to repairs and maintenance of local roads by Waka Kotahi ($156 million) and the state highway network ($94 million), support from the Ministry of Business, Innovation and Employment (MBIE) for businesses impacted by the weather events ($65 million), funding from the Ministry for Primary Industries for businesses who have suffered crop and capital stock damage ($59 million) and funding from MBIE and the Ministry of Housing and Urban Development for temporary accommodation services for those who were displaced ($62 million). For more information refer to each entities 2022/23 Annual Report.

Insurance costs incurred through Toka Tū Ake EQC

Toka Tū Ake EQC covers damage to residential property caused by earthquake, landslip, tsunami, volcanic eruption, hydrothermal activity, storm or flood (land only), and fire following any of these events. Toka Tū Ake EQC's obligation in relation to the weather events has been estimated at $652 million as at 30 June 2023, which includes a risk margin of $203 million (to allow for the inherent uncertainty).

Crown assets that have been impaired or written-off

A number of Crown assets have been written off or impaired as a result of the damage sustained from the weather events. Crown assets classes that have had impairments and write-offs recognised that are greater than $50 million or more are:

- The state highway network: For the east coast regions there were three state highway bridges destroyed and written off with the remaining affected network considered for impairment. The level of damage is still being assessed and quantified therefore the application of a general impairment has been derived based on the value of the affected network. $282 million of impairments and write-offs have been applied to recognise the temporary damage and loss of service on the state highways.

- The rail network: Significant damage was incurred to KiwiRail's infrastructure network on the Palmerston North to Gisborne Line and the North Auckland Line, with damage also occurring on the North Island and East Coast Main Trunks and within the Auckland metropolitan network. As at 30 June 2023, the Hastings to Wairoa section of the Palmerston North to Gisborne Line and the entire North Auckland Line were closed. The Napier to Wairoa section of the Palmerston North Line is unlikely to reopen for a number of years. In addition, reopening the Kauri to Otiria portion of the North Auckland Line was delayed by the weather events. Impairments and write-offs of $190 million have been recognised and an insurance claim has been lodged with the outcome yet to be determined, however, at the time of publication insurance proceeds of $50 million had been received so far.

Note 3: North Island Weather Events (continued)

The Government's obligations to local authorities

The Government was obligated to reimburse local authorities for 60% of the expenses they have incurred in relation to local or national emergencies, most notably for wastewater, storm-water and potable water infrastructure for valid and eligible work. The obligation arises under the national civil defence emergency management plan as authorised by section 39 of the Civil Defence Emergency Management Act 2002. An expense of $20 million representing an estimation of costs incurred has been recognised for the year ended 30 June 2023.

Fiscal impacts that will be reflected in future financial statements

The Government made decisions at Budget 2023 and thereafter in relation to fiscal support measures from the North Island weather events with the fiscal impacts grouped into the below categories.

Government support measures announced at Budget 2023

At Budget 2023 the Government announced the National Resilience Plan, totalling $6 billion which in the first instance will provide funding for asset repair and replacements from the North Island weather events. The Government also announced funding totalling $1.1 billion to support the response and recovery from the North Island weather events. The majority of the expenditure associated with this funding is expected to be incurred in the 2023/24 financial year and focuses on the reinstatement of transport networks.

Additional Government support measures announced after Budget 2023 (subsequent to balance date)

In June 2023 the Government announced it intended to provide local authorities additional support in managing future severe weather event risks in:

- areas where community and/or property level interventions to protect properties are feasible in the management of future severe weather event risks (category 2), and
- areas where residential properties are designated as being at risk of severe weather events and the risk cannot be sufficiently mitigated. In this situation an offer to voluntarily buy-out the property would be made (category 3).

After 30 June 2023 the Government committed to support for local authorities with an estimated:

- $648 million for category 2 risk mitigation investments
- $495 million for category 3 buy-outs, and
- $495 million for local transport initiatives to build resilience and support recovery.

In addition, the Government is covering the interest expense of a 10-year, $30 million loan for the Gisborne District Council.

The 2022/23 financial statements do not recognise these commitments as the obligating event has occurred post balance date. The 2023/24 financial statements will reflect the costs and obligations associated with this.

For more information on the impacts and funding associated with the North Island weather events refer to: https://www.treasury.govt.nz/information-and-services/nz-economy/climate-change/north-island-weather-event-response-and-recovery-funding

Note 4: Sovereign Revenue

2023 Forecast at Budget 2022 $m	Budget 2023 $m	Taxation Revenue (accrual)	Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Individuals		
45,022	47,055	Source deductions	47,386	42,448
11,265	10,980	Other persons	9,904	11,120
(2,001)	(1,853)	Refunds	(2,182)	(1,739)
657	732	Fringe benefit tax	769	684
54,943	**56,914**	**Total individuals**	**55,877**	**52,513**
		Corporate Tax		
21,062	20,536	Gross companies tax	18,327	20,010
(410)	(731)	Refunds	(970)	(630)
571	576	Non-resident withholding tax	621	516
21,223	**20,381**	**Total corporate tax**	**17,978**	**19,896**
		Other Direct Income Tax		
1,354	1,659	Resident withholding tax on interest revenue	2,092	842
980	1,110	Resident withholding tax on dividend revenue	1,127	1,108
2,334	**2,769**	**Total other direct income tax**	**3,219**	**1,950**
78,500	**80,064**	**Total direct income tax**	**77,074**	**74,359**
		Indirect Income Tax Revenue		
		Goods and Services Tax		
47,286	47,473	Gross goods and services tax	47,185	43,044
(17,904)	(19,343)	Refunds	(19,055)	(16,920)
29,382	**28,130**	**Total goods and services tax**	**28,130**	**26,124**
		Other Indirect Taxation		
1,874	1,359	Road and track user charges	1,414	1,840
896	789	Alcohol excise – domestic production	785	738
1,890	1,274	Petroleum fuels excise[1]	1,326	1,749
504	505	Alcohol excise – imports[1]	505	503
1,705	1,722	Tobacco excise – imports[1]	1,666	1,866
203	181	Other customs duty	187	178
233	253	Gaming duties	255	189
234	235	Motor vehicle fees	236	234
65	91	Approved issuer levy and cheque duty	111	67
23	23	Energy resources levies	23	26
7,627	**6,432**	**Total other indirect taxation**	**6,508**	**7,390**
37,009	**34,562**	**Total indirect taxation**	**34,638**	**33,514**
115,509	**114,626**	**Total taxation revenue**	**111,712**	**107,873**
		Other Sovereign Revenue		
3,598	3,819	ACC levies	3,855	3,461
3,190	2,538	Emission trading revenue	1,582	3,006
637	660	Fire and emergency levies	673	638
597	603	EQC levies	612	528
132	186	Clean vehicle discount	170	25
217	244	Child support and working for families penalties	371	287
115	115	Court fines	120	100
811	921	Other miscellaneous items	1,024	849
9,297	**9,086**	**Total other sovereign revenue**	**8,407**	**8,894**
124,806	**123,712**	**Total sovereign revenue**	**120,119**	**116,767**

[1] Includes customs excise-equivalent duty from both domestic production and imports.

Note 4: Sovereign Revenue (continued)

2023 Forecast at Budget 2022 $m	Budget 2023 $m	Taxation Receipts (cash)	Actual 30 June 2023 $m	30 June 2022 $m
		Individuals		
44,782	46,794	Source deductions	46,929	42,436
11,280	11,404	Other persons	10,685	9,723
(2,467)	(2,345)	Refunds	(2,703)	(2,423)
657	732	Fringe benefit tax	747	674
54,252	**56,585**	**Total individuals**	**55,658**	**50,410**
		Corporate Tax		
21,273	21,006	Gross companies tax	19,733	18,343
(1,187)	(1,603)	Refunds	(1,728)	(1,317)
571	576	Non-resident withholding tax	601	529
20,657	**19,979**	**Total corporate tax**	**18,606**	**17,555**
		Other Direct Income Tax		
1,354	1,659	Resident witholding tax on interest income	1,917	813
980	1,100	Resident witholding tax on dividend income	1,165	1,098
2,334	**2,759**	**Total other direct income tax**	**3,082**	**1,911**
77,243	**79,323**	**Total direct income tax**	**77,346**	**69,876**
		Goods and Services Tax		
46,568	46,622	Gross goods and services tax	45,251	41,973
(17,744)	(19,083)	Refunds	(18,334)	(16,473)
28,824	**27,539**	**Total goods and services tax**	**26,917**	**25,500**
		Other Indirect Taxation		
1,874	1,359	Road and track user charges	1,418	1,853
896	789	Alcohol excise – domestic production	779	740
4,175	3,802	Customs duty[1]	3,760	4,250
233	253	Gaming duties	255	193
234	235	Motor vehicle fees	185	213
65	91	Approved issuer levy and cheque duty	103	61
23	23	Energy resources levies	23	26
7,500	**6,552**	**Total other indirect taxation**	**6,523**	**7,336**
36,324	**34,091**	**Total indirect taxation**	**33,440**	**32,836**
113,567	**113,414**	**Total taxation receipts**	**110,786**	**102,712**
		Other Sovereign Receipts (cash)		
3,476	3,696	ACC levies	3,763	3,363
1,388	1,439	Emissions trading receipts	832	2,096
634	656	Fire and Emergency levies	669	634
546	684	EQC levies	697	530
132	186	Clean vehicle discount	170	25
199	258	Child support and working for families penalties	381	212
93	115	Court fines	114	110
807	911	Other miscellaneous items	1,004	833
7,275	**7,945**	**Total other sovereign receipts**	**7,630**	**7,803**
120,842	**121,359**	**Total sovereign receipts**	**118,416**	**110,515**

1 Includes customs excise-equivalent duty from imports.

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 2023 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 $20,299 million (2022: $20,076 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 tax assessments and/or payments, or prior year 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 Treasury's most recent economic forecast, is used as the uplift assumption, unless rebutted for material impacts. Refer to Note 2: Key Assumptions and Estimation for more information. In summary, the following uplift assumptions have been used to estimate income tax:

- Annual average growth in firms' net operating surplus for the year to 31 March 2023 of 2.41%.
- Annual average growth in the forecast of firms' net operating surplus for the year to 31 March 2024 of 0.98% (These assumptions are directly from Treasury's most recent forecast of net operating surplus growth in the Pre-election Update which was finalised on 2 August 2023 and published on 12 September 2023).

Other persons and corporate income tax revenue has a high degree of estimation and is therefore more uncertain than other tax types. Further detail on the estimation methodology and revisions to it can be found in the IRD annual report. 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 inflation, interest rates and commodity price pressures, geopolitical tensions and global supply chain disruptions. The table below reports the impact of change in the uplift assumption to tax revenue:

Income tax sensitivity to changes in firm's net operating surplus

Sensitivity of assumption			**30 June 2023 $m**			**30 June 2022 $m**
Increase in firms' net operating surplus	**+ 1.0%**	**+ 5.0%**	**+ 10.0%**	**+ 1.0%**	**+ 5.0%**	**+ 10.0%**
Impact on income tax	245	1,227	2,455	244	1,218	2,436
Decrease in firms' net operating surplus	**- 1.0%**	**- 5.0%**	**- 10.0%**	**- 1.0%**	**- 5.0%**	**- 10.0%**
Impact on income tax	(245)	(1,227)	(2,455)	(244)	(1,218)	(2,436)

Note 5: Sales of Goods and Services

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
11,330	11,707	Sales of goods	11,219	11,105
8,111	10,889	Provision of services	10,735	6,337
19,441	**22,596**	**Total sales of goods and services**	**21,954**	**17,442**

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

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)

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
		Interest Revenue		
1,369	2,063	Financial assets classified as amortised cost	3,003	1,123
925	1,360	Financial assets classified as fair value through the Operating balance	1,322	766
535	687	Concessionary loans (interest unwind)[1]	687	403
2,829	**4,110**	**Total interest revenue**	**5,012**	**2,292**
		Interest Expense		
4,920	6,681	Financial liabilities classified as amortised cost	6,830	3,190
50	138	Financial liabilities classified as fair value through the Operating balance	192	61
263	417	Interest unwind on provisions and other interest	426	98
5,233	**7,236**	**Total interest expenses**	**7,448**	**3,349**
(2,404)	**(3,126)**	**Net interest income/(expense)**	**(2,436)**	**(1,057)**
		Gains and Losses on Financial Instruments		
-	-	Foreign exchange gains on financial assets and liabilities measured at amortised cost	357	494
(2)	(213)	Foreign exchange losses on financial assets and liabilities measured at amortised cost	(195)	(860)
(34)	353	Gains/(losses) on disposal of financial assets and liabilties measured at amortised cost	(84)	37
4,089	3,145	Change in fair value of financial assets and liabilities classified as fair value through the Operating balance	5,647	(2,896)
37	462	Change in fair value of student loans classified as fair value through the Operating balance	501	(1,113)
4,090	**3,747**	**Net gains/(losses) on financial assets and liabilities**	**6,226**	**(4,338)**
804	2,141	Net gains/(losses) on derivatives	1,485	(5,349)
4,894	**5,888**	**Net gains/(losses) on financial instruments**	**7,711**	**(9,687)**
		Other investment income/(expense)		
1,176	1,139	Dividend income (refer to note 7)	1,343	1,248
1,176	**1,139**	**Total other investment income/(expense)**	**1,343**	**1,248**
3,666	**3,901**	**Total investment and finance income/(expense)**	**6,618**	**(9,496)**

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). The interest unwind recognised for 30 June 2023 largely reflects lending relating to student loans and the small business cashflow loan scheme.

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

Interest revenue and expense on financial assets and financial liabilities classified at amortised cost is accrued using the effective interest method. The effective interest rate discounts estimated future cash receipts/payments through the expected life of the financial instrument's net carrying amount. The method applies this rate to the principal outstanding to determine interest revenue or expense each period. This means interest is allocated at a constant rate of return over the expected life of the financial instrument based on the estimated cash flows.

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

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

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

Note 7: Other Revenue

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
1,176	1,139	Dividends	1,343	1,248
677	641	Donations	716	743
726	778	Rental revenue	775	717
2	11	EQC insurance claim on reinsurers	45	19
254	256	Sale of royalties	284	267
2,243	2,313	Other revenue	2,763	2,132
5,078	**5,138**	**Total other revenue**	**5,926**	**5,126**

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

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
19,529	19,523	New Zealand superannuation	19,517	17,764
3,428	3,480	Jobseeker support and emergency benefit	3,473	3,330
2,331	2,350	Accommodation assistance	2,349	2,386
2,219	2,310	Supported living payment	2,311	2,047
2,375	2,165	Family tax credit	2,151	2,017
1,819	1,912	Sole parent support	1,917	1,704
1,030	1,039	KiwiSaver subsidies	997	964
1,058	905	Official development assistance	971	827
800	656	Cost of living payment	600	-
682	521	Student allowances	525	556
518	519	Winter energy payment	519	513
562	469	Other working for families tax credits	476	519
608	679	Hardship assistance	673	497
418	429	Disability assistance	430	412
356	347	Orphan's/unsupported child's benefit	350	313
375	324	Best start tax credit	321	308
133	134	Income related rent subsidy	122	145
-	-	Wage subsidy scheme	-	4,689
-	-	COVID-19 resurgence and support payment	-	4,019
1,203	1,164	Other social assistance benefits	1,101	1,077
39,444	**38,926**	**Total transfer payments and subsidies**	**38,803**	**44,087**

Transfer payments 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.

Note 9: Personnel Expenses

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
30,843	31,892	Salaries and wages	33,495	29,782
743	894	Costs incurred on defined contribution plans (e.g. KiwiSaver)	914	823
100	87	Costs incurred on GSF and other defined benefit plans	79	125
1,312	2,435	Other personnel expenses	1,564	1,918
32,998	**35,308**	**Total personnel expenses**	**36,052**	**32,648**

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised as an expense in the Statement of Financial Performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Obligations for contributions to defined contribution retirement plans are recognised in the Statement of Financial Performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial value of the Crown liability. The service cost and returns on defined benefit plan assets at the risk-free rate of return are recognised in the Statement of Financial Performance. Actuarial gains and losses and investments returns in excess of the risk-free rate of return of defined benefit plans are recognised in other comprehensive revenue and expense.

Termination expenses are recognised in the Statement of Financial Performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or as the expense arises as a result of an offer to encourage voluntary redundancy. Termination expenses settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Key Management Personnel

Key management personnel compensation was $10 million (2022: $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 2023 (2022: 28).

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.nz).

Note 10: Other Operating Expenses

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
10,286	12,294	Grants and subsidies	11,023	10,118
2,617	3,052	Repairs and maintenance	2,983	2,513
1,629	1,760	Rental and leasing costs	1,724	1,441
1,708	2,269	Clinical supplies	2,574	1,623
964	1,345	Amortisation and net impairment of non-financial assets	734	(224)
1,117	1,279	Impairment of financial assets	1,750	1,047
4,211	3,385	Wholesale electricity purchases	3,207	4,281
1,097	851	Cost of concessionary lending	738	858
841	790	Lottery prize payments	810	803
764	486	Inventory expenses	645	617
7	6	Fees paid to audit firms other than the Auditor-General (refer below)	6	8
36,727	41,148	Other operating expenses	37,940	35,188
61,968	**68,665**	**Total other operating expenses**	**64,134**	**58,273**

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 these 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 $71 million (2022: $63 million). These fees include $0.4 million (2022: $0.4 million) for the audit of these financial statements.

Fees paid for other assurance and related services to the Controller and Auditor-General were $1 million (2022: $0.4 million). As the Controller and Auditor-General is part of the Government Reporting Entity these fees are eliminated on consolidation. The amount reported above represents fees paid for other assurance and related services to audit firms excluding the Office of the Auditor-General (which includes Audit New Zealand).

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

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
-	1,749	Actuarial gains/(losses) on ACC outstanding claims	1,315	6,730
-	3,427	Gains/(losses) on the Emissions Trading Scheme	5,620	(4,917)
(77)	(115)	Gains/(losses) on disposal or revaluation of property, plant and equipment	(151)	192
31	247	Gains/(losses) on discontinued operations	236	620
(3)	(7)	Other gains/(losses) on non-financial instruments	(73)	340
(49)	**5,301**	**Net gains/(losses) on non-financial instruments**	**6,947**	**2,965**

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

The Emissions Trading Scheme is valued using the number of units available for surrender and the price of the units on the secondary market at balance date (Note 21: New Zealand Emissions Trading Scheme).

Note 12: Insurance

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Insurance expense by entity		
9,010	7,750	Accident Compensation Corporation (ACC)	7,619	5,833
322	1,090	Earthquake Commission (EQC)	1,134	496
(20)	6	Southern Response	10	92
56	72	Other	21	26
9,368	**8,918**	**Total insurance expenses**	**8,784**	**6,447**
		Insurance liability by entity		
68,353	55,251	ACC liability	55,664	54,115
576	1,436	EQC property damage liability	1,617	863
33	106	Southern Response liability	167	284
64	57	Other (incl. Inter-segment eliminations)	63	39
69,026	**56,850**	**Total insurance liabilities**	**57,511**	**55,301**
		By component		
		Outstanding claims liability	52,952	51,181
		Unearned premium liability	3,223	2,786
		Unearned premium liability deficiency	1,336	1,334
		Total insurance liabilities	**57,511**	**55,301**
		By maturity		
		Expected to be settled within one year	9,605	9,308
		Expected to be outstanding for more than one year	47,906	45,993
		Total insurance liabilities	**57,511**	**55,301**
		Assets arising from insurance obligations are:		
		Receivables for premiums	3,723	3,277
		Reinsurance claim recoveries	164	152

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, Toka Tū Ake EQC and Southern Response can 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 2023. 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).

Information on the impact of the North Island weather events on the Toka Tū Ake EQC insurance expense and liability is provided in Note 3. The remainder of this note provides a detailed analysis of the ACC insurance expense and liability.

Note 12: Insurance (continued)

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.

ACC insurance expense	Actual 30 June 2023 $m	30 June 2022 $m
ACC claims incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted[1]	13,537	11,721
Discount movement	(6,804)	(5,684)
Total current year net claims incurred	**6,733**	**6,037**
Previous years' net ACC claims incurred		
Reassessment of gross claims and expenses – undiscounted	8,072	5,019
Discount movement	(7,912)	(11,251)
Total previous years' net claims incurred	**160**	**(6,232)**
ACC claims expense	**6,893**	**(195)**
Movement in unearned premium deficiency liability	(10)	(164)
Other underwriting expenses	147	180
Total ACC claims and other expenses	**7,030**	**(179)**
Less expenses reported elsewhere in the Statement of Financial Performance		
- Actuarial gain/(loss) - (refer note 11 and below)	1,315	6,730
- Operating costs relating to claims	(726)	(719)
Total ACC insurance expenses (excluding gains/(losses) and operations)	**7,619**	**5,832**

1 The amount reported here is after eliminating inter-entity payments of $1,142 million (2022: $992 million) made by ACC to the Ministry of Health and Te Whatu Ora (2022: District Health Boards).

The first section of the table above (ACC claims expense) represents the overall ACC claims incurred this financial year that includes valuation of the outstanding claims liability and claims payments during the year. Current year claims relate to injuries suffered in the current financial year. Prior year claims relate to a reassessment of the claims assumptions (eg, changes in economic assumptions and claims experience) made in all previous years and include the effects of discounting caused by changes in the discount rate and the natural unwinding of the discount as the claims move one year closer to settlement.

There were higher claims this financial year compared to the previous as a result of the 2021/22 year seeing supressed claim volumes and health sector capacity due to COVID-19 omicron waves and lockdowns. Additionally, 2022/23 year saw the inclusion of inflationary and scheme expansion items such as maternal birth injuries, and continued pressure on wages in the health sector. Other cost increases are from changes to scheme, policy and legislation settings, inflation, claims volume growth and service design changes.

The second section of the table identifies where the ACC claims expense and other related expenses are reported in the Statement of Financial Performance. The actuarial gains and losses on the outstanding claims liability are reported as net gains/(losses) on non-financial instruments in the Statement of Financial Performance.

Actuarial gains/(losses) are revaluation movements in the outstanding claims liability as a result of changes in discount rates, inflation rates and claims experience and modelling assumption changes. Refer to the ACC insurance liability part of this note for a breakdown of the drivers of the actuarial gains/(losses) on outstanding claims.

Note 12: Insurance (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). The second table represents actual levy receipts and claims payments of the ACC scheme.

	Actual	
	30 June 2023 $m	30 June 2022 $m
Net ACC underwriting result		
Premium revenue[1]	3,855	3,461
Claims and other expenses	(7,030)	179
Net ACC underwriting surplus/(deficit)	**(3,175)**	**3,640**
ACC operating cash flows associated with the underwriting result are:		
Cash receipts[1]	3,763	3,363
Cash payments[2]	(5,926)	(5,056)
Net ACC operating cash flows	**(2,163)**	**(1,693)**

1 The amount reported here is after eliminating the inter-entity funding of $1,955 million (2022: $1,817 million) that ACC received from the Ministry of Business, Innovation and Employment.

2 The amount reported here is after eliminating inter-entity payments of $1,142 million (2022: $992 million) made by ACC to the Ministry of Health and Te Whatu Ora (2022: District Health Boards).

Note 12: Insurance (continued)

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 2023 $m	**30 June 2022 $m**
ACC liability		
ACC outstanding claims liability (refer below)	51,537	50,272
ACC unearned premium liability	2,803	2,510
ACC unearned premium liability deficiency	1,324	1,333
Total ACC liability	**55,664**	**54,115**
Outstanding ACC claims liability		
Undiscounted outstanding claims liability	126,139	112,004
Discount adjustment	(80,411)	(67,406)
Risk margin	5,809	5,674
Total outstanding ACC claims liability	**51,537**	**50,272**
Discounted central estimate of future payments for outstanding claims	43,301	42,371
Claims handling expenses	2,427	2,227
Outstanding claims liability before risk margin	**45,728**	**44,598**
Risk margin	5,809	5,674
Total outstanding ACC claims liability	**51,537**	**50,272**
Movement in outstanding ACC claims liability		
Opening balance	50,272	55,387
Claims incurred for the year	7,751	7,326
Claims paid out in the year	(6,772)	(5,913)
Discount rate unwind	1,601	202
Actuarial gains and losses on outstanding claims (refer below)	(1,315)	(6,730)
Closing outstanding ACC claims liability	**51,537**	**50,272**
Actuarial gains and losses on outstanding claims		
Experience adjustments and effect of changes in economic assumptions		
- claims experience and modelling assumption changes	948	1,999
- change in discount rate	(4,432)	(9,696)
- change in inflation rate	2,169	1,175
- change in other economic assumptions	-	(208)
Actuarial gains and losses on outstanding claims (refer note 11)	**(1,315)**	**(6,730)**

Note 12: Insurance (continued)

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

The ACC scheme operates on a fully funded basis. This means ACC aims to collect enough money during each levy year to fund all the future costs of any injuries that occur in that year. As ACC invests levy funds to contribute to the future cost of current claims, it effectively balances its investment fund against the outstanding claims liability.
For details of ACC’s investment portfolio and return on investment refer to ACC’s annual report. In these financial statements, ACC’s investments are mainly reported within total marketable securities, deposits and derivatives in gain (Note 14: Marketable Securities, Deposits and Derivatives in Gain) and share investments (Note 15: Investments in Shares and Controlled Enterprises), with income (eg, interest, dividends) reported in investment and finance income (Note 6: Investment and Finance Income/(Expense)) and fair value changes (realised and unrealised) reported in net gains/(losses) on financial instruments in the Statement of Financial Performance.

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 4.79% (2022: 4.18%) This takes into account the Treasury's published discount rates, which has a long-term discount rate of 4.30% beyond 40 years (2022: 4.30% beyond 40 years).

(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. Note 2: Key Assumptions and Estimation outlines the Treasury's CPI inflation assumptions for use in accounting valuations.

(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:

Note 12: Insurance (continued)

ACC claims obligation sensitivity to changes in assumptions	Impact on liability Increase/(decrease) 30 June 2023 $m + 1.0%	30 June 2023 $m - 1.0%	30 June 2022 $m + 1.0%	30 June 2022 $m - 1.0%
Risk-free discount rate	(6,466)	8,653	(6,657)	8,954
Inflation rates (including superimposed inflation)	8,775	(6,674)	9,043	(6,846)
Superimposed inflation (medical and elective surgery)	1,023	(770)	1,080	(837)
Superimposed inflation for social rehabilitation for serious injury claims after one year and non-serious non-capital claims	3,299	(2,482)	3,376	(2,539)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $45,728 million (2022: $44,598 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 2023. These estimated cash flows include the effects of assumed future inflation.

Outstanding claims breakdown	Actual 30 June 2023 $m	30 June 2022 $m
No later than 1 year	4,272	3,810
Later than 1 year and no later than 2 years	3,108	2,789
Later than 2 years and no later than 5 years	7,971	7,074
Later than 5 years and no later than 10 years	11,826	10,521
Later than 10 years and no later than 15 years	10,850	9,729
Later than 15 years and no later than 20 years	10,268	9,232
Later than 20 years and no later than 25 years	9,869	8,865
Later than 25 years and no later than 30 years	9,465	8,446
Later than 30 years and no later than 35 years	9,008	7,966
Later than 35 years and no later than 40 years	8,476	7,442
Later than 40 years and no later than 45 years	7,866	6,877
Later than 45 years and no later than 50 years	7,156	6,241
Later than 50 years	26,004	23,012
Undiscounted outstanding claims liability	**126,139**	**112,004**

Note 13: Receivables

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
17,321	20,681	Tax receivables	20,299	20,076
3,255	3,489	ACC levy receivables	3,554	3,170
1,612	1,301	Social benefit receivables	1,305	1,174
904	828	Other levies, fines and penalty receivables	921	875
23,092	**26,299**	**Sovereign receivables**	**26,079**	**25,295**
108	131	Reinsurance receivables	164	152
5,706	6,953	Trade and other receivables	7,305	9,688
28,906	**33,383**	**Total receivables**	**33,548**	**35,135**
		By maturity		
26,755	31,118	Expected to be realised within one year	30,912	32,867
2,151	2,265	Expected to be outstanding for more than one year	2,636	2,268
28,906	**33,383**	**Total receivables**	**33,548**	**35,135**

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.

Note 13: Receivables (continued)

Sovereign receivables include taxes, levies, and fines (and any penalties associated with these activities) as well as social benefit receivables which do not arise from a contract.

In determining the recoverability of tax or 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 $118 million (2022: $242 million), with $69 million (2022: $199 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 (which includes unsettled purchases of securities) are short-term in nature and totalled $7,305 million (2022: $9,688 million). Their carrying amount provides a reasonable approximation of their fair value.

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

	30 June 2023 Actual			30 June 2022 Actual		
	Gross receivable $m	Impairment $m	Net receivable $m	Gross receivable $m	Impairment $m	Net receivable $m
Tax receivables	24,318	(4,019)	20,299	23,432	(3,356)	20,076
ACC levy receivables	3,712	(158)	3,554	3,322	(152)	3,170
Social benefit receivables	2,487	(1,182)	1,305	2,249	(1,075)	1,174
Other levies, fines and penalty receivables	1,753	(832)	921	3,305	(2,430)	875
Reinsurance receivables	166	(2)	164	154	(2)	152
Trade and other receivables	7,456	(151)	7,305	9,822	(134)	9,688
Total receivables	**39,892**	**(6,344)**	**33,548**	**42,284**	**(7,149)**	**35,135**

The Inland Revenue administers much 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 30 June 2023, deducting an estimate of service costs and then discounting the net expected repayments at a rate of 6.5% (2022: 6.0%).

Note 13: Receivables (continued)

	Actual 30 June 2023 $m	30 June 2022 $m
Gross Tax Receivable		
Current	18,519	18,586
Past due	5,799	4,846
Total gross tax receivable	**24,318**	**23,432**
% past due	23.8%	20.7%
Impairment of Tax Receivables		
Opening balance	3,356	3,405
Impairment losses recognised during the year	1,469	678
Amounts written off as uncollectible	(806)	(727)
Closing balance	**4,019**	**3,356**
Tax Receivable Net of Impairment		
Current	18,437	18,496
Past due	1,838	1,569
Total tax receivable net of impairment	**20,275**	**20,065**
% past due	9.1%	7.8%
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	1,531	1,230
Between six months and one year	592	443
Between one year and two years	975	678
Greater than two years	2,701	2,495
Total tax receivables past due (Gross)	**5,799**	**4,846**

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 2023 valuation is 68.3%, (2022: 67.6%).

Taxes repayable are recorded as a liability with further information in Note 19: Payables.

Note 14: Marketable Securities, Deposits and Derivatives in Gain

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		By type		
38,424	44,394	Marketable securities	44,736	45,045
4,711	6,882	Long-term deposits	9,231	8,444
2,830	7,304	Derivatives in gain	6,935	6,643
5,237	5,286	International Monetary Fund financial assets	5,588	5,324
51,202	**63,866**	**Total marketable securities, deposits and derivatives in gain**	**66,490**	**65,456**
		Expected Realisation		
5,159	28,791	Expected within one year	39,665	37,942
46,043	35,075	Expected to be greater than one year	26,825	27,514
51,202	**63,866**	**Total marketable securities, deposits and derivatives in gain**	**66,490**	**65,456**

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.

International Monetary Fund (IMF) assets are measured at amortised cost.

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.

IMF financial assets arise from New Zealand's membership of the IMF. The IMF allocate special drawing rights that they will apply to boost global liquidity.

Further information is provided on these financial assets in Note 28: Financial Instruments.

Note 15: Investments in Shares and Controlled Enterprises

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		By type		
53,423	44,710	Share investments	48,046	46,261
5,991	7,024	Investments in controlled enterprises	7,317	6,096
59,414	**51,734**	**Total investments in shares and controlled enterprises**	**55,363**	**52,357**
		Expected Realisation		
34,160	27,029	Expected within one year	29,638	28,497
25,254	24,705	Expected to be greater than one year	25,725	23,860
59,414	**51,734**	**Total investments in shares and controlled enterprises**	**55,363**	**52,357**

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 investments 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. Valuation of these investments is, by their nature inherently more subjective and more exposed to valuation uncertainty. 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 28: Financial Instruments.

Note 16: Advances

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Advances by type		
30,354	30,002	Kiwi Group Capital Limited loans and advances	29,785	27,786
20,622	17,636	Funding for Lending Programme advances	18,088	11,277
9,679	9,267	Student loans	9,373	9,209
1,153	778	Small Business Cashflow Loan Scheme	786	821
9,075	7,564	Other advances	8,457	5,566
70,883	**65,247**	**Total advances**	**66,489**	**54,659**

Further information on these financial assets is provided in Note 28: Financial Instruments.

Note 16: Advances (continued)

Kiwi Group Capital Limited loans and advances

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Kiwi Group Capital Limited loans and advances		
		Advances by maturity		
2,146	2,797	Expected to be repaid within one year	3,016	2,564
28,208	27,205	Expected to be outstanding for more than one year	26,769	25,222
30,354	**30,002**	**Total Kiwi Group Capital Limited loans and advances**	**29,785**	**27,786**

Kiwi Group Capital Limited loans and advances are measured at amortised cost.

The fair value of Kiwi Group Capital Limited loans and advances is $29,388 million (2022: $27,383 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 Capital Limited loans and advances include a provision for expected credit losses of $110 million (2022: $75 million).

Funding for Lending Programme advances

	Actual 30 June 2023 $m	Actual 30 June 2022 $m
Funding for Lending Programme advances		
Nominal value	17,436	11,210
Accrued interest	720	67
Fair value movement	(68)	-
Total Funding for Lending Programme advances	**18,088**	**11,277**
By maturity		
Expected to be repaid within one year	2,473	-
Expected to be outstanding for more than one year	15,615	11,277
Total Funding for Lending Programme advances	**18,088**	**11,277**
Movement During the Year		
Opening balance	11,277	2,558
Net new lending (including fees)	6,426	8,654
Accrued Interest	653	65
Repayments made during the year	(200)	-
Fair value movement	(68)	-
Closing Funding for Lending Programme advances	**18,088**	**11,277**

Funding for Lending Programme (FLP) advances under the initial allocation are measured at amortised cost. Initially and subsequently reported at their face value, less an allowance for expected losses.

Advances under the additional allocation of the FLP where fees charged on advances are not solely related to payments of principal and interest, are initially and subsequently reported at fair value through the Statement of Financial Performance.

Note 16: Advances (continued)

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.

The Initial Allocation was available for the 18 months from 7 December 2020 to 6 June 2022. The Additional Allocation, based on the participant's lending growth, was available over the full 2-year period from 7 December 2020 to 6 December 2022. Under the additional allocation, in addition to being charged interest on FLP funding provided at the OCR, participants are charged a facility fee if the volume of their eligible loans decrease.

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.

Access to FLP funding is now closed to any new lending.

Student loans

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Student loans		
16,369	15,885	Nominal value	15,942	16,137
(6,690)	(6,618)	Write-down on initial recognition, impairment and fair value changes	(6,569)	(6,928)
9,679	**9,267**	**Total student loans**	**9,373**	**9,209**
		By maturity		
		Expected to be repaid within one year	1,611	1,506
		Expected to be outstanding for more than one year	7,762	7,703
		Total student loans	**9,373**	**9,209**
		Movement During the Year		
		Opening balance	9,209	10,841
		Net new lending (including fees)	1,271	1,295
		Initial write-down to fair value	(551)	(489)
		Repayments made during the year	(1,634)	(1,605)
		Interest unwind	577	280
		Unwind of administration costs	30	38
		Experience actuarial adjustments:		
		- Change in cash flows	277	519
		- Change in discount rates	194	(1,670)
		Closing balance student loans	**9,373**	**9,209**

Student loans are initially recognised by writing the amount lent down to fair value. Subsequently student loans are measured at fair value through the Statement of Financial Performance. 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 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.

New Zealand residents are not charged interest and there are no repayments required from those on low incomes.

Loans are written off where the loan is with someone who has passed away or become bankrupt.

Amounts recognised in the Statement of Financial Performance for student loans are in the following table:

	Actual	
	30 June 2023 $m	**30 June 2022 $m**
Interest revenue		
Interest unwind	577	280
Other operating expenses		
Initial write-down to fair value	(551)	(489)
Net gains/(losses) on financial instruments		
Experience/actuarial adjustments:		
- Change in cash flows	277	519
- Change in discount rates	194	(1,670)
Unwind of administration costs	30	38
Total net gains/(losses) on financial instruments	**501**	**(1,113)**

The valuation of student loans is performed each year using actuarial and predictive models which reflect current student loan policy and macroeconomic assumptions.

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. Payment risk represents the risk of current and future 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.

The fair value of student loans increased by $163 million from 30 June 2022. The fair value as a percentage of the nominal loan balance increased from 57.1% at 30 June 2022 to 58.8%.

The increase is largely due to changes in the discount rate. The discount rate is based on the Treasury risk-free rate with a risk-adjustment added. The risk-adjustment has decreased since June 2022 (2023: 1.71%, 2022: 3.08%), which increased the fair value of the student loan portfolio by $539 million. This was offset by risk-free rates generally increasing since June 2022, which decreased the fair value by $309 million. Differences in the discount rates applied to interest unwind and initial fair value write-down contributed a further $36 million decrease in fair value.

The significant assumptions used in the valuation of student loans are in the following table:

	Actual	
Student loan carrying value assumptions	**30 June 2023**	**30 June 2022**
Interest rate applied to loans for overseas borrowers	2.8%-5.8%	2.8%-5.2%
Consumer Price Index	1.9%-7.3%	1.8%-6.6%
Future salary inflation	3.0%-5.9%	3.0%-6.1%
Discount rate	6.9%	7.4%

Note 16: Advances (continued)

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

Sensitivity of student loan carrying value to discount rates and salary inflation assumptions	Actual 30 June 2023 $m	30 June 2022 $m
Impact on fair value of a 1% increase in discount rate	(397)	(404)
Impact on fair value of a 1% decrease in discount rate	436	444
Impact on fair value of a 1% increase in salary inflation[1]	82	102
Impact on fair value of a 1% decrease in salary inflation[1]	(86)	(106)

[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 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.

Note 17: Property, Plant and Equipment

for the year ended 30 June 2023	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 2022	268,071	84,744	62,171	51,915	19,041	6,829	4,220	6,896	3,286	10,630	18,339
Additions	14,881	923	6,564	1,738	632	330	393	1,028	63	912	2,298
Disposals	(1,474)	(114)	(228)	(18)	(7)	(50)	(21)	(27)	(5)	-	(1,004)
Net revaluations	5,335	(5,640)	1,540	5,872	411	-	(30)	(6)	105	3,082	1
Transfers from/(to) asset classes outside of PPE	(236)	(199)	(4)	(5)	-	-	-	-	-	-	(28)
Other[1]	1,200	(6)	(12)	-	(11)	1	-	-	-	(3)	1,231
Total gross carrying amount	**287,777**	**79,708**	**70,031**	**59,502**	**20,066**	**7,110**	**4,562**	**7,891**	**3,449**	**14,621**	**20,837**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2022	18,889	-	2,390	-	14	2,476	-	2,603	32	47	11,327
Eliminated on disposal	(1,007)	-	(107)	-	-	(32)	(1)	(26)	(6)	-	(835)
Eliminated on transfer to other asset classes	(13)	-	(25)	-	-	-	-	-	17	-	(5)
Eliminated on revaluation	(5,527)	-	(2,962)	(797)	(702)	-	(595)	-	(23)	(414)	(34)
Net Impairment losses charged to operating balance	220	-	(1)	-	4	-	282	11	-	(49)	(27)
Depreciation expense	6,601	-	2,532	797	698	208	313	339	26	456	1,232
Other[1]	1,224	-	10	-	-	(1)	1	-	2	1	1,211
Total accumulated depreciation and impairment	**20,387**	**-**	**1,837**	**-**	**14**	**2,651**	**-**	**2,927**	**48**	**41**	**12,869**
Carrying value as at 30 June 2023	**267,390**	**79,708**	**68,194**	**59,502**	**20,052**	**4,459**	**4,562**	**4,964**	**3,401**	**14,580**	**7,968**
By holding											
Leasehold	1,481	-	250	-	1	-	1,199	-	-	-	31
Public Private Partnerships	5,220	311	2,285	2,621	-	-	-	-	-	-	3
Freehold (excluding PPP)	260,689	79,397	65,659	56,881	20,051	4,459	3,363	4,964	3,401	14,580	7,934
Carrying value as at 30 June 2023	**267,390**	**79,708**	**68,194**	**59,502**	**20,052**	**4,459**	**4,562**	**4,964**	**3,401**	**14,580**	**7,968**

1 The movement in other reflects the changes that have occurred between the gross carrying amount and accumulated depreciation and impairment for assets held by KiwiRail.

The total amount of property, plant and equipment under construction is $10,161 million (2022: $7,742 million) which are classified to the asset class being constructed.

Note 17: Property, Plant and Equipment (continued)

For the year ended 30 June 2022	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 2021	**231,234**	70,292	55,733	42,666	18,387	6,616	3,611	5,848	3,187	7,446	17,448
Additions	**12,880**	737	4,882	1,743	1,350	259	205	1,016	41	865	1,782
Disposals	**(2,011)**	(268)	(212)	(14)	(560)	(46)	-	(8)	(7)	-	(896)
Net revaluations	**26,271**	14,211	1,772	7,526	(69)	-	404	40	64	2,314	9
Transfers from/(to) asset classes outside of PPE	**(272)**	(251)	(11)	(6)	-	-	-	-	-	-	(4)
Other	**(31)**	23	7	-	(67)	-	-	-	1	5	-
Total gross carrying amount	**268,071**	**84,744**	**62,171**	**51,915**	**19,041**	**6,829**	**4,220**	**6,896**	**3,286**	**10,630**	**18,339**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2021	**18,018**	-	2,200	-	29	2,298	-	2,199	31	39	11,222
Eliminated on disposal	**(949)**	-	(110)	-	(20)	(30)	-	(6)	(5)	-	(778)
Eliminated on transfer to other asset classes	**(90)**	-	(88)	-	-	-	-	-	1	-	(3)
Eliminated on revaluation	**(3,377)**	-	(1,926)	(721)	(653)	-	404	-	(21)	(458)	(2)
Net Impairment losses charged to operating balance	**(851)**	-	2	-	2	-	(669)	9	-	2	(197)
Depreciation expense	**6,152**	-	2,327	721	656	208	265	401	26	464	1,084
Other	**(14)**	-	(15)	-	-	-	-	-	-	-	1
Total accumulated depreciation and impairment	**18,889**	**-**	**2,390**	**-**	**14**	**2,476**	**-**	**2,603**	**32**	**47**	**11,327**
Carrying value as at 30 June 2022	**249,182**	**84,744**	**59,781**	**51,915**	**19,027**	**4,353**	**4,220**	**4,293**	**3,254**	**10,583**	**7,012**
By holding											
Leasehold	**1,450**	-	294	-	1	-	1,117	-	-	-	38
Public Private Partnerships	**4,648**	277	2,049	2,316	-	-	-	-	-	-	6
Freehold (excluding PPP)	**243,084**	84,467	57,438	49,599	19,026	4,353	3,103	4,293	3,254	10,583	6,968
Carrying value as at 30 June 2022	**249,182**	**84,744**	**59,781**	**51,915**	**19,027**	**4,353**	**4,220**	**4,293**	**3,254**	**10,583**	**7,012**

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 optimised depreciated replacement cost is used to determine fair value of specialised 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.
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
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 2023 (2022: $nil). PPE owned by SOEs and mixed ownership companies has been pledged to secure borrowings and finance lease obligations of $3,367 million (2022: $3,270 million).

The table below outlines the movement in the revaluation reserve by class of asset:

Property, plant and equipment revaluation reserve	**Actual 30 June 2023 $m**	**Actual 30 June 2022 $m**
Opening revaluation reserve	164,385	134,003
Net revaluations	10,870	30,920
Minority interests share of net revaluations	(372)	(153)
Transfers from/(to) taxpayer funds	(308)	(385)
Closing revaluation reserve	**174,575**	**164,385**
Class of Asset		
Land	68,261	73,956
Buildings	39,897	35,060
State highways	40,104	33,435
Electricity generation assets	14,101	13,323
Rail network	9,253	5,927
Specified cultural and heritage assets	1,736	1,608
Specialist military equipment	642	593
Other reserves	581	483
Closing revaluation reserve	**174,575**	**164,385**

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 45 and 46.

Note 17: Property, Plant and Equipment (continued)

Land and Buildings

Breakdown of land and buildings

30 June 2023	Land $m	Actual Buildings $m	Total $m
Housing stock	28,921	16,961	45,882
School property	6,279	25,021	31,300
State highway corridor land	23,134	35	23,169
Hospitals	1,726	10,447	12,173
Conservation estate	8,342	80	8,422
Prisons and Department of Corrections	254	4,698	4,952
Defence Force land and buildings	991	3,483	4,474
Rail network corridor land	4,261	-	4,261
Te Pūkenga - New Zealand Institute of Skills and Technology	551	1,627	2,178
Landcorp farmland and buildings	1,394	162	1,556
Ministry of Justice land and buildings	262	1,092	1,354
Fire stations	463	621	1,084
Police stations	342	503	845
Other	2,788	3,464	6,252
Total land and buildings	**79,708**	**68,194**	**147,902**

30 June 2022	Land $m	Actual Buildings $m	Total $m
Housing stock	32,802	16,646	49,448
School property	7,478	19,791	27,269
State highway corridor land	23,486	14	23,500
Hospitals	1,799	9,056	10,855
Conservation estate	7,826	72	7,898
Prisons and Department of Corrections	221	4,253	4,474
Defence Force land and buildings	1,045	2,683	3,728
Rail network corridor land	4,309	-	4,309
Te Pūkenga - New Zealand Institute of Skills and Technology	532	1,647	2,179
Landcorp farmland and buildings	1,396	162	1,558
Ministry of Justice land and buildings	241	1,014	1,255
Fire stations	474	599	1,073
Police stations	343	507	850
Other	2,792	3,337	6,129
Total land and buildings	**84,744**	**59,781**	**144,525**

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. Details are outlined in the table below:

Note 17: Property, Plant and Equipment (continued)

Valuation Information

Approach	Asset type	Valuer	Timing
Valued based on sales comparison and other market-based data	Public housing stock	Quotable Value Limited	Annual valuation with the latest completed in the 30 June 2023 financial year.
	School land, early childhood centres and teacher housing	Quotable Value Limited	Independent valuation reviews are completed at least once every three years with the latest completed in the 30 June 2023 financial year. In the intervening years an indexed valuation is completed.
	Non-specialised health land and buildings	Te Whatu Ora used a number of different independent valuers	Non-specialised health land and buildings are revalued on a two-to-five year cycle. The latest series of valuations were completed as at 30 June 2023.
	Non-specialised corrections buildings and corrections land	Beca Limited	Valuations are completed at least once every three years with the latest completed as at 30 June 2023.
	NZ Defence Force buildings outside defence areas and land	Beca Limited	Valuations completed at least once every five years with the latest full independent land and buildings valuation completed at 30 June 2023.
	Conservation estate (national parks, forest parks, conservation areas, reserves)[1]	Internal valuation reviewed by Logan Stone Limited	Annual valuation with the latest completed as at 30 June 2023. Independent valuer reviews are completed at least once every three years with the latest completed as at 30 June 2022.
	Rail network corridor land[1]	Jones Lang LaSalle Limited (JLL)	Valuation completed with sufficient regularity to ensure that the carrying amount does not differ materially from fair value with the latest valuation completed as at 30 June 2023.
	Highway corridor land and buildings[1]	Internal valuation peer reviewed by WSP New Zealand Limited (WSP)	A full valuation is completed on a rolling regional basis for held property, with each region fully valued at least once every nine years. The latest valuation and indexation was completed as at 30 June 2023.
Optimised depreciated replacement cost (ODRC)	School buildings and site improvements	Internal valuation except buildings in a service concession arrangement which are valued by Quotable Value Limited	School buildings and site improvements are revalued annually with the latest completed at 30 June 2023. The internal valuation methodology is reviewed by an independent valuer.
	Specialised health buildings	Te Whatu Ora used a number of different independent valuers	Specialised building revaluations are completed on a two-to-five-year cycle. The latest series of valuations were completed as at 30 June 2023.
	Prison complex buildings	Beca Limited	Valuations are completed at least once every three years with the latest completed as at 30 June 2023.
	NZ Defence force buildings in defence areas	Beca Limited	Valuations completed at least once every five years with the latest full independent land and buildings valuation completed as at 30 June 2023.

1 The land associated with the rail corridor is valued based on adjacent use ('across the fence'), as an approximation of fair value. The state highway network corridor land and the conservation estate valuations are based on rateable land valuations if available, otherwise the rateable valuation of a proxy, such as neighbouring land on an indexation basis.

Note 17: Property, Plant and Equipment (continued)

Carrying value of other asset classes subject to revaluation

State Highways (excluding land)

	Actual 30 June 2023 $m	30 June 2022 $m
Formation	19,648	17,886
Bridges	14,572	12,198
Pavement (structure)	11,213	9,769
Pavement (surface)	2,002	1,640
Tunnels	3,290	2,757
Drainage	3,140	2,614
Traffic facilities	2,073	1,836
Culverts and subways	974	852
Other structures	2,086	1,923
Miscellaneous[1]	504	440
Total state highways	**59,502**	**51,915**

1 Miscellaneous is made up of intelligent traffic systems (ITS), traffic management units, bailey bridges and waterway 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) – 75 to 150 years Pavement surface – 11 to 14 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 New Zealand Limited (WSP)	State Highways are valued using the ODRC of the existing asset database.	The latest valuation was completed as at 30 June 2023.

The state highway net value increased by $7,648 million for the year ended 30 June 2023 mainly due to movement in the base unit rates reflecting the increased current costs of bridges, pavements and drainage construction and due to the capital expenditure on state highway projects. Impairments and write-offs of $282 million to the state highway network have been recorded as a result of the North Island weather events. Refer to Note 3: North Island Weather Events for more information.

WSP, an independent valuer, determined the valuation of the state highway as at 30 June 2023 by assigning replacement costs to the components of the state highway reported in Waka Kotahi's databases as at 30 June 2022. The net capital expenditure for the year to 30 June 2023 was added to this data. 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 2023	30 June 2022
Overhead Factors		
Professional Fees	15%	15%
Preliminary & general costs	36%	35%
Formation		
$ per square metre cost in flat terrain	$37	$34
$ per square metre cost in rolling terrain	$97	$85
$ per square metre cost in mountainous terrain	$176	$153
Pavement		
Asphalt ($/m2)	$20-$155	$25-$140
Structural asphalt concrete ($/m3)	$1,035	$850-$931
Chipseal ($/m2)	$10	$8-$10
Bridges		
Routine (single span) ($/m2)	$5,811	$5,329
Routine (multi span) ($/m2)	$5,811	$4,355
Motorway ramps ($/m2)	$5,811	$6,303

The costs in the above table reflects a standardised national rate with the exception of the Wellington region which had a rate uplift of 5%.

In addition, assumptions are made about the completeness of the road assessment and maintenance management (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, sub-base 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 2023 $m	30 June 2022 $m
Increase in external professional fees by 10%	621	428
Increase in preliminary and general costs by 10%	1,575	1,318
Increase in formation unit costs by 10%	1,965	1,679
Increase in unit costs of bridges, culverts, pavements, railings and barriers by 10%	2,876	2,446
Increase in brownfield costs by 10%	389	199
Increase in price index by 10%	5,956	4,826

WSP 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 concluded that the overall valuation is between -7.5% to +10% of the current state highways (excluding land) value being -$4,463 million to +$5,950 million.

Note 17: Property, Plant and Equipment (continued)

Electricity generation assets

	Actual 30 June 2023 $m	30 June 2022 $m
Meridian Energy	8,856	7,696
Mercury NZ	7,758	7,913
Genesis Energy	3,391	3,584
Inter segment eliminations	47	(166)
Total electricity generation assets	**20,052**	**19,027**

Accounting policy	Estimated useful lives
Electricity generation assets are recorded at fair value less depreciation accumulated since the assets were last revalued.	5 to 100 years

Valuation and sensitivity information

Description	Valuer/Reviewer	Approach	Timing
Meridian Energy: Hydro stations and wind farms	Internal valuation	Based primarily on discounted cash flows (DCFs).	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 being as at 30 June 2023.
Mercury NZ Limited: Hydro stations, Geothermal stations and Wind farms	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 2023.
Genesis Energy: Thermal stations, Hydro stations and Wind farms	Internal valuation	Based on the present value of estimated future cash flows of the assets.	Valuations are performed with sufficient regularity to ensure the carrying amount does not materially differ from the estimated fair value at balance date. The latest valuation being as at 30 June 2023.

There are a number of key judgements and 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 SOE 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, climate change policy and varying risk factors. These assumptions interact dynamically with each other. For example, wholesale electricity prices can affect generation volumes and operating costs.

Meridian Energy

Key input		**Sensitivity range**	**Valuation impact on fair value of generation assets**
Future NZ wholesale electricity prices (nominal)	$47 MWh to $155 MWh with reference to the Tiwai, Manapouri, Benmore, Haywards & Otahuhu nodes from July 2023 to June 2043	+/- 10%	$1,186 million / ($1,186) million
New Zealand generation volume	13,304 GWh p.a. to 13,804 GWh p.a.	+/- 250 GWh	$210 million / ($210) million
Operating expenditure (ex. electricity purchase costs or transmission charges)	$154 million in FY24, $163 million in FY25 (in real terms) and inflated at appropriate escalation rates from FY26 onward	+/- $10 million	$116 million / ($116) million
Weighted Average Cost of Capital	8.40%	+/- 0.5%	($585) million / $683 million

Genesis Energy

Key input		**Sensitivity range**	**Valuation impact on fair value of generation assets**
Wholesale electricity price path (nominal)	$122 per MWh and $153 per MWh referenced to the Otahuhu 220KV locational node from July 2023 to June 2043	+/- 10%	$550 million / ($550) million
Generation volume	2,758 GWh and 6,068 GWh per annum. The low end of the range relates to periods where there is no thermal generation	+/- 10%	$444 million / ($444) million
Discount rate	Pre-tax equivalent discount rate of 10.8%	+/- 1 ppt	($279) million / $343 million

Mercury NZ

Key input		**Sensitivity range**	**Valuation impact on fair value of generation assets**
Future wholesale electricity price path (nominal)	$99/MWh to $179/MWh referenced to the Otahuhu node from July 2023 to June 2043	+/- 10%	$1,091 million / ($1,087) million
Discount rate	Post-tax discount rate between 6.6% to 7.9%	+/- 0.5%	$(489) million / $573 million
Operating expenditure	$224 million p.a.	+/- 10%	($336) million / $336 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)

Electricity distribution network

	Actual 30 June 2023 $m	30 June 2022 $m
Total electricity distribution network	**4,459**	**4,353**

Accounting policy	Estimated useful lives
Electricity distribution network assets are recorded at cost, excluding interest incurred during construction and capitalised leases, less depreciation and impairment losses accumulated since the assets were purchased.	2 to 80 years

The electricity distribution network is a cash generating asset managed by Transpower New Zealand Limited. Combined with other assets (eg, land, buildings and intangibles assets) reported elsewhere in these financial statements, the total value of the electricity distribution network and related assets is $5,182 million (2022: $5,080 million).

The majority of the cash generated by the electricity distribution network is regulated by the Commerce Commission and is determined with reference to the depreciated costs of its regulated asset base. This regulated asset base includes asset classes involved in electricity distribution. The regulated asset base value for the electricity distribution network and related assets is $4,978 million[4] (2022: $4,905 million). This is similar to the fair value for these electricity distribution network and related assets using an income-based approach (discounting the revenue that it will generate over its remaining life).

Key judgements and estimates in determining and measuring the electricity distribution network are:

- Determining the useful life of property, plant and equipment. Independent engineers assist in this determination. For transmission line assets, a determining factor in the life assumption is proximity to the coast, and possible flood events.
- Whether or not an item is capital in nature and the appropriate component level of asset which to depreciate.
- Determining the appropriate time to commission an asset and commence depreciation.
- Whether there are any assets that ought to be impaired.

4 The regulated asset base of $4,978 million is the asset value covering regulated transmission services regulated by the Commerce Commission. The regulated asset base figure includes an amount of $46 million related to an alignment between the regulatory asset value and the asset value presented in the financial statements, excludes other transmission related assets $598 million and includes capitalised interest and leases $348 million.

Note 17: Property, Plant and Equipment (continued)

Rail network

	Actual 30 June 2023 $m	30 June 2022 $m
Network required for freight	11,574	7,819
Network not required for freight (including metro)	1,357	1,370
Total rail infrastructure	**12,931**	**9,189**
Buildings	322	228
Capital work in progress	1,327	1,166
Total rail network	**14,580**	**10,583**

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.	Buildings: Jones Lang LaSalle Limited Other Rail Network Assets: Ernst & Young	Non-specialised building assets not on the rail corridor were valued based on market evidence using comparable sales. Specialised building assets and buildings on rail corridor land were valued using ODRC. The Rail Network is valued using the ODRC of the existing asset database.	A valuation of the rail network is completed annually. The latest valuation was completed as at 30 June 2023. Buildings are valued at least once every three years with the latest completed as at 30 June 2023.

	Actual 30 June 2023 $m	30 June 2022 $m
Rail (includes allowance for formation)	4,414	2,515
Bridges	3,190	1,758
Tunnels	2,347	2,319
Sleepers	923	886
Electrification	735	827
Other	1,322	884
Total rail infrastructure	**12,931**	**9,189**

There are uncertainties about the values assigned to and quantities of different components of the rail network. These uncertainties include whether brownfield costs are fully captured in the valuation and other asset categories such as earthworks and sleepers. Some uncertainties are inherent and will not be able to be reduced. However, future refinements to the valuation approach are expected to reduce the uncertainties arising from the quantity of components. In the current year, improvements in the valuation approach to the estimate of formation costs has increased the rail valuation. The valuation reflected impairments and write-offs of $190 million associated with the North Island weather events. Refer to Note 3: North Island Weather Events for more information.

Note 17: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

	Actual 30 June 2023 $m	Actual 30 June 2022 $m
National Library Collections	1,019	914
Te Papa Collections	1,017	1,075
Conservation Estate	683	608
National Archives	616	596
Other	66	61
Total specified cultural and heritage assets	**3,401**	**3,254**

Accounting policy	Estimated useful lives
Specified cultural and heritage assets comprise infrastructure within national parks and conservation estates, 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 accumulated 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 the Te Papa, National Library and National Archive collections that have indefinite life and are generally not of a depreciable nature.

Valuation information

Description	Valuer/Reviewer	Approach	Timing
Te Papa collections	Art, Mātaraunga Māori, Pacific and International and Photography: Dunbar Sloane and Hamish Coney Library: Ashley & Associates History (excluding Numismatics), Natural History (market value items): Dunbar Sloane Philatelic, Numismatics: Mowbray Collectables Limited	Art, Library, History, Mātaraunga Māori, Philatelic, Numismatic, Pacific and International and Photography Collections are valued based on market value by independent valuers. The Natural History Collection is valued based on replacement cost value (internal valuation by Te Papa) or market value for collection items with a valid market value by independent valuers.	Valuations completed cyclically with all collections valued at least once every three years with the latest valuations completed as at 30 June 2023.
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 2023.
National Archives	Dunbar Sloane	The collection was divided into categories by format and age to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature. Documents of exceptional value (including Treaty of Waitangi) are valued independently based on overseas market research.	Valuations are completed at least once every three years with the latest completed as at 30 June 2023.

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 2023.

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 New Zealand Defence Force (NZDF) Capability Subject Matter Experts.	Valued using an ODRC method.	Valuation completed at least once every five years with the latest valuation completed as at 30 June 2023.

Aircraft (excluding specialised military equipment)

Accounting policy	Estimated useful lives
Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation accumulated since the assets were last revalued.	6 to 25 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 2023.

Aircraft assets were revalued to market value as at 30 June 2023 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 (PPP)

A PPP (also known as a service concession arrangement) is an arrangement between the Government and a private sector partner where the private sector partner takes responsibility for certain financing, construction and operating responsibilities of a service concession asset controlled by the Government. The service concession assets, identified below, are reported in these financial statements under the appropriate class of assets.
The Crown's outstanding financial obligation of $3,674 million (2022: $3,664 million) for these assets is included in Note 20: Borrowings. Details on individual PPPs can be found in the annual reports of individual agencies (Ministry of Education, Waka Kotahi and the Department of Corrections).

	Actual	
	30 June 2023 $m	**30 June 2022 $m**
Transmission Gully State Highway	1,614	1,391
Puhoi to Warkworth State Highway	1,131	1,059
Waikeria Corrections Facility	916	812
Education Assets	816	721
Auckland South Corrections Facility	384	340
Auckland Prison	359	325
Total public private partnerships	**5,220**	**4,648**
Carrying value of assets by source		
Provided by private sector partner	4,701	4,260
Existing government assets	519	388
Total public private partnerships	**5,220**	**4,648**

Movements in carrying value for Public Private Partnerships

	Actual	
Gross carrying amount	**30 June 2023 $m**	**30 June 2022 $m**
Opening balance 1 July	4,691	4,272
Assets provided by private sector partners	109	330
Existing Government assets	89	35
Net revaluations	394	52
Other	4	2
Total Gross Carrying Amount	**5,287**	**4,691**
Accumulated depreciation and impairment		
Opening balance 1 July	43	23
Eliminated on revaluation	(1)	(19)
Depreciation expense	25	39
Total accumulated depreciation and impairment	**67**	**43**
Carrying value as at 30 June	**5,220**	**4,648**

The assets in a 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.

Note 18: Equity Accounted Investments

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
12,850	13,965	Universities and Wānanga	14,617	13,979
908	1,133	City Rail Link Limited	1,461	1,133
2,058	1,580	Other	956	1,135
15,816	**16,678**	**Total equity accounted investments**	**17,034**	**16,247**

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 Limited 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.

Net worth increased during the current year by $638 million to $14,617 million largely due to increases in the valuation of the Universities and Wānanga property, plant and equipment.

Summarised financial information in respect of Universities and Wānanga is set out below:

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
		Operating Results		
2,217	2,220	Revenue from Crown	2,165	2,187
2,478	2,434	Other revenue	2,839	2,356
(4,586)	(4,669)	Expenses	(4,925)	(4,492)
109	**(15)**	**Net surplus/(deficit)**	**79**	**51**
		Assets		
2,804	2,797	Financial assets	3,049	3,001
12,199	13,283	Property, plant and equipment	13,740	12,965
273	240	Other assets	306	244
15,276	**16,320**	**Total assets**	**17,095**	**16,210**
		Liabilities		
467	358	Borrowings	304	197
1,959	1,997	Other liabilities	2,174	2,034
2,426	**2,355**	**Total liabilities**	**2,478**	**2,231**
12,850	**13,965**	**Net worth**	**14,617**	**13,979**

Note 18: Equity Accounted Investments (continued)

City Rail Link Limited

CRLL is a jointly controlled Crown Entity company, co-funded by the Government with Auckland Council, set up to design and construct the Auckland City Rail Link (an underground rail line between the city centre and the existing western line).

For the year ended 30 June 2023, CRLL recognised revenue of $6 million (2022: $1 million), a deficit of $256 million (2022: $396 million), assets of $2,992 million (2022 $2,340 million), liabilities of $72 million (2022: $73 million) and equity of $2,920 million (2022: $2,267 million).

The Government's share of CRLL commitments excluding claims (refer to Note 27) is $338 million (2022: $470 million). The decrease in commitments in 2023 is due to the completion of capital works during the year. During the year, a further $557 million of funding was committed by the Government due to cost escalations in the project.

New Zealand Local Government Funding Agency (included in other)

The Government holds $5 million of the $25 million paid-up capital of New Zealand Local Government Funding Agency (NZLGFA).

For the year ended 30 June 2023, NZLGFA recognised revenue of $764 million (2022: $394 million) and a surplus of $2 million (2022: $11 million). NZLGFA's assets were $18,175 million (2022: $16,250 million) and liabilities were $18,069 million (2022: $16,146 million). The Crown's share of the net assets is $21 million (2022: $21 million). The Crown is not a guarantor of the NZLGFA and has no share of any contingent liabilities of the NZLGFA.

Note 19: Payables

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		By type		
9,649	11,341	Accounts payable	12,520	15,933
5,408	5,806	Taxes repayable	6,206	5,487
15,057	**17,147**	**Total payables**	**18,726**	**21,420**
		By maturity		
13,937	16,232	Expected to be settled within one year	17,514	20,260
1,120	915	Expected to be outstanding for more than one year	1,212	1,160
15,057	**17,147**	**Total payables**	**18,726**	**21,420**

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 taxpayers 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

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		By type		
104,281	104,150	Government bonds	105,162	89,489
25,317	25,241	Kiwi Group customer deposits	24,972	23,709
58,297	46,100	Settlement deposits	49,915	43,521
2,976	2,913	Treasury bills	2,891	3,487
4,387	6,833	Derivatives in loss	7,311	10,275
3,931	3,692	Public private partnership liability	3,674	3,664
1,176	1,196	Finance lease liabilities	1,220	1,177
161	143	Government retail stock	157	152
30,092	32,197	Other borrowings	31,453	28,491
230,618	**222,465**	**Total borrowings**	**226,755**	**203,965**
		By maturity		
95,839	101,819	Due to or expected to be settled within one year	103,890	101,724
134,779	120,646	Expected to be outstanding for more than one year	122,865	102,241
230,618	**222,465**	**Total borrowings**	**226,755**	**203,965**
		By guarantee		
175,758	171,015	Sovereign-guaranteed debt	175,791	153,263
54,860	51,450	Non-sovereign debt	50,964	50,702
230,618	**222,465**	**Total borrowings**	**226,755**	**203,965**

This note constitutes a Statement of Borrowings as required by the Public Finance Act 1989.

Reconciliation of borrowings

The table below reconciles borrowings (excluding derivatives) using the cash flows attributable to financing activities associated with their borrowings and other movements in the financial statements.

	Government bonds $m	Other borrowings $m	Total borrowings $m
Total Borrowings at 1 July 2022			**203,965**
Less derivatives in loss at 1 July 2022			(10,275)
Borrowings at 1 July 2022 (excluding derivatives in loss)	89,489	104,201	193,690
Issue of borrowings	26,076	33,601	59,677
Repayment of borrowings	(10,332)	(24,415)	(34,747)
Non-cash increases in borrowings through PPP arrangements	-	18	18
Unsettled government bond issuances	164	324	488
Increases due to business combinations	-	-	-
Increases due to issuing special drawing rights	-	-	-
Other changes in borrowings	(235)	553	318
Borrowings at 30 June 2023 (excluding derivatives in loss)	**105,162**	**114,282**	**219,444**
Derivatives in loss at 30 June 2023			7,311
Total Borrowings at 30 June 2023			**226,755**

Other changes in borrowings include fair value movements and cash flows outside of financing activities such as ACC trading debt of other Government entities, with third parties.

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.

Note 20: Borrowings (continued)

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 Government bonds, settlement deposits and Kiwi Group Capital Limited 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 2023 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 $87,885 million (2022: $75,363 million). This valuation is based on observable market prices at 30 June 2023. The difference between fair value and carrying value is due to an increase in market rates, decreasing the fair value of the bonds.

New Zealand Government bonds are rated Aaa (stable outlook) by Moody’s investors Service, AAA (stable outlook) by S&P Global Ratings and AA+ (stable outlook) by Fitch Ratings.

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

Settlement deposits

Settlement deposits are measured at amortised cost.

Most transactions involve transferring money from one parties bank account to another. If the party 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 2023 was $21,602 million (2022: $33,150 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 policy 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 2021 to achieve and maintain stability in the general level of prices over the medium term, and to support maximum sustainable employment.

In addition, the Reserve Bank also provides NZ dollar transactional banking services to other central banks and the IMF wishing to settle transactions in NZD where they act as an intermediary.

Kiwi Group Capital Limited customer deposits

Kiwi Group Capital Limited 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 Capital Limited customer deposits measured at amortised cost is $25,484 million (2022: $23,687 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 Capital Limited customer deposits exclude deposits held by other government reporting entities and will therefore differ from the total customer deposits reported by Kiwi Group Capital Limited.

Note 20: Borrowings (continued)

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 PPP (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 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 PPP 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.

Other borrowings

	Actual	
	30 June 2023 $m	**30 June 2022 $m**
Other borrowings measured at amortised cost	25,351	24,487
Other borrowings measured at fair value	6,102	4,004
Total other borrowings	**31,453**	**28,491**

All other borrowings are reported at amortised cost except 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 movement in fair value that is attributable to the change in the entity's own credit quality is recognised in the Statement of Comprehensive Revenue and Expense.

Other borrowings include $15,058 million (2022: $7,019 million) of sovereign-guaranteed debt administered by the Reserve Bank and the Treasury.

The fair value of other borrowings measured at amortised cost is $30,286 million (2022: $24,453 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets was determined by reference to quoted market prices. Where such prices are not available, use is made of estimated discounted cash flow models with reference to market interest rates. For those other borrowings measured at fair value, the value of these instruments will be affected by changes in interest rates due to credit risk and broader market influences.

Note 20: Borrowings (continued)

	Actual 30 June 2023 $m	30 June 2022 $m
Other borrowings measured at fair value		
Carrying value	6,102	4,004
Amount payable on maturity	5,664	3,172

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 payable on maturity where the effect of discounting cash flows is material. Of the other borrowings measured at fair value, $6,062 million (2022: $3,991 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: New Zealand Emissions Trading Scheme

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
11,036	11,308	Opening liability	11,308	5,824
1,388	1,439	Units sold at auction	832	2,066
-	-	Units sold at fixed price	-	30
1,586	1,656	Allocated units	1,103	1,489
(3,190)	(2,538)	Units surrendered	(1,583)	(3,006)
-	(3,427)	(Gains)/ losses due to revaluation in NZ Units	(5,620)	4,917
(126)	(78)	Other movements	85	(12)
10,694	**8,360**	**Closing liability**	**6,125**	**11,308**

The New Zealand Emissions Trading Scheme (NZ ETS) encourages emissions abatement by putting a price on emissions and rewarding removal activities such as forestry. Tradeable units (NZUs) are allocated into the market through government auctions and allocated free-of-charge to foresters for forestry removals and to certain industrial activities that are both emission-intensive and trade-exposed (industrial allocation). NZ ETS participants must meet their emissions obligations by surrendering NZUs to the government. On the government's books, the NZ ETS liability represents the NZUs outstanding at the reporting date that can be used to settle these emission obligations in the future.

Emissions that are allocated free-of-charge (ie, industrial allocation and forestry removals) are expensed and a liability is recognised. Cash proceeds are reported from the sale of NZUs at auction. The total units outstanding (including units auctioned) are reported as a liability and are measured at fair value based on market observations. Revenue from the NZ ETS and a corresponding decrease of the liability is not recognised until a participant in the scheme makes emissions or the liability to the Crown is incurred.

Note 21: New Zealand Emissions Trading Scheme (continued)

The revenue and expenses reported under the NZ ETS Scheme are as follows:

Revenue: Units Surrendered	30 June 2023		30 June 2022	
	Units in millions	$m	Units in millions	$m
Liquid Fossil Fuels	12.2	534	18.0	1,382
Stationary Energy and Industrial Processes	19.1	863	17.2	1,391
Waste	0.5	22	0.9	71
Forestry	3.7	164	2.1	162
Total	**35.5**	**1,583**	**38.2**	**3,006**

Expenses: Units allocated	30 June 2023		30 June 2022	
	Units in millions	$m	Units in millions	$m
Stationary Energy and Industrial Processes	7.7	733	8.5	620
Forestry	15.2	370	11.9	869
Total	**22.9**	**1,103**	**20.4**	**1,489**

The carbon price used to calculate the value of the 151.5 million outstanding NZUs at 30 June 2023 is $41.75 (2022: $76.00). 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.

On 25 July 2023, the Government announced changes to unit limits and price control settings for the NZ ETS. These included raising auction price floor settings, introducing a higher two-tier cost containment reserve trigger price and reducing the overall limit in carbon units (sometimes called the cap on emissions) so that there will be fewer NZUs auctioned in the future. Largely as a consequence of these changed settings, the price has increased by approximately 50% in the two months since 30 June 2023.

For most sectors the scheme requires annual emissions returns to 31 December and therefore the emissions revenue and the allocation expense to 30 June are based on estimates, using prior year information updated for known economic factors. For the forestry sector, mandatory returns for post 1989 forests are only required every five years, with the next due for the period to 31 December 2027. Therefore, the estimates are based on surveys of scheme participants.

The liability for the outstanding NZUs is classified as a current liability as the Crown does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Based on forecasts of NZ ETS activity expected $2,974 million (2021/22: $3,285 million) of surrenders/settlements is expected to occur within 12 months and $3,151 million (2021/22: $8,023 million) after more than 12 months.

The value of the outstanding NZUs at 30 June 2023 has decreased by $5,183 million to $6,125 million compared to the previous year. This is primarily driven by the decrease in the carbon price used to value the outstanding units. At the current level of outstanding units, a $1.00 increase in the price of carbon would cause a revaluation loss of $151.5 million.

Note 22: Retirement Plan Liabilities

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
9,061	8,252	Government Superannuation Fund (GSF)	8,038	8,765
-	2	Other funds	1	4
9,061	**8,254**	**Total retirement plan liabilities**	**8,039**	**8,769**

There is a defined benefit superannuation plan for qualifying employees who are members of the 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 2023 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, age related factors and subsequent pension increases (in the case of the pension entitlements). There are 3,273 (2022: 3,610) contributors and 41,710 (2022: 45,018) pensioners in the scheme.

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

	Actual 30 June 2023 $m	Actual 30 June 2022 $m
Net GSF Obligation		
Present value of defined benefit obligation	13,183	13,723
Fair value of plan assets	(5,145)	(4,958)
Present value of unfunded defined benefit obligation	**8,038**	**8,765**
Present value of defined benefit obligation		
Opening defined benefit obligation	13,723	16,240
Expected current service cost [3]	31	46
Expected unwind of discount rate [4]	443	60
Actuarial losses/(gains) arising from changes in financial assumptions	(455)	(2,044)
Actuarial losses/(gains) arising from changes in demographic assumptions and experience adjustments	399	343
Benefits paid	(958)	(922)
Closing defined benefit obligation	**13,183**	**13,723**
Fair value of plan assets		
Opening fair value of plan assets	4,958	5,202
Expected interest on plan assets [1, 2, 4]	161	19
Actuarial gains/(losses) [2]	298	(86)
Funding of benefits paid by Government	708	793
Contributions from other entities [3]	9	10
Contributions from members [3]	14	15
Benefits paid	(958)	(922)
Other [3]	(45)	(73)
Closing fair value of plan assets	**5,145**	**4,958**

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 which is calculated at the risk-free rate of return.

3 These amounts are recorded as personnel expenses in the Statement of Financial Performance (Note 9).

4 These amounts are offset and recorded as interest expense in the Statement of Financial Performance (Note 6).

Note 22: Retirement Plan Liabilities (continued)

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

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Actuarial losses/(gains) arising from changes in financial assumptions	(455)	(2,044)
		Actuarial losses/(gains) arising from changes in demographic assumptions and experience adjustments	399	343
		Experience (gain)/loss on plan assets	(298)	86
162	**141**	**Total revaluations on defined benefit retirement plan scheme**	**(354)**	**(1,615)**

A contribution of $727 million (2022: $717 million) is expected to be made by the Crown to the GSF in the year ended 30 June 2024.

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 CPI. 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: Key Assumptions and Estimation for the relevant discount rates and CPI assumptions used. The salary growth assumption adopted is a flat salary increase of 2.5% p.a. (2022: 2.5% p.a.).

The defined benefit obligation decreased in the year to 30 June 2023 by $540 million, mainly due to an increase in the discount rates. This was partially offset by an increase in the CPI assumptions.

The major categories of GSF plan assets at 30 June 2023 are as follows:

	Actual 30 June 2023 $m	Actual 30 June 2022 $m
Equity instruments	3,889	3,683
Other debt instruments	561	480
Cash and short term investments	477	587
Insurance linked securities	322	303
Derivatives	42	48
Other [1]	(146)	(143)
Fair value of plan assets	**5,145**	**4,958**

1 This balance mainly reflects derivatives in loss and payables on investments.

The expected rate of return on the plan assets is 5.3% (2022: 5.3%) 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 2023 was 9.5% (net of tax on investment income), or $459 million (2022: -1.3% or $-67 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 on the following page has been determined based on if 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 22: Retirement Plan Liabilities (continued)

	Impact on net GSF obligation increase/(decrease)		
	Change	Actual	
		30 June 2023 $m	30 June 2022 $m
Sensitivity of assumptions			
Discount rate (present value of the obligation)	+ 1%	(1,124)	(1,235)
	- 1%	1,325	1,463
Expected rate of inflation	+ 1%	1,254	1,373
	- 1%	(1,090)	(1,187)
Share price (fair value of equity instruments)	+ 10%	(389)	(368)
	- 10%	389	368

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $13,183 million (2022: $13,723 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 2023. These estimated cash flows include the effects of assumed future inflation.

	30 June 2023 $m	30 June 2022 $m
No later than 5 years	5,067	4,859
Later than 5 years and no later than 10 years	4,776	4,602
Later than 10 years and no later than 15 years	4,145	4,034
Later than 15 years and no later than 20 years	3,283	3,232
Later than 20 years and no later than 25 years	2,370	2,365
Later than 25 years and no later than 30 years	1,540	1,567
Later than 30 years and no later than 35 years	885	922
Later than 35 years and no later than 40 years	437	470
Later than 40 years and no later than 45 years	176	198
Later than 45 years and no later than 50 years	53	64
Later than 50 years	11	15
Undiscounted defined benefit obligation	**22,743**	**22,328**

Note 23: Provisions

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
		By type		
4,503	8,063	Provision for employee entitlements	9,129	7,543
2,862	2,798	Veterans' disability entitlements	2,651	2,843
627	624	Provision for National Provident Fund guarantee	638	660
-	-	Aircraft Lease Return Costs	184	265
2,050	2,999	Other provisions[1]	2,824	3,022
10,042	**14,484**	**Total provisions[1]**	**15,426**	**14,333**
		By longevity		
5,028	8,711	Expected to be settled within one year	10,005	8,831
5,014	5,773	Expected to be outstanding for more than one year	5,421	5,502
10,042	**14,484**	**Total provisions**	**15,426**	**14,333**

1 A reclassification has been made to the Budget 2022 provisions note to reclassify the New Zealand Emissions Trading Scheme out of provisions and into a separate line in the Statement of Financial Position.

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.

The table below outlines movements in the provisions (excluding veterans' disability entitlements):

For the year ended 30 June 2023	**Employee entitlements $m**	**NPF guarantee $m**	**Aircraft lease return cost $m**	**Other $m**
Opening provision	7,543	660	265	3,022
Additional provision	2,743	-	50	1,803
Provision utilised	(925)	(59)	(113)	(1,505)
Reversal of previous provision	(226)	(31)	(22)	(274)
Other movements	(6)	68	4	(222)
Closing Provision	**9,129**	**638**	**184**	**2,824**

For the year ended 30 June 2022	**Employee entitlements $m**	**NPF guarantee $m**	**Aircraft lease return cost $m**	**Other $m**
Opening provision	6,363	762	275	2,827
Additional provision	2,769	-	27	1,637
Provision utilised	(1,191)	(77)	(54)	(1,419)
Reversal of previous provision	(408)	(14)	(10)	(134)
Other movements	10	(11)	27	111
Closing Provision	**7,543**	**660**	**265**	**3,022**

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 fall from 5.43% (2022: 3.34%) next year to 4.30% in 39 years' time (2022: 4.30% in 39 years' time) (Note 2: Key Assumptions and Estimation).

Note 23: 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 largest provisions associated with the Holidays Act 2003 compliance are:

- the health sector (primarily Te Whatu Ora) has recognised a Holidays Act 2003 provision of $2,113 million (2022: $1,654 million). Payments to settle this provision commenced in July 2023
- the Ministry of Education has recognised a provision of $404 million (2022: $421 million) which includes remediation for individuals paid through schools' payroll. An initial partial payment of the provision was made during 2023, with further payments expected in 2024 and subsequent years. The provision is an estimate based on analysis of sample data for most areas of non-compliance. Some known areas of non-compliance are not included because analysis has not yet progressed to the point where a calculated estimate of corrective payments is possible. Consequently, there is considerable uncertainty on the estimate and the ultimate amount may be significantly different to the amount provided at 30 June 2023.

Disclosure regarding the unquantified Holiday Pay Act 2003 obligations is included in Note 27: Contingent Liabilities and Contingent Assets.

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 $638 million (2022: $660 million), represented by a gross estimated pension obligation of $681 million (2022: $710 million) with net investment assets valued at $43 million (2022: $50 million).

Other Provisions

Other provisions include $349 million (2022: $358 million) relating to 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 costs of repairs to those homes. The application period closed on 14 October 2020. Assessment and payment experience has led to a revised forecast that the programme will continue until 2027. There is considerable uncertainty in evaluating the future cost of the policy as it depends on many situations, and as a result a number of significant judgements have been made to address this uncertainty. These significant judgements include the expected cost per claim and conversion from applications to settled claim assumptions. The final costs will not be known until the programme closes.

Other provisions also include $335 million (2022: $299 million) relating to the New Zealand Screen Production Grant. The scheme incentivises the attraction of screen productions to New Zealand and productions may receive a payment of up to 20 per cent (with an additional five per cent provided in certain circumstances) on their New Zealand based expenditure for international production depending on the types of activity they undertake. The grants are non-discretionary, applicants cannot be refused if they meet the criteria, and the scheme is uncapped. The approximate amount of and timing of payments are estimated in advance. Actual expenditure is sensitive both to the number and size of qualifying productions. The provision is a best assessment of projects that will qualify for a payment and the expenditure patterns of the individual productions. It is only once applications have been received and verified that the exact expenditure can be confirmed.

Refer to the Ministry of Business, Innovation and Employment's annual report for further information regarding the New Zealand Screen Production provision.

Note 23: Provisions (continued)

Veterans’ disability entitlements

Veterans who have suffered a service-related injury or illness as defined in the Veterans' Support Act 2014 are eligible to receive financial support from the Crown.

	Actual 30 June 2023 $m	30 June 2022 $m
Veterans' disability entitlements		
Veterans' support entitlements	1,156	1,264
Veterans' independence programme (VIP) entitlements	1,062	1,068
Assessments, treatments and rehabilitation obligations (ATR)	433	511
Total veterans' disability entitlements	**2,651**	**2,843**
Veterans' disability entitlements		
Opening value of entitlements	2,843	3,036
Current service costs	10	8
Unwind of discount rate	95	11
Benefit payments	(124)	(119)
Actuarial (gains)/losses arising from changes in demographic assumptions	2	288
Actuarial (gains)/losses arising from changes in financial assumptions	(168)	(400)
Actuarial (gains)/losses - liabilities	(7)	19
Closing value of veterans' disability entitlements	**2,651**	**2,843**

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 also recognises 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 four years (with greater communication of the entitlements), the estimate already makes some allowance for continued future utilisation increases.

Note 23: 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. 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. 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 CPI (2022: CPI+2.25%). 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 2023, $105 million (2022: $19 million) has been recognised in the Statement of Financial Performance in relation to disability entitlements.

Refer to NZDF's annual report for further information on veterans' disability entitlements.

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

		Impact on Veterans' Liability Increase/(decrease)	
		Actual	
Sensitivity of assumptions	**Change**	**30 June 2023 $m**	**30 June 2022 $m**
Utilisation Rates	No future increase	(331)	(398)
Discount Rate (present value of the obligation)	+1% p.a	(354)	(416)
	-1% p.a	464	556
Inflation Rate	+1% p.a	466	555
Change in mortality rate	+ 2 years	(275)	(350)
	- 2 years	278	383

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

	Actual	
Net revaluations of veterans disability entitlements	**30 June 2023 $m**	**30 June 2022 $m**
Actuarial gains/(losses) arising from changes in demographic assumptions	(2)	(288)
Actuarial gains/(losses) arising from changes in financial assumptions[1]	168	400
Actuarial gains/(losses) - liabilities	7	(19)
Total veterans' entitlements other comprehensive revenue and expense	**173**	**93**

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

Note 24: Minority Interests

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Net Worth Attributable to Minority Interests		
6,515	7,283	Opening minority interest	7,283	5,724
252	644	Operating balance attributable to minority interests	555	755
(318)	(484)	Transactions with minority interests	(424)	(389)
6	(2)	Movement in the cash flow hedge reserve attributable to minority interests	105	36
-	394	Movement in other reserves attributable to minority interests	372	216
-	72	Increase in minority interest from equity issues	66	949
(2)	1	Other movements	1	(8)
6,453	**7,908**	**Closing minority interest**	**7,958**	**7,283**
		Consisting of interests in:		
		Meridian Energy	2,763	2,550
		Mercury NZ	2,232	2,160
		Air New Zealand	1,571	1,168
		Genesis Energy	1,146	1,117
		Kiwi Group Holdings	246	288
		Closing minority interest	**7,958**	**7,283**
		Minority share of Operating Balance		
		Meridian Energy	38	308
		Mercury NZ	57	206
		Air New Zealand	382	141
		Genesis Energy	79	100
		Operating balance attributable to minority interests	**555**	**755**

Transactions with minority interests include items such as dividend payments and dividend reinvestments.

Information about the minority interest share of the entities above is included on page 175 and information about their financial position is included on pages 176 to 177.

Note 25: 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 2023* published with the Government's budget on 18 May 2023.

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

Note 25: Capital Objectives and Fiscal Policy (continued)

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

Progress at 30 June 2023 against the Government's short-term fiscal intentions set at Budget 2023 is:

Short-Term Fiscal Intentions		
Fiscal Strategy Report 2022	**Fiscal Strategy Report 2023**	**Fiscal Results 2023**
Debt The intention is to maintain total debt at prudent levels. Maintain net debt at below 30% of GDP based on the new net debt measure including the NZSF, subject to significant shocks. Gross debt is forecast to be 36.1% of GDP in 2025/26. Net debt is forecast to peak at 19.9% of GDP in 2023/24 and reduce over the forecast period to 15% of GDP in 2025/26.	**Debt** The intention is to maintain total debt at prudent levels. Maintain net debt at below 30% of GDP based on the new net debt measure including the NZSF, subject to significant shocks. Gross debt is forecast to be 44.2% of GDP in 2026/27. Net debt is forecast to peak at 22% of GDP in 2023/24 and reduce over the forecast period to 18.4% of GDP in 2026/27.	**Debt** Gross debt at 30 June 2023 was 34.3% of GDP (2022: 32.7%). Net debt at 30 June 2023 was 18.0% of GDP (2022: 17.0%).
Operating balance The intention is to return to operating surplus (before gains and losses) by 2024/25, subject to economic and fiscal conditions. The operating balance (before gains and losses) is forecast to be 0.6% of GDP in 2024/25. The operating balance is forecast to be 2.1% of GDP in 2024/25.	**Operating balance** The intention is to return to operating surplus (before gains and losses) by 2025/26, subject to economic and fiscal conditions. The operating balance (before gains and losses) is forecast to be 0.1% of GDP in 2025/26. The operating balance is forecast to be 1.5% of GDP in 2025/26.	**Operating balance** The operating balance (before gains and losses) for the year ended 30 June 2023 was a deficit of 2.4% of GDP (2022: deficit of 2.7%). The operating balance for the year ended 30 June 2023 was a surplus of 1.3% of GDP (2022: deficit of 4.7%).
Expenses The intention is to ensure expenses are consistent with the operating balance objective. Core Crown expenses are forecast to be 29.8% of GDP in 2025/26. Total Crown expenses are forecast to be 38.2% of GDP in 2025/26.	**Expenses** The intention is to ensure expenses are consistent with the operating balance objective. Core Crown expenses are forecast to be 32.0% of GDP in 2025/26. Total Crown expenses are forecast to be 40.0% of GDP in 2025/26.	**Expenses** Core Crown expenses for the year ended 30 June 2023 were 32.2% of GDP (2022: 34.5%). Total Crown expenses for the year ended 30 June 2023 were 40.9% of GDP (2022: 41.5%).

Note 25: Capital Objectives and Fiscal Policy (continued)

Short-Term Fiscal Intentions (continued)		
Fiscal Strategy Report 2022	**Fiscal Strategy Report 2023**	**Fiscal Results 2023**
Revenue The intention is to ensure revenue is consistent with the operating balance objective. Total Crown revenue is forecast to be 39.8% of GDP in 2025/26. Core Crown revenue is forecast to be 32.2% of GDP in 2025/26. Core Crown tax revenue is forecast to be 29.8% of GDP in 2025/26.	**Revenue** The intention is to ensure revenue consistent with the operating balance objective. Total Crown revenue is forecast to be 40.2% of GDP in 2025/26. Core Crown revenue is forecast to be 32.9% of GDP in 2025/26. Core Crown tax revenue is forecast to be 30.4% of GDP in 2025/26.	**Revenue** Total Crown revenue for the year ended 30 June 2023 was 38.6% of GDP (2022: 38.9%). Core Crown revenue for the year ended 30 June 2023 was 31.2% of GDP (2022: 32.3%). Core Crown tax revenue for the year ended 30 June 2023 was 28.4% of GDP (2022: 29.8%).
Net worth The intention is to maintain net worth is consistent with the operating balance objective. Total net worth attributable to the Crown is forecast to be 32.1% of GDP in 2025/26. Total Crown net worth is forecast to be 33.6% of GDP in 2025/26.	**Net worth** The intention is to maintain net worth is consistent with the operating balance objective. Total net worth attributable to the Crown is forecast to be 38.8% of GDP in 2025/26. Total Crown net worth is forecast to be 40.6% of GDP in 2025/26.	**Net worth** Total net worth attributable to the Crown as at 30 June 2023 was 46.4% of GDP (2022: 45.9%). Total Crown net worth as at 30 June 2023 was 48.4% of GDP (2022: 47.9%).

The table below shows the Government's long-term fiscal objectives:

Long Term Fiscal Objectives
Fiscal Strategy Report 2023
Debt Maintain total debt at prudent levels. Maintain net debt at below 30 percent of GDP based on the new net debt measure including the NZSF, subject to significant shocks.
Operating balance Once the operating balance (before gains and losses) has returned to surplus, the long-term objective is to maintain an average surplus in the range of 0 percent to 2 percent of GDP, subject to economic and fiscal conditions. This will ensure that, on average, over a reasonable period of time total operating expenses do not exceed total operating revenue.
Expenses The Government will 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.
Revenue The Government will ensure a progressive taxation system that is fair, balanced and promotes long-term sustainability and productivity of the economy, consistent with the debt and operating balance objectives.
Net worth The Government will use the Crown's net worth to maintain a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.

Note 26: Commitments

	Actual 30 June 2023 $m	30 June 2022 $m
Capital Commitments		
State highways	2,437	2,380
Aircraft (excluding military)	2,782	2,815
Specialist military equipment	1,129	2,169
Land and buildings	9,343	7,249
Other property, plant and equipment	2,647	2,377
Other capital commitments [1]	884	575
Share of capital commitments from joint venture (CRLL)	338	470
Universities and Wānanga	635	763
Total capital commitments	**20,195**	**18,798**
Operating Lease Commitments		
Non-cancellable accommodation leases	6,010	5,645
Other non-cancellable leases	4,308	3,184
Universities and Wānanga	1,288	1,279
Total operating lease commitments	**11,606**	**10,108**
Total commitments	**31,801**	**28,906**
By source		
Core Crown	11,970	11,979
Crown entities	12,651	10,107
State-owned Enterprises	7,576	7,131
Inter-segment eliminations	(396)	(311)
Total commitments	**31,801**	**28,906**
By Term		
Capital Commitments		
One year or less	10,624	9,528
From one year to two years	4,566	4,599
From two to five years	4,545	4,165
Over five years	460	506
Total capital commitments	**20,195**	**18,798**
Operating Lease Commitments		
One year or less	1,353	1,241
From one year to two years	1,370	1,059
From two to five years	2,462	2,178
Over five years	6,421	5,630
Total operating lease commitments	**11,606**	**10,108**
Total commitments	**31,801**	**28,906**

1 Other capital commitments exclude commitments to provide loans and capital funding which are included in Note 28: Financial Instruments.

Note 26: 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 27: 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 or Crown entities, increase net debt. However, in the case of some contingencies (eg, uncalled capital), the negative impact would be restricted to net 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 2023 where they are expected to be material but not remote. Where there is an obligation, amounts have been recognised in the financial statements.

Note 27: Contingent Liabilities and Contingent Assets (continued)

Contingent Liabilities

	Actual	
	30 June 2023 $m	30 June 2022 $m
Quantifiable Contingent Liabilities		
Uncalled capital	9,468	9,198
Guarantees and indemnities	281	387
Legal proceedings and disputes	690	553
Other quantifiable contingent liabilities	1,006	778
Total quantifiable contingent liabilities	**11,445**	**10,916**
By source		
Core Crown	11,662	10,366
Crown entities	529	392
State-owned Enterprises	239	206
Inter-segment eliminations	(985)	(48)
Total quantifiable contingent liabilities	**11,445**	**10,916**

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 2023 $m	30 June 2022 $m
Asian Development Bank	3,391	3,309
International Bank for Reconstruction and Development	2,009	1,905
International Monetary Fund - promissory notes	1,955	1,927
International Monetary Fund - arrangements to borrow	1,485	1,444
Asian Infrastructure Investment Bank	607	594
Other uncalled capital	21	19
Total uncalled capital	**9,468**	**9,198**

Note 27: 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.

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, the Crown contributes to the IBRD only as required by the IBRD.

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.

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 2023 $m	**30 June 2022 $m**
New Zealand Export Credit Office guarantees	175	266
Share of OECD employee benefits	21	40
Air New Zealand letters of credit	20	20
Other guarantees and indemnities	65	61
Total guarantees and indemnities	**281**	**387**

Note 27: 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 €3.224 billion on the OECD Balance Sheet ($NZ 21 million represents New Zealand's share of the unfunded portion of this balance). There is significant uncertainty as to when or if this responsibility will be triggered.

Air New Zealand letters of credit

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 2023 $m	**30 June 2022 $m**
Waka Kotahi - contractual disputes	317	383
Rau Paenga - Parakiore Recreation and Sport Centre - contractual dispute	197	-
Department of Conservation - Ruapehu Alpine Lifts Limited	88	-
Legal tax proceedings	39	118
Other legal proceedings and disputes	49	52
Total legal proceedings and disputes	**690**	**553**

Waka Kotahi – contractual disputes

Waka Kotahi is a party to two PPPs, Transmission Gully, north of Wellington and Pūhoi to Warkworth, north of Auckland. They have both had previous disputes and settlements. The most recent settlements have been in relation to the COVID-19 related lockdowns of 2020.

In relation to progress and delays on the works since the 2020 settlements, Waka Kotahi has received a claim for Pūhoi to Warkworth comprising current and estimated future elements, totalling approximately $203 million. Waka Kotahi has not been presented with any evidence to indicate that a claim of that size would be supported by an independent reviewer. The claim is moving to binding arbitration, with a decision required within 24 months of the service commencement date (June 2025).

There are a number of other roading claims (non-PPP), totalling approximately $114 million, that have also been received by Waka Kotahi that are being validated.

Note 27: Contingent Liabilities and Contingent Assets (continued)

Rau Paenga – Parakiore Recreation and Sport Centre – contractual dispute

Six claims with a disputed value of $197 million have been lodged by the main works contractor for Metro Sport Facility Parakiore Recreation and Sports Centre. Rau Paenga is disputing these claims and arbitration with the contractor regarding these claims is underway and expected to continue through fiscal year 2024.

Department of Conservation – Ruapehu Alpine Lifts Limited

Ruapehu Alpine Lifts Limited (RAL) entered voluntary administration in October 2022. Under the terms of their concession, RAL are liable for removing all infrastructure from Tongariro National Park. RAL do not have the funds to fulfil the make good clause of their concession. In the event the concessions are terminated, this cost will practically fall to the Crown. Costs of $68 million to remove the ski field infrastructure, and an additional cost of $20 million to remove ski hut infrastructure if the ski clubs also terminate their concessions are estimated.

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.

Other quantifiable contingent liabilities

	Actual	
	30 June 2023 $m	**30 June 2022 $m**
Unclaimed monies	398	229
Waitangi Tribunal - binding recommendations	220	220
Air New Zealand partnership agreement	215	154
Clean Car Standard credits	84	-
Ministry for Primary Industries - Biosecurity Act compensation	73	115
Other contingent liabilities	16	60
Total other contingent liabilities	**1,006**	**778**

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.

Waitangi Tribunal – binding recommendations

In September 2021, the Waitangi Tribunal issued interim recommendations under section 8A of the Treaty of Waitangi Act 1975 in relation to the transfer of 7,676 hectares of the Mangatū Crown forest licensed land to a trust comprising Te Aitanga a Māhaki, Ngā Uri o Tamanui and Te Whānau a Kai. Should the recommendation become final, compensation will be payable to the recipients under Schedule 1 to the Crown Forest Assets Act 1989. A stay of the Tribunal's interim recommendations was granted in December 2021 to allow for judicial review proceedings. The February 2023 High Court decision on this matter has been appealed to the Court of Appeal by claimants; no hearing date has been set for the appeal.

Air New Zealand partnership agreement

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.

Note 27: Contingent Liabilities and Contingent Assets (continued)

Clean Car Standard credits

The Clean Car Standard (CCS) scheme become effective from 1 January 2023. Cars that are imported with a carbon dioxide (CO2) level above the CCS standard pay a charge, while cars that are imported with a CO2 level below the CCS standard receive a credit. This credit can be used by importers to offset a current charge, kept (for a period of time) to offset future charges, or sold to another importer. The intent of the scheme is for importers to balance the CO2 emissions of their imports to ensure their net position requires no payment of charges, rather than to raise revenue for the Crown.

As at June 2023, there were charges of $54 million and credits of $138 million, resulting in a surplus credit position of $84 million that could be used to offset future charges. These credits have not been recognised as a liability in the statement of financial position because there is no obligation for the Crown to pay for unused credits and it is not probable that the excess credits will be used to offset charges in the future. This is because import trends indicate that there will be sufficient credits earned in future years to offset the charges in future years, meaning the excess credits at 30 June 2023 will not be required in the future.

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 response.

Note 27: Contingent Liabilities and Contingent Assets (continued)

Unquantifiable Contingent Liabilities

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

Indemnities

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

A number of these indemnities are provided by the Crown to organisations consolidated in these financial statements, to protect them against specified losses. If these indemnities were to crystallise, the Crown would compensate the individual entity for the loss and there would likely be an adverse impact on core Crown expenses and net debt. The total operating Balance and Net Worth would, however, 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	The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei	The documents contained two reciprocal indemnities with Contact Energy Limited to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Toka Tū Ake EQC (Formerly Earthquake Commission)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the government shall fund (by means of grant or advance) any deficiency in Toka Tū Ake EQC's assets held in the Natural Disaster Fund to cover its financial liabilities on such terms and conditions that the Minister determines. As the contingency has no end date, it is not possible to quantify the value of commitments that may arise from past or future 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 the Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly 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 27: Contingent Liabilities and Contingent Assets (continued)

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 New Zealand domestic government bonds	The Crown has 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 Purchases (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 obligation to indemnify any new purchases 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 to indemnify any new purchases 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 in respect of new purchases 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 (LGFA) bonds purchased by the Reserve Bank under the LSAP programme prior to the Termination Date and any New Zealand domestic government bonds up to the cap. As at August 2020 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 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. Losses means interest risk losses and LGFA credit risk losses.
Southern Response Earthquake Services Limited (SRES)	Deed of Indemnity	SRES continues to settle the claims of AMI residual policy holders for Canterbury earthquake damage which occurred before 5 April 2012. The Minister of Finance has provided SRES with a Deed of Indemnity to ensure that SRES can access sufficient resources to operate and discharge its contractual obligations.

Note 27: Contingent Liabilities and Contingent Assets (continued)

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	Letter of Indemnity relating to the agreement for supply of transactional banking services to the Crown	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited (WNZL) and Westpac Banking Corporation (WBC) was entered into on 28 June 2023. The Crown has indemnified WNZL against certain costs, damages, and losses resulting from third party claims against WNZL or WBC regarding: • unauthorised, forged, or fraudulent payment instructions • unauthorised or incorrect direct debit instructions, or • letters of credit issued by WNZL in favour of a third party as part of providing transactional banking services to 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.

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 merits of the issue in dispute, and without wider Scheme management impact. There are currently three proceedings of note that ACC is a party to. Only when these matters have been fully resolved will it be possible to make a meaningful assessment of the financial impact of the outcome. The range of potential outcomes is wide and could have a material effect on the financial statements of government.

Department of Corrections – contractual disputes

In August 2022, the Department of Corrections (Corrections) received claims from the main contractor on the Waikeria Prison Development PPP for compensation for time and productivity losses incurred between October 2020 and August 2022 due to the COVID-19 pandemic. The claims also included amounts from its construction sub-contractor. The components of the claim that were formally lodged were the subject of an independent determination by an Independent Reviewer and the reviewer has largely dismissed relief sought by the contractor.

While Corrections, the contractor and the construction sub-contractor entered into a Project Support Agreement (PSA) in April 2023 to settle certain matters between the parties, the PSA largely excluded the contractor's own-account claim in relation to COVID-19. At this stage, it is not possible to reliably estimate the claim.

Note 27: Contingent Liabilities and Contingent Assets (continued)

Kāinga Ora – Commerce Act litigation

Winton Land Ltd and its subsidiary Sunfield Developments Ltd ('Winton') have filed a claim in the High Court alleging that Kāinga Ora has breached section 36 of the Commerce Act 1986 in relation to its urban development functions, causing loss and damage to Winton. Winton seeks damages, including at least $139 million in relation to its proposed Sunfield development and further unquantified damages in relation to Ferncliffe Farm and other activity. Kāinga Ora denies the claim and is defending the claim. The parties are still undertaking discovery and no date has been set for a hearing.

Ministry of Transport – Public Works Act claims

As of 30 June 2023, there were eight claims before the courts or awaiting judgment (including the Land Valuation Tribunal (LVT)) where City Rail Link Limited is either directly or indirectly involved as a party. The claimants are seeking compensations payable under sections 60, 62 and 63 of the Public Works Act 1981 and an Environment Court proceeding relating to ventilation arrangements for the City Rail Link.

Stafford litigation

Crown Law is acting for the Attorney-General on behalf of the Crown in right of New Zealand in *Stafford 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 they say 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. This extends to land currently owned by a number of Crown entities and an SOE. In February 2017, the Supreme Court held that the Crown owed a fiduciary duty 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 many years to resolve.

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 a SOE, University, 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.

Waka Kotahi – contractual disputes

In addition to the quantifiable legal disputes (refer page 130) Waka Kotahi has received various documents and presentations from the Transmission Gully builder in relation to a range of issues, including COVID-19. However, no claim has been presented and Waka Kotahi has not been presented with any evidence to indicate that the builder's claim would be valid. Accordingly, any potential contingent liability cannot be quantified at present.

Whaikaha – Ministry of Disabled People – employment obligations

The Crown has an unquantifiable contingent liability related to Disability Support Services and employment obligations. The Crown is appealing aspects of an Employment Court decision that would create employment obligations for Whaikaha towards a large number of people who provide 24/7 care to a disabled family member. If the decision were to stand and care for a disabled family member is constituted as "work" this could mean that the carer of a family member who requires 24/7 supervision could be entitled to remuneration. This would also create further obligations to Whaikaha in terms of liability under health and safety legislation. A Court of Appeal hearing concluded in March 2023. The expected date for release of the decision is unknown and as such it is not possible to reliably estimate any potential liability.

Note 27: Contingent Liabilities and Contingent Assets (continued)

Other unquantifiable contingent liabilities

Aquaculture Settlements

Under the Māori Commercial Aquaculture Claims Settlement Act 2004 the Crown is obligated to provide regional Iwi with 20% of future aquaculture growth. This settlement is ongoing and includes 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.

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

In accordance with NZ GAAP, 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 reliable estimates can be made, 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 refer to Note 23: Provisions on page 119. 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 which may be significant. For some entities such as the Ministry of Education (on behalf of school employees), there are complexities and key assumptions that need to be agreed and resolved before a provision can be reliably estimated.

Ministry for Primary Industries – Biosecurity Act compensation

In addition to the quantifiable liabilities under section 162A of the Biosecurity Act 1993 (refer page 132), there are also unquantifiable contingent liabilities. In particular the Ministry for Primary Industries has been notified that compensation will be sought for incursions including *Mycoplasma bovis* outbreak, but the amount remains unquantified. This is due to the Ministry being unable to reliably estimate the period of time that losses will be incurred as a result of its actions under the Biosecurity Act 1993.

Pay Equity Claims

A number of claims have been raised, and some have been settled, in relation to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value) and further claims have since been raised under the Equal Pay Amendment Act 2020. As the cost cannot be reliably measured at this time, these are disclosed as unquantifiable contingent liabilities.

Note 27: Contingent Liabilities and Contingent Assets (continued)

Treaty of Waitangi claims – settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds $1.0 billion in 1994 present-value terms, the mechanism provides that the Crown is liable to make payments to maintain the real value of Ngāi Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17.0% for Waikato-Tainui and approximately 16.1% for Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

Contingent Assets

	Actual	
	30 June 2023 $m	30 June 2022 $m
Contingent assets		
Tax disputes	56	23
Transpower New Zealand - economic gains	41	-
Callaghan Innovation repayable grants	34	28
Other contingent assets	6	12
Total contingent assets	**137**	**63**
By source		
Core Crown	62	26
Crown entities	34	37
State-owned Enterprises	41	-
Total quantifiable contingent assets	**137**	**63**

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.

Transpower New Zealand – 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 (RCP) 2. These balances are spread evenly over the five years of RCP3 from 1 April 2020 to 31 March 2025. The annual under/over return in RCP3 will be included in the ending balance of the EV account and be recovered from/(paid to) customers in RCP4.

Contingent Assets

There are no material unquantifiable contingent assets at 30 June 2023 (2022: nil).

Note 28: 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 Capital 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 SOEs (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 smoothing the fiscal impact of 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 140 to 142)

- Classification of financial assets and financial liabilities (pages 143 to 144)

- Fair value measurement (page 144 to 145)

- Derivative disclosures (pages 146 to 147)

- Risk management (pages 147 to 151), and

- Sensitivity analysis (pages 151 to 152).

Note 28: 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 Capital 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 in Note 6: Investment and Finance Income/{Expense)). If issued with a duration less than 12 months they 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 28: Financial Instruments (continued)

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

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

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

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

Financial assets measured at 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 (Note 6). 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 28: Financial Instruments (continued)

Non-derivative financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost except for 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 asset type	Designation
Issued currency	Not designated: Recognised at face value
Accounts payable	Amortised cost
Government bonds	Amortised cost
Kiwi Group Capital Limited 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 28: 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 2023 $m	30 June 2022 $m
By class			
Cash and cash equivalents		18,791	17,835
Reinsurance, trade and other receivables	13	7,469	9,840
Marketable securities	14	44,736	45,045
Long-term deposits	14	9,231	8,444
Derivatives in gain	14	6,935	6,643
International monetary fund financial assets	14	5,588	5,324
Share investments	15	48,046	46,261
Investments in controlled enterprises	15	7,317	6,096
Kiwi Group Capital Limited loans and advances	16	29,785	27,786
Student loans	16	9,373	9,209
FLP advances	16	18,088	11,277
Small business cashflow loans	16	786	821
Other advances	16	8,457	5,566
Total financial assets		**214,602**	**200,147**
By valuation methodology			
Amortised cost		83,259	81,564
Fair value			
Fair value through the operating balance		129,340	117,551
Fair value through the other comprehensive revenue and expenses		2,003	1,032
Total financial assets at fair value		**131,343**	**118,583**
Total financial assets		**214,602**	**200,147**

As at 30 June 2023, the carrying value of financial assets that had been pledged as collateral was $3,399 million (2022: $3,159 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 2023 and that require collateral to be posted as per the terms.

Note 28: Financial Instruments (continued)

Financial liabilities

	Note	Actual 30 June 2023 $m	30 June 2022 $m
By class			
Issued currency		9,002	9,061
Accounts payable	19	12,520	15,933
Borrowings:	20		
Government bonds		105,162	89,489
Settlement deposits with Reserve Bank		49,915	43,521
Kiwi Group Capital Limited customer deposits		24,972	23,709
Derivatives in loss		7,311	10,275
Public private partnership liability		3,674	3,664
Treasury bills		2,891	3,487
Finance lease liabilities		1,220	1,177
Government retail stock		157	152
Other borrowings		31,453	28,491
Total borrowings		**226,755**	**203,965**
Total financial liabilities		**248,277**	**228,959**
By valuation methodology			
Amortised cost		234,865	214,680
Fair value			
Held for trading		7,311	10,275
Fair value through the operating balance		6,101	4,004
Total financial liabilities at fair value		**13,412**	**14,279**
Total financial liabilities		**248,277**	**228,959**

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 28: Financial Instruments (continued)

Fair Value Financial Instruments by Measurement Hierarchy

	Actual 30 June 2023 $m	Actual 30 June 2022 $m
Financial assets		
Quoted market price	55,727	58,981
Observable market inputs	51,210	36,867
Significant non-observable inputs	24,406	22,735
Total financial assets at fair value	**131,343**	**118,583**
Financial liabilities		
Quoted market price	120	90
Observable market inputs	12,987	13,613
Significant non-observable inputs	305	576
Total financial liabilities at fair value	**13,412**	**14,279**
Net financial instruments at fair value	**117,931**	**104,304**

Significant non observable inputs

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

	Actual 30 June 2023 $m	Actual 30 June 2022 $m
Financial assets	24,406	22,735
Financial liabilities	305	576
Net financial instruments	**24,101**	**22,159**
Opening balance	22,159	20,025
Total gains/(losses) recognised in the statement of financial performance	631	1,796
Total gains/(losses) recognised in the statement of comprehensive revenue and expense	63	(12)
Purchases	2,480	2,623
Sales	(92)	(33)
Issues	25	6
Settlements	(658)	(582)
Concessionary Loan movement during the year (Refer note 16)	129	(1,732)
Transfers into and out of non-observable inputs	(636)	68
Closing balance	**24,101**	**22,159**

Note 28: 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 2023			Carrying Value As at 30 June 2022		
	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m
Foreign exchange contracts	1,739	1,555	184	1,327	4,059	(2,732)
Cross currency swaps	613	1,756	(1,143)	607	1,729	(1,122)
Interest rate swaps	3,210	3,304	(94)	3,135	3,127	8
Futures	33	26	7	19	17	2
Other derivatives	1,340	670	670	1,555	1,343	212
Total derivatives	**6,935**	**7,311**	**(376)**	**6,643**	**10,275**	**(3,632)**

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

	Notional Value As at 30 June 2023			Notional Value As at 30 June 2022		
	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	59,337	75,529	134,866	44,769	77,825	122,594
Cross currency swaps	11,473	19,663	31,136	7,655	19,943	27,598
Interest rate swaps	52,487	46,537	99,024	56,966	49,409	106,375
Futures	3,987	4,631	8,618	6,570	3,170	9,740
Other derivatives	23,639	11,976	35,615	18,149	15,905	34,054
Total derivatives	**150,923**	**158,336**	**309,259**	**134,109**	**166,252**	**300,361**

Derivatives liquidity analysis

Derivative financial instruments are initially recognised and subsequently measured 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 28: 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 2023	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	161,568	136,422	5,500	7,380	7,128	5,138
- outflow	(161,445)	(136,141)	(5,422)	(7,205)	(7,257)	(5,420)
Total settled gross	123	281	78	175	(129)	(282)
Derivatives in loss						
settled net	6,244	1,703	1,281	2,172	870	218

As at 30 June 2022	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	143,761	125,120	4,119	9,253	5,162	107
- outflow	(146,780)	(127,924)	(4,023)	(9,423)	(5,317)	(93)
Total settled gross	(3,019)	(2,804)	96	(170)	(155)	14
Derivatives in loss						
settled net	5,333	1,584	934	1,782	840	193

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 28: 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 2023 $m	30 June 2022 $m
Financial Assets (excluding derivatives)		
New Zealand Dollar	100,130	90,069
United States Dollar	51,834	48,856
Euro	5,440	4,975
Yen	11,142	10,304
Other	39,121	39,300
Total financial assets (excluding derivatives)	**207,667**	**193,504**
Financial Liabilities (excluding derivatives)		
New Zealand Dollar	224,746	199,890
United States Dollar	8,578	9,826
Euro	936	1,255
Yen	1,894	2,511
Other	4,812	5,202
Total financial liabilities (excluding derivatives)	**240,966**	**218,684**
Derivatives in gain/(loss)		
New Zealand Dollar	67,163	58,509
United States Dollar	(37,491)	(36,128)
Euro	(3,706)	(3,291)
Yen	(9,968)	(8,473)
Other	(16,374)	(14,249)
Total derivatives	**(376)**	**(3,632)**
Net Financial Assets/(Liabilities)		
New Zealand Dollar	(57,452)	(51,312)
United States Dollar	5,765	2,902
Euro	798	429
Yen	(720)	(680)
Other	17,935	19,849
Net Financial Assets/(Liabilities)	**(33,674)**	**(28,812)**

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 28: 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 2023, the fair value of collateral held that could be sold or repurchased was $59,240 million (2022: $48,637 million). The majority of this relates to Kiwi Group Capital Limited, who can enforce their collateral in satisfying the debt in the event of the borrower failing to meet their contractual obligations.

Concentrations of credit exposure classified by credit rating is provided below.

Kiwi Group Capital Limited 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 2023	Total $m	AAA $m	AA $m	A $m	Other $m	Non-rated $m
Cash and cash equivalents	**18,791**	2,601	11,284	2,806	17	2,084
Reinsurance, trade and other receivables	**7,469**	49	980	1,302	197	4,941
Marketable securities	**44,736**	16,580	8,874	5,105	5,421	8,756
Long-term deposits	**9,231**	-	7,257	1,952	11	11
Derivatives in gain	**6,935**	-	3,708	2,526	167	534
IMF financial assets	**5,588**	-	-	-	5,588	-
Share investments	**48,046**	1,830	4,031	11,491	10,543	20,151
Investments in controlled enterprises	**7,317**	-	-	-	-	7,317
Kiwi Group Capital Limited loans and advances	**29,785**	-	50	20	-	29,715
Student loans	**9,373**	-	-	-	-	9,373
FLP advances	**18,088**	315	17,356	-	417	-
Small business cashflow loans	**786**	-	-	-	-	786
Other advances	**8,457**	251	1,397	960	1,010	4,838
Total credit exposure by credit rating	**214,602**	**21,626**	**54,937**	**26,162**	**23,371**	**88,506**

Note 28: Financial Instruments (continued)

As at 30 June 2022	Total $m	AAA $m	AA $m	A $m	Other $m	Non-rated $m
Cash and cash equivalents	**17,835**	3,013	11,865	2,865	18	74
Reinsurance, trade and other receivables	**9,840**	93	522	2,042	209	6,974
Marketable securities	**45,045**	19,450	9,333	4,447	4,573	7,242
Long-term deposits	**8,444**	-	6,004	1,796	-	634
Derivatives in gain	**6,643**	1,183	1,739	2,738	99	884
IMF financial assets	**5,324**	-	-	-	5,324	-
Share investments	**46,261**	1,685	4,192	10,557	10,408	19,419
Investments in controlled enterprises	**6,096**	-	-	-	-	6,096
Kiwi Group Capital Limited loans and advances	**27,786**	-	111	26	-	27,649
Student loans	**9,209**	-	-	-	-	9,209
FLP advances	**11,277**	306	10,686	-	286	-
Small business cashflow loans	**821**	-	-	-	-	821
Other advances	**5,566**	80	549	1,098	889	2,951
Total credit exposure by credit rating	**200,147**	**25,810**	**45,001**	**25,569**	**21,806**	**81,953**

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

	Actual 30 June 2023 $m	Actual 30 June 2022 $m
Financial Assets		
Concentration of credit exposure by geographical area		
New Zealand	104,514	91,733
USA	46,358	44,148
Europe	20,047	21,103
Australia	6,322	5,795
Japan	13,637	14,034
Other	23,724	23,334
Total financial assets	**214,602**	**200,147**
Concentration of credit exposure by industry		
Individuals	46,692	37,331
New Zealand banking	21,436	19,605
Sovereign issuers	41,701	31,265
Foreign banking	16,432	16,915
Supranational	9,633	10,741
Other	78,708	84,290
Total financial assets	**214,602**	**200,147**

At 30 June 2023, 16.5% (2022: 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 28: 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 2023 $m**	**30 June 2022 $m**
Less than 1 year	122,084	115,689
1-2 years	17,131	14,802
2-5 years	46,624	40,336
5-10 years	51,489	40,925
More than 10 years	40,976	37,742
Total contractual cash flows	**278,304**	**249,494**
Total carrying value	**240,966**	**218,684**

At 30 June 2023 there are loan commitments of $5,254 million (2022: $14,159 million) which primarily all have contractual cash flows of less than 5 years. The majority of this decrease relates to the Funding for Lending Programme (Note 16).

In addition to the above financial liabilities, there are various financial guarantees and indemnities totalling $281 million (2022: $387 million) which create an exposure to liquidity risk. These guarantees are classified as contingent liabilities and are set out in Note 27: Contingent Liabilities and Contingent Assets. 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 2023 was $2,024 million (2022: $2,379 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.

	Increase/(decrease) in operating balance		Increase/(decrease) in net worth	
	2023 $m	**2022 $m**	**2023 $m**	**2022 $m**
Increase in NZ interest rates by 1% (100 basis points)	(1,837)	(1,071)	(1,413)	(1,031)
Decrease in NZ interest rate by 1% (100 basis points)	1,894	1,063	1,431	1,023
NZ dollar exchange rate strengthens by 10%	(1,994)	(2,045)	(2,182)	(1,927)
NZ dollar exchange rate weakens by 10%	2,388	2,473	2,596	2,342
Share prices strengthen by 10%	5,516	5,221	5,516	5,224
Share prices weaken by 10%	(5,516)	(5,221)	(5,516)	(5,224)

Note 28: 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 on financial instruments would increase/(decrease) the financial results as outlined in the table above.

The sensitivity to interest rates has increased overall since last year. This movement is largely in relation to changes in the underlying financial instrument portfolios held by Reserve Bank 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: Insurance and Note 22: Retirement Plan Liabilities for sensitivity information for these long-term liabilities).

Exchange rate sensitivity

The sensitivity to exchange rates has remained relatively stable during the current period. This sensitivity is largely in relation to financial instrument portfolios held by the Air NZ, 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 99.6% of the Government's total share investments (2022: 99.7%).

Note 29: Related Parties

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

Universities and Wānanga, joint ventures and the GSF are also related parties of the Government due to the Government's influence over these entities. Material transactions between these entities are separately disclosed.

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 SOEs, 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 normal market terms and conditions or if they involve lending or guaranteeing Ministers.

There were no related party transactions to be separately disclosed.

Note 30: Events Subsequent to Balance Date

Settlement of Pay Negotiations

Following balance date, multiple agencies were involved in settlements of pay negotiations in relation to pay equity settlements (eg, nurses) and settlement of collective bargaining (eg, teachers).

Components of these settlements that relate to the 2022/23 year have been captured within these financial statements.

Fiscal Sustainability and Effectiveness Programme

As part of the Fiscal Sustainability and Effectiveness Programme (FSEP), on the 28 August 2023 the Government announced that public agencies will be required to make permanent expense savings in the future.

Other Matters

Disclosure on the impacts of the North Island weather events have been captured as part of Note 3: North Island Weather Events.

Disclosure on the Government's policy decision on unit limits and price control settings for the NZ ETS are outlined in Note 21: New Zealand Emissions Trading Scheme.

Other than the matters above, there have been no other material events subsequent to balance date.

Statement of Unappropriated Expenditure

for the year ended 30 June 2023

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 or by Order in Council prior to the end of the financial year. If not approved prior to the end of the financial year, then the expenditure must be confirmed or 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 or approved by Order in Council by the end of the financial year, is classed as "unappropriated expenditure" and remains so until it is subsequently confirmed or 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 Cabinet authority, whilst categories (D) to (F) represent unappropriated expenditure without Cabinet authority. All unappropriated expenditure is confirmed or validated via an Appropriation Bill in the following year.

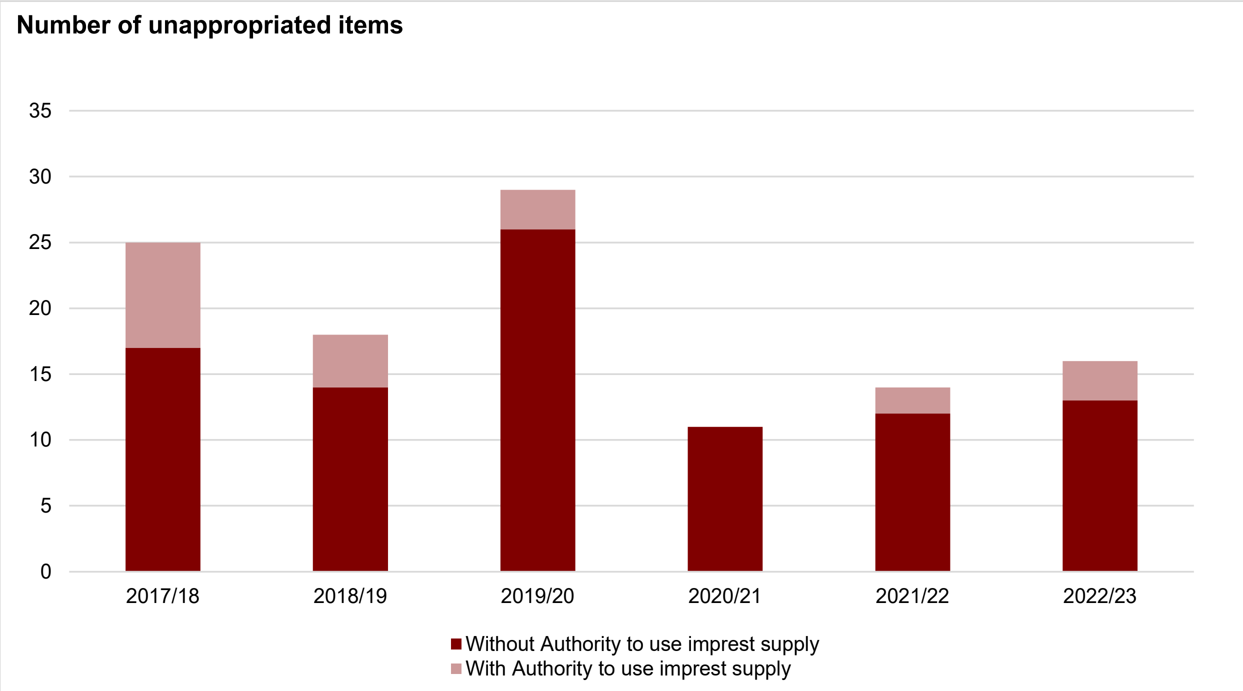
<table>
<tr><th>Category of unappropriated expenditure</th><th>Reporting requirements to Parliament under the Act</th></tr>
<tr><td>(A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989</td><td>Where the amount in excess (but within the scope) of an existing appropriation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

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

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

Statement of Unappropriated Expenditure (continued)

The following graph shows the number of unappropriated items by category of unappropriated expenditure over the last five years.



In 2023, there were a total of 862 appropriations (2022: 869 appropriations).

There were 16 instances of expenditure that either exceeded the amount appropriated, were outside the scope of an appropriation, or did not have an appropriation (2022: 14 instances (revised)).

		30 June 2023 Number	**30 June 2022 Number**	**30 June 2023 $000**	**30 June 2022 $000**
By category					
Approved by the Minister of Finance	A	1	1	532	342
Cabinet authority to use imprest supply but in excess of appropriation	B	2	1	528	3,310
Cabinet authority to use imprest supply but without appropriation	C	-	-	-	-
Without Cabinet authority and in excess of appropriation	D	7	5	332,747	19,087
Without Cabinet authority and outside scope[1]	E	4	4	1,939	31,141
Without Cabinet authority and without appropriation	F	2	3	11,001	115,260
Total unappropriated expenditure[1]		**16**	**14**	**346,747**	**169,140**

1 The reported 30 June 2022 number and amount have been updated to reflect new instances identified in 2022/23 that relate to the previous year.

Both the table and the graph above show unappropriated expenditure in the year that it relates to and not the year that it was reported.

Statement of Unappropriated Expenditure (continued)

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

(A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989

New Zealand Customs Service			
Vote Customs	*Departmental Output Expenses*		
	Travellers Clearance and Enforcement	86,450	532

This appropriation authorises services relating to travellers crossing borders and the protection of New Zealand through interventions, investigations and enforcement.

Following the lifting of COVID-19 travel restrictions, additional staff were required to clear travellers and to manage airport congestion levels. The reassignment of staff resulted in expenditure exceeding appropriation.

The New Zealand Customs Service sought and received approval from the Minister of Finance to incur expenditure in excess of the existing appropriation, under Section 26B of the Public Finance Act 1989.

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

Department of Conservation			
Vote Conservation	*Non-Departmental Output Expenses*		
	Community Conservation Funds	5,609	103

This appropriation authorises grants to community groups and private landowners to undertake land management activities and to support community biodiversity restoration initiatives.

Due to an administrative error, an expense transfer to the next financial year was incorrectly calculated, reducing the amount appropriated in the Appropriation (2022/23 Supplementary Estimates) Act 2023 (the Supplementary Estimates 2023) by more than it should have. As a result, unappropriated expenditure was incurred.

Having identified the error before the end of the financial year, the Department of Conservation received Cabinet approval to use imprest supply for any further expenditure incurred in excess of appropriation.

However, an amount was incurred in excess of appropriation before receiving Cabinet authority to use imprest supply and has been reported under category (D) while the amount incurred after receiving Cabinet authority to use imprest supply has been reported under category (B).

Department of Conservation			
Vote Conservation	*Non-Departmental Other Expenses*		
	Provision for Bad and Doubtful Debts	1,000	425

This appropriation authorises the write-off of debts relating to Crown Revenue.

During the 2022/23 financial year, Ruapehu Alpine Lifts Limited (RAL), entered into liquidation. The Department of Conservation held receivables with RAL that were required to be written off, due to the liquidation. No provision was made for this debt at the time of completing the 2022/23 Supplementary Estimates, and as a result expenditure was incurred in excess of the amount authorised. The Department of Conservation received Cabinet's approval to use imprest supply in advance of the write off.

Statement of Unappropriated Expenditure (continued)

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

(D) In excess of appropriation and without prior Cabinet authority to use imprest supply

Department of Conservation			
Vote Conservation	*Non-Departmental Output Expenses*		
	Community Conservation Funds	5,609	998

This appropriation authorises grants to community groups and private landowners to undertake land management activities and to support community biodiversity restoration initiatives.

Due to an administrative error, an expense transfer to the next financial year was incorrectly calculated, reducing the amount appropriated in the Appropriation (2022/23 Supplementary Estimates) Act 2023 (the Supplementary Estimates 2023) by more than it should have. As a result, unappropriated expenditure was incurred.

Having identified the error before the end of the financial year, the Department of Conservation received Cabinet approval to use imprest supply for any further expenditure incurred in excess of appropriation.

However, an amount was incurred in excess of appropriation before receiving Cabinet authority to use imprest supply and has been reported under category (D) while the amount incurred after receiving Cabinet authority to use imprest supply has been reported under category (B).

Department of Conservation			
Vote Conservation	*Departmental Output Expenses*		
	Management of Recreational Opportunities	186,124	5,128

This appropriation authorises the administration of recreational facilities and services, and the management of business concessions.

Due to an administrative error, an expense transfer within Vote Conservation was incorrectly calculated, reducing the amount appropriated in the Supplementary Estimates 2023 by more than it should have. As a result, unappropriated expenditure was incurred.

Department of Conservation			
Vote Conservation	*Non-Departmental Output Expenses*		
	Impairment of Public Conservation Land	5,970	32,129

This appropriation authorises the impairment in value of public conservation land to be transferred to iwi as part of Treaty of Waitangi settlements.

The Department of Conservation has conducted a review of the treatment of previous Treaty settlements and identified instances where impairments to the carrying value of public conservation land was required. This has occurred with several of the Department's treaty settlements, some of which trace back to financial year 2017/18.

The identification of these historical impairments has resulted in an unappropriated expenditure.

Statement of Unappropriated Expenditure (continued)

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

(D) In excess of appropriation and without prior Cabinet authority to use imprest supply (continued)

Ministry of Health			
Vote Health	*Non-Departmental Other Expenses*		
	International Health Organisations	2,230	47

This appropriation authorises New Zealand's World Health Organization (WHO) membership fees and contributions to specific WHO projects.

An increase in the membership fees and a change in the foreign exchange rates resulted in expenditure that exceeded the appropriation.

Ministry of Health			
Vote Health	*Non-Departmental Other Expenses*		
	Legal Expenses	1,802	145

This appropriation authorises the defence and settlement of health-related or disability-related legal claims against the Crown.

Expenditure in excess of the appropriation was incurred, reflecting the costs of litigation in the 2022/23 year, particularly the uncertain nature of litigation in relation to COVID-19.

Inland Revenue			
Vote Revenue	*Non-Departmental Other Expenses*		
	Impairment of Debt and Debt Write-Offs	1,185,000	282,609

This appropriation authorises the impairment for Crown debt administered by Inland Revenue.

As a result of the global economic environment and the adverse North Island weather events combined with a small increase in impairment rate, overdue debt levels across all tax types, KiwiSaver and Working for Families increased above the levels forecast for the Supplementary Estimates 2022/23. This has resulted in unappropriated expenditure.

Department of Conservation			
Vote Conservation	*Non-Departmental Capital Expenditure*		
	Molesworth Recreation Reserve – Purchase of Farming Assets	476	11,691

This appropriation authorises the purchase of farming assets on Molesworth recreation reserve.

The Department of Conservation made payments to compensate for regrassing and fertilising of pastures which were originally classified and appropriated as operating expenditure. However, these are deemed and reclassified as capital improvements. As a result, capital expenditure was incurred in excess of appropriation.

Statement of Unappropriated Expenditure (continued)

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

(E) Outside scope of an appropriation and without prior Cabinet authority to use imprest supply

Ministry of Social Development		
Vote Social Development	Benefits or Related Expenses	
	Accommodation Assistance	554

This appropriation authorises payments for accommodation costs, paid in accordance with criteria set out in, or in delegated legislation made under, the Social Security Act 2018.

There have been payments made for accommodation assistance that have not been in accordance with the criteria set out in the Social Securities Act 2018. This was a result of the practice of treating the community partner of those in Residential Care as though they were single for the purposes of calculating their Accommodation Supplement entitlement. That practice resulted in an overpayment of the assistance.

As these payments were outside of the scope of the appropriation, they are unappropriated.

This practice has been in place since the establishment of the Accommodation Supplement payment (1 July 1993). The Social Security (Accommodation Supplement) Amendment Act 2022 received Royal assent on 25 November 2022, aligning legislation to practice. As a result of the legislative change, all Accommodation Supplement payments for this class of beneficiary are to be paid on a "treat as if single" basis, which will result in the payments being lawful and appropriated from the date of Royal assent. This was first reported as unappropriated expenditure in the 2021/22 Financial Statements of the Government.

Ministry of Social Development		
Vote Social Development	*Benefits or Related Expenses*	
	Childcare Assistance	89

This appropriation authorises payment for the costs of childcare that meets specific quality guidelines, where parents must meet activity and income criteria set out in, or in delegated legislation made under, the Social Security Act 2018.

The Ministry of Social Development identified instances where payments have been above the cap for the Out of School Care and Recreation subsidy during term time (that is, more than 20 hours per week).

As these payments were outside of the scope of the appropriation, they are unappropriated.

Statement of Unappropriated Expenditure (continued)

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

(E) Outside scope of an appropriation and without prior Cabinet authority to use imprest supply (continued)

Ministry of Social Development		
Vote Social Development	*Benefits or Related Expenses*	
	Training Incentive Allowance	
	2022/23	160
	2021/22	155

This appropriation authorises payments of the Training Incentive Allowance, authorised under section 101 of the Social Security Act 2018.

The Ministry of Social Development identified payments, since the programme's induction on 1 July 2021, that have been made to clients aged 16 and 17 years not in accordance with the programme. This is because the programme defines working age as people aged 18 to 64, and those aged over 65 who are not eligible for NZ Superannuation. Therefore, those aged 16 or 17 are not eligible for the Training Incentive Allowance.

As these payments were outside of the scope of the appropriation, they are unappropriated.

Ministry of Education		
Vote Education	*Non-Departmental Output Expenses*	
	Outcomes for Target Student Groups - School Lunch Programme	
	2022/23	1,136
	2021/22	7,358

The School Lunch Programme category within the appropriation authorises the provision of school lunches to students in schools and kura with high concentrations of disadvantage.

During the COVID-19 level 4 lockdowns in 2021/22, the Ministry of Education made payments of $0.250 million to school lunch providers for the provision of community food parcels and quantified $7.108 million to cover fixed costs incurred by programme providers. Due to the extensive volume of payments and invoices involved with various providers, the amount of unappropriated expenditure disclosed is the best estimate available.

During 2022/23, the Ministry of Education made payments to cover fixed costs incurred by school lunch programme providers that were unable to deliver school lunches because of the North Island weather events and various teachers' strikes.

The payments for community food parcels and to cover providers' fixed costs are outside the scope of the appropriation and are therefore unappropriated.

Statement of Unappropriated Expenditure (continued)

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

(F) Without appropriation and without prior Cabinet authority to use imprest supply

Department of Corrections

Vote Corrections	*Non-Departmental Other Expenses*	
	Waikeria Corrections and Treatment Facility	1

This appropriation authorises improvements to the Waikeria Corrections and Treatment Facility.

Due to an administrative error, an expense transfer had not been confirmed prior to the Department of Corrections incurring the expense. As a result, unappropriated expenditure was incurred.

Ministry of Business, Science, and Innovation

Vote Business, Science and Innovation	*Non-Departmental Other Expenses*	
	Research, Science and Innovation: North Island Weather Events - Plant and Food Research Limited Response and Recovery	11,000

This appropriation authorises support for Plant and Food Research Limited to remain viable.

Due to the North Island weather events, additional support was agreed to through Budget 2023 for Plant and Food Research Limited. This was agreed to as an operating grant. However, the Ministry of Business, Science and Innovation made the support payment by way of Shareholder Subscription Agreement, which is a capital contribution from the Crown.

There was no appropriation in the Supplementary Estimates 2023 to make a capital contribution. As a result, unappropriated expenditure was incurred.

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2023

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

As a result of the North Island weather events the Government declared a number of state of emergencies, however the provision under section 25 of the Public Finance Act 1989 were not invoked. Therefore, no expenditure was incurred under this provision (2022: no expenditure).

Statement of Trust Money

for the year ended 30 June 2023

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 2023

Department Trust Account	**As at 30 June 2022** **$000**	**Contributions** $000	**Distributions** $000	**Revenue** $000	**Expenses** $000	**As at 30 June 2023** **$000**
Department of Conservation						
Bonds/Deposits Trust	10,349	100	(45)	292	-	10,696
Conservation Project Trust	1,113	12,873	(12,492)	63	-	1,557
National Parks Trust	36	-	-	1	-	37
Walkways Trust	15	-	-	1	-	16
Department of Corrections						
Prisons Trust	1,924	20,785	(20,424)	-	-	2,285
Crown Law Office						
Legal Claims Trust	55	398	(446)	3	(7)	3
Ministry of Business, Innovation and Employment						
Coal and Minerals Deposits Trust	464	-	-	1	-	465
Criminal Assets Management and Enforcement Regulators Association Trust	26	-	(1)	1	-	26
East Coast Plugging and Abandonment	984	-	-	-	-	984
Employment Relations Service Trust	1,673	665	(1,476)	50	-	912
New Zealand Immigration Service Trust	198	-	(7)	8	-	199
Official Assignee's Office Trust	14,458	17,437	(7,850)	297	(6,453)	17,889
Patent Co-operation Treaty Fees Trust	92	874	(918)	13	-	61
Petroleum Deposits Trust	82	2	(16)	-	-	68
Criminal Proceeds (Recovery) Trust	115,164	25,756	(17,838)	3,138	(8,464)	117,756
Residential Tenancies Bond Trust Account	731,606	333,535	(251,477)	23,030	(23,030)	813,664
Residential Tenancies Penalties Trust	44	108	(69)	5	-	88
Weathertight Services Financial Assistance Trust	-	659	(659)	-	-	-
Ministry for Culture and Heritage						
New Zealand Historical Atlas Trust	10	-	-	-	-	10
New Zealand History Research Trust	1,122	-	(116)	42	-	1,048
New Zealand Oral History Awards Trust	349	-	(105)	11	-	255
War History Trust	17	-	-	-	-	17
New Zealand Customs Services						
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	21,121	4,143	(5,023)	-	-	20,241
New Zealand Customs Service Multiple Deposit Scheme Release Trust	91	5,117	(5,112)	-	-	96
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	53	6,434	(5,529)	-	-	958
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	3,559	2,045	-	151	(98)	5,657
Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund Board Trust	1,265	217	(180)	79	(81)	1,300
Ministry of Foreign Affairs and Trade						
Egna Electrification Project, Papua New Guinea Trust	9,713	-	(3,500)	400	-	6,613
Solomon Islands Provincial Airfields Trust	2,923	-	-	120	-	3,043
Solomon Islands Provincial Airfields Trust Australian Department of Foreign Affairs and Trade	10,759	14,233	(10,671)	423	-	14,744
Tonga Parliament Buildings Project Trust	1,344	-	-	55	-	1,399
Pacific Community Coastal Fisheries and Aquaculture Activity Trust	2,145	-	(334)	82	-	1,893
Pacific SME Finance	2,020	-	(2,000)	16	-	36

Statement of Trust Money (continued)

for the year ended 30 June 2023

Department Trust Account	**As at 30 June 2022 $000**	**Contributions** $000	**Distributions** $000	**Revenue** $000	**Expenses** $000	**As at 30 June 2023 $000**
Inland Revenue Department						
Child Support Agency Trust	35,311	11,217	(6,041)	-	-	40,487
KiwiSaver Returned Transactions Trust	296	88,113	(88,204)	-	-	205
KiwiSaver Employer Trust	285	149	(133)	-	-	301
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust	61	-	(404)	343	-	-
Interloan Billing System Trust	31	-	-	166	(163)	34
Cyclone Gabrielle Appeal Trust[1]	-	13,535	-	68	-	13,603
Ministry of Justice						
Courts Law Trust	8,178	6,924	(6,088)	-	-	9,014
Employment Court Trust	463	329	(328)	-	-	464
Fines Trust	43,844	172,539	(168,721)	-	-	47,662
Foreign Currency United States Dollar Trust	7,695	-	(863)	-	-	6,832
Māori Land Court Trust	174	26	(3)	-	-	197
Supreme Court Trust	241	72	(40)	-	-	273
Prisoners' and Victims' Claims Trust	231	240	(197)	-	-	274
Land Information New Zealand						
Crown Forestry Licences Trust	3,475	6,248	(8,126)	-	-	1,597
Deposits Trust	300	30	(330)	-	-	-
Endowment Rentals Trust	3	361	(360)	-	-	4
Hunter Gift for the Settlement of Discharged Soldiers Trust	58	2	(1)	-	-	59
Crown Land Bond Trust	20	155	(175)	-	-	-
New Zealand Police						
Found Money Trust	135	126	(163)	-	-	98
Money in Custody Trust	28,171	12,204	(14,348)	-	-	26,027
Reparation Trust	2	1	(1)	-	-	2
Money forfeited to Crown	259	7,263	(6,944)	-	-	578
Ministry for Primary Industries						
MAF Overfishing Account Trust	1,150	3,440	(3,087)	85	-	1,588
MAF Fish Forfeit Property Trust	1,749	330	(1)	80	-	2,158
Meat Board Levies Trust	96	65,387	(65,474)	16	(14)	11
National Animal Identification Tracing Trust	1	4,486	(4,487)	2	(2)	-
Department of the Prime Minister and Cabinet						
Christchurch Cathedral Restoration Trust	1	-	-	-	-	1
Ministry of Social Development						
Australian Dollar Embargoed Arrears Trust	838	16,946	(15,541)	-	-	2,243
Maintenance Trust	333	318	(555)	-	-	96
Netherlands Recovery Debt Trust	16	164	(166)	-	-	14
Ministry of Oranga Tamariki						
CYF Custody Trust Account	64	18	(31)	-	-	51
WR Wallace Trust	549	56	(42)	-	-	563
The Treasury						
Genesis Share Offer Trust	1	-	-	-	-	1
Mighty River Share Offer Trust	1	-	-	-	-	1
Trustee Act 1956 Trust	26,681	1,594	(851)	41	(113)	27,352
Total	**1,095,487**	**857,654**	**(737,993)**	**29,083**	**(38,425)**	**1,205,806**

1 New trust account.

Additional Financial Information[5]

5 This section contains unaudited additional information to support the Financial Statements of the Government.

Fiscal Indicator Analysis

for the year ended 30 June 2023

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 44 to 166) and the fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

The fiscal analysis comprises 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 SOEs 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 debt indicators.

Gross debt represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, ACC and the Toka Tū Ake EQC. Gross debt excludes Reserve Bank's holdings of settlement cash and Reserve Bank bills.

There has been a reclassification in gross debt since the publication of the Pre-election Update. At the Pre-election Update, central bank and IMF deposits with the Reserve Bank were included in gross debt, these have now been removed from gross debt as they are not considered as debt that relates to funding the Government's core activities and therefore is treated in the same way as other settlement deposits. The amount of central bank and IMF deposits for 30 June 2023 were $5.4 billion. These balances have been immaterial in the past, so no adjustment has been made to the historical series of gross debt.

Net debt provides information about the financial sustainability of the Government. It represents core Crown borrowings and Crown entity borrowings (excluding Kiwi Group) less core Crown financial assets (including advances). Net debt includes the financial assets and borrowings of the NZS Fund.

Fiscal Indicator Analysis – Reconciliation between the Operating Balance and the Operating Balance before Gains and Losses

for the year ended 30 June 2023

2023 Forecast at Budget 2022 $m	Budget 2023 $m		Actual 30 June 2023 $m	30 June 2022 $m
		Operating Balance Calculation		
152,154	155,556	Total revenue	153,011	141,627
158,528	161,924	Less Total expenses	161,822	150,956
4,845	11,189	Total gains/(losses)	14,658	(6,722)
149	42	Net surplus from associates and joint ventures	29	(126)
(252)	(644)	Minority interests share of operating balance	(555)	(755)
(1,632)	**4,219**	**Operating balance excluding minority interests**	**5,321**	**(16,932)**
		OBEGAL Reconciliation to Operating Balance		
(1,632)	**4,219**	**Operating balance excluding minority interests**	**5,321**	**(16,932)**
		Less:		
4,894	5,888	Net gains/(losses) on financial instruments	7,711	(9,687)
(49)	5,301	Net gains/(losses) on non-financial instruments	6,947	2,965
8	(53)	Minority interests share of total gains/(losses)	80	(393)
149	42	Net surplus from associates and joint ventures	29	(126)
(6,634)	**(6,959)**	**OBEGAL**	**(9,446)**	**(9,691)**

Fiscal Indicator Analysis – Expenses by Functional Classification

for the year ended 30 June 2023

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.

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Total Crown expenses		
50,226	49,264	Social security and welfare	48,845	48,303
25,493	29,389	Health	29,824	27,658
19,518	20,013	Education	19,609	18,911
12,598	13,230	Economic and industrial services	12,384	16,673
12,568	15,271	Transport and communications	14,428	9,528
6,403	6,780	Law and order	6,666	5,921
6,180	6,537	Core government services	6,663	5,426
3,414	3,474	Heritage, culture and recreation	3,417	3,260
5,318	5,014	Housing and community development	4,396	3,935
2,906	2,956	Defence	2,838	2,803
3,033	3,182	Environmental protection	2,353	2,535
2,493	3,084	Primary services	2,740	2,302
78	77	GSF pension expenses	78	110
163	117	Other	133	242
5,233	7,236	Finance costs	7,448	3,349
4,904	-	Forecast new operating spending	-	-
(2,000)	(3,700)	Top-down expense adjustment	-	-
158,528	**161,924**	**Total Crown expenses (excluding losses)**	**161,822**	**150,956**

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 SOEs.

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Core Crown expenses		
41,552	41,808	Social security and welfare	41,514	42,860
26,579	29,527	Health	28,489	27,781
18,587	18,850	Education	18,403	18,023
4,254	3,962	Economic and industrial services	3,690	8,078
4,754	6,196	Transport and communications	5,472	4,657
5,966	6,252	Law and order	6,165	5,444
6,110	6,626	Core government services	6,806	5,720
1,533	1,678	Heritage, culture and recreation	1,537	1,468
3,076	2,913	Housing and community development	2,312	2,033
2,924	2,984	Defence	2,886	2,832
3,118	3,182	Environmental protection	2,381	2,549
1,159	1,463	Primary services	1,156	949
61	59	GSF pension expenses	61	94
163	117	Other	133	269
4,311	6,278	Finance costs	6,569	2,884
4,904	-	Forecast new operating spending	-	-
(2,000)	(3,700)	Top-down expense adjustment	-	-
127,051	**128,195**	**Total core Crown expenses (excluding losses)**	**127,574**	**125,641**

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2023

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Core Crown Cash Flows from Operations		
115,061	113,733	Tax receipts	111,292	105,487
2,656	2,958	Other sovereign receipts	2,492	3,364
553	886	Interest receipts	982	393
3,172	4,065	Sale of goods & services and other receipts	3,954	2,883
(41,108)	(40,397)	Transfer payments and subsidies	(40,417)	(45,440)
(74,403)	(81,255)	Personnel and operating costs	(76,434)	(71,980)
(3,587)	(5,083)	Finance costs	(5,305)	(2,841)
(4,904)	-	Forecast for future new operating spending	-	-
2,000	3,700	Top-down expense adjustment	-	-
(560)	**(1,393)**	**Net core Crown operating cash flows**	**(3,436)**	**(8,134)**
(5,355)	(4,832)	Net purchase of physical assets	(4,435)	(3,474)
(12,820)	(8,601)	Net repayment/(issue) of advances	(9,159)	(9,192)
(7,736)	(6,892)	Net purchase of investments	(6,060)	(3,823)
(2,558)	(2,558)	Contribution to NZS Fund	(2,558)	(2,420)
(1,311)	-	Forecast for future new capital spending	-	-
1,060	1,850	Top-down capital adjustment	-	-
(28,720)	**(21,033)**	**Net Core Crown capital cash flows**	**(22,212)**	**(18,909)**
(29,280)	**(22,426)**	**Residual cash surplus/(deficit)**	**(25,648)**	**(27,043)**
		Residual cash is (invested)/funded as follows:		
		Debt programme cash flows		
		Market:		
25,721	26,967	Issue of government bonds	26,076	19,275
(22,746)	(21,891)	Repayment of government bonds	(21,879)	-
(591)	(327)	Net issue/(repayment) of short-term borrowing[1]	(66)	(4,158)
2,384	**4,749**	**Total market debt cash flows**	**4,131**	**15,117**
		Non market:		
-	-	Repayment of government bonds	-	-
(400)	(400)	Net issue/(repayment) of short-term borrowing	(300)	(412)
(400)	**(400)**	**Total non-market debt cash flows**	**(300)**	**(412)**
1,984	**4,349**	**Total debt programme cash flows**	**3,831**	**14,705**
		Other borrowing cash flows		
12,652	20,925	Net (repayment)/issue of other New Zealand dollar borrowing	19,918	12,400
(917)	(4,225)	Net (repayment)/issue of foreign currency borrowing	(1,034)	1,589
11,735	**16,700**	**Total other borrowing cash flows**	**18,884**	**13,989**
		Investing cash flows		
15,898	4,269	Other net sale/(purchase) of marketable securities and deposits	2,775	(28)
-	196	Issues/(returns) of circulating currency	(60)	805
(337)	(3,088)	Decrease/(increase) in cash	218	(2,428)
15,561	**1,377**	**Total investing cash flows**	**2,933**	**(1,651)**
29,280	**22,426**	**Residual cash (invested) / funded**	**25,648**	**27,043**

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

Fiscal Indicator Analysis – Debt

as at 30 June 2023

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Net debt:		
192,255	187,819	Core Crown borrowings[1]	191,029	168,986
16,511	48,268	Crown entity borrowings[2]	48,110	14,345
-	(29,296)	Less Kiwi Group Capital Limited borrowings[3]	(28,884)	-
-	(1,751)	Add back inter-entity eliminations	(1,690)	-
(1,636)	(1,128)	Net unsettled purchases/(sales) of securities[4]	(1,603)	(343)
(132,158)	(132,955)	Less core Crown financial assets (per net debt definition)[5]	(135,595)	(121,138)
74,972	**70,957**	**Net debt (incl. NZS Fund)**	**71,367**	**61,850**
		Additional net debt analysis		
74,972	70,957	Net debt (incl. NZS Fund)	71,367	61,850
(2,740)	(2,418)	Less NZS Fund borrowings	(2,264)	(5,040)
1,637	1,469	Less NZS Fund net unsettled purchases/(sales) of securities	1,045	235
67,780	63,600	Less NZS Fund financial assets	66,120	60,070
141,649	**133,608**	**Net debt (excl. NZS Fund)**	**136,268**	**117,115**
		Gross debt:		
192,255	187,819	Core Crown borrowings	191,029	168,986
81	884	Unsettled purchases of securities	962	5,042
(2,820)	(2,953)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(3,093)	(9,990)
(71,978)	(50,800)	Less Reserve Bank settlement cash and Reserve Bank bills[6]	(53,109)	(45,088)
117,538	**134,950**	**Gross Debt**	**135,789**	**118,950**

Notes on borrowings

1. Core Crown borrowings represent the total debt obligations of the consolidated core Crown segment. This includes any government stock held by ACC and EQC the includes settlement deposits with the Reserve Bank.
2. Crown entity borrowings represents the total debt obligations of the consolidated Crown entities. This includes debt issued by Crown entities, such as Kāinga Ora.
3. The 30 June 2022 actuals and Budget 2022 represent Kiwi Group Holdings (KGH) borrowings, which was reported within the State-owned enterprise segment. For the 30 June 2023 actuals and forecast, the assets and liabilities of KGH are transferred to a schedule 4A company, called Kiwi Group Capital (Kiwi Group), which is reported in the Crown entity segment. This amount includes derivative balances.
4. Unsettled sales and purchases of securities are classified in the Statement of Financial Position as receivables and accounts payable, respectively.
5. Core Crown financial assets per the net debt definition includes any asset that is cash, deposits, share investments, advances, other marketable securities or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).
6. Includes Reserve Bank's New Zealand dollar transactional banking services for other Central Banks and the International Monetary Fund.

Fiscal Indicator Analysis – Debt (continued)

as at 30 June 2023

2023 Forecast at			Actual	
Budget 2022 $m	**Budget 2023 $m**		**30 June 2023 $m**	**30 June 2022 $m**
61,163	**61,850**	**Opening net debt**	**61,850**	**35,921**
29,280	22,426	Core Crown residual cash (surplus)/deficit	25,648	27,043
(12,820)	(8,601)	Less net increase in advances	(9,159)	(9,192)
(2,558)	(2,558)	Less contributions to the NZS Fund	(2,558)	(2,420)
2,354	2,876	Net increase/(decrease) in Crown Entity borrowings	3,191	2,509
-	(196)	Net (issues)/returns of circulating currency	60	(805)
(2,447)	(4,840)	Other fair value movements in financial assets and financial liabilities (including NZSF)	(7,665)	8,794
74,972	**70,957**	**Closing net debt**	**71,367**	**61,850**

Fiscal Indicator Analysis – NZ Superannuation Fund

The NZS Fund is a key component of the Government's fiscal strategy. The Fund's assets provide the means for the Government to partially pre-fund future fiscal pressures, particularly those pressures arising from an ageing population.

2023 Forecast at at 30 June			Actual	
2022 $m	2023 $m		30 June 2023 $m	30 June 2022 $m
949	1,225	Revenue	1,320	1,077
1,117	101	Less current tax expense	127	35
230	1,028	Less other expenses	1,054	(517)
3,969	3,524	Add gains/(losses)	5,766	(5,133)
3,571	**3,620**	**Operating balance**	**5,905**	**(3,574)**
60,255	56,210	Opening net worth	56,210	57,365
2,558	2,558	Gross contribution from the Crown	2,558	2,420
3,571	3,620	Operating balance	5,905	(3,574)
-	-	Other movements in reserves	-	(1)
66,384	**62,388**	**Closing net worth**	**64,673**	**56,210**
		comprising:		
69,651	65,818	Financial assets	68,234	65,411
(3,238)	(3,316)	Financial liabilities	(3,501)	(9,102)
(29)	(114)	Net other assets	(60)	(99)
66,384	**62,388**	**Closing net worth**	**64,673**	**56,210**

The results of the NZS Fund, as they have been incorporated into the Crown financial statements, are shown above.

Information on State-owned Enterprises and Crown Entities

Accounting Policies

The Crown's financial interest in 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	49.00%	48.44%
Genesis Energy	48.61%	47.63%
Meridian Energy	48.37%	46.37%
Mercury NZ	48.99%	46.05%

Balance Dates

Except for those entities listed below, all SOEs and significant CEs have a balance date of 30 June, and the information reported in these financial statements is for the period ended 30 June 2023. 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 2023
School boards of trustees	31 December	30 June 2023
Te Pūkenga — New Zealand Institute of Skills and Technology	31 December	30 June 2023
Universities and Wānanga	31 December	30 June 2023

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 2023				30 June 2022			
	Revenue (excl gains)	Expenses (excl losses)	Operating balance	Distri-butions	Revenue (excl gains)	Expenses (excl losses)	Operating balance	Distri-butions
	$m	$m	$m	$m	$m	$m	$m	$m
State-owned Enterprises								
Airways Corporation of New Zealand Limited	226	220	7	-	144	178	(34)	-
AsureQuality Limited	233	231	4	4	213	206	7	12
Landcorp Farming Limited	259	259	(3)	5	275	247	51	5
New Zealand Post Limited	1,200	1,245	48	717	1,095	1,082	107	-
KiwiRail Holdings Limited	1,629	1,167	455	-	1,333	1,075	251	-
Transpower New Zealand Limited	921	786	130	120	890	737	171	120
Kordia Group Limited	151	144	7	2	137	127	(2)	-
Kiwi Group Holdings Limited	548	431	121	-	1,054	931	182	98
New Zealand Railways Corporation	-	-	-	-	-	-	-	-
Other State-owned enterprises	125	117	8	2	109	103	4	1
Total State-owned Enterprises	**5,292**	**4,600**	**777**	**850**	**5,250**	**4,686**	**737**	**236**
Air New Zealand Limited	6,426	5,933	788	-	2,779	2,469	283	-
Genesis Energy Limited	2,358	2,261	166	186	2,851	2,761	218	183
Meridian Energy Limited	3,234	2,794	81	453	3,912	3,728	657	437
Mercury NZ Limited	2,724	2,401	131	286	2,192	2,002	470	248
Less minority interests	-	-	(566)	(500)	-	-	(792)	(423)
Total mixed ownership companies	**14,742**	**13,389**	**600**	**425**	**11,734**	**10,960**	**836**	**445**
Intra-segmental eliminations	(257)	(147)	(101)	-	(259)	(587)	199	-
Total SOE segment	**19,777**	**17,842**	**1,276**	**1,275**	**16,725**	**15,059**	**1,772**	**681**
Crown entities								
Accident Compensation Corporation	7,390	9,638	911	-	6,625	7,652	(86)	-
Crown Infrastructure Partners	543	499	52	-	484	375	(89)	-
Crown Research Institutes	973	978	4	-	888	881	13	-
Callaghan Innovation	187	185	2	-	229	232	(6)	-
Earthquake Commission	679	1,240	(560)	-	561	619	(68)	-
New Zealand Fire Service Commission	708	736	(27)	-	663	642	18	-
Kāinga Ora - Homes and Communities	2,022	2,419	(513)	-	1,950	2,148	(208)	-
Kiwi Group Capital Limited[1]	952	900	295	34	-	-	-	-
Māori Health Authority (Te Aka Whai Ora)[2]	610	522	87	-	-	-	-	-
Museum of New Zealand Te Papa	85	87	(2)	-	68	81	(14)	-
New Zealand Blood Service	205	207	(3)	-	-	-	-	-
New Zealand Lotteries Commission	1,442	1,058	385	-	1,379	1,019	359	-
New Zealand Transport Agency	4,917	5,370	(393)	-	3,859	3,898	299	-
Pharmaceutical Management Agency Limited	2,340	2,335	4	-	28	45	(17)	-
Rau Paenga Limited[3]	117	156	(40)	-	112	148	(36)	-
Public Trust	76	74	2	-	63	67	(3)	-
Schools	9,741	9,693	46	-	9,470	9,434	34	-
Southern Response Earthquake Services	29	23	19	-	76	102	(27)	-
Tamaki Regeneration Limited	80	109	(37)	11	83	104	(20)	9
Te Pukenga								
- New Zealand Institute of Skills and Technology	1,377	1,421	(61)	-	1,172	1,236	(64)	-
Te Whatu Ora[2]	25,709	26,558	(850)	2	21,257	21,713	(456)	-
Television New Zealand	332	328	1	-	343	338	5	15
Tertiary Education Commission	3,830	3,793	35	3	3,906	3,909	(3)	-
Universities and Wānanga	-	-	79	-	-	-	50	-
Other Crown entities	3,856	3,730	75	1	3,168	3,225	(49)	1
Total Crown entities	**68,200**	**72,059**	**(489)**	**51**	**56,384**	**57,868**	**(368)**	**25**
Intra-segmental eliminations	(4,535)	(3,658)	(1,167)	-	(1,943)	(1,422)	(297)	-
Total Crown entities segment	**63,665**	**68,401**	**(1,656)**	**51**	**54,441**	**56,446**	**(665)**	**25**

1 On 30 November 2022 Kiwi Group Holdings Limited was purchased by Kiwi Group Capital Limited. The results in the table above present the results of Kiwi Group Holdings Limited to 30 November 2022 as an SOE, and from 1 December 2022 they are presented as part of Kiwi Group Capital Limited.

2 The Pae Ora (Healthy Futures) Act took effect on 1 July 2022, establishing two new entities. The table above shows the District Health Boards results in 2022 under the heading Te Whatu Ora.

3 The company name was changed from Ōtākaro to Rau Paenga in March 2023.

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

	30 June 2023 Purchase of PPE $m	Total PPE $m	Total assets $m	Borrow-ings $m	Total liabilities $m	Equity $m	30 June 2022 Equity $m
State-owned Enterprises							
Airways Corporation of New Zealand Limited	35	169	320	58	103	217	196
AsureQuality Limited	8	56	158	25	58	100	100
Landcorp Farming Limited	46	1,596	2,100	263	297	1,803	1,831
New Zealand Post Limited	62	239	1,040	60	320	720	1,485
KiwiRail Holdings Limited	1,221	16,244	17,187	31	545	16,642	13,478
Transpower New Zealand Limited	350	4,787	6,067	3,510	4,479	1,588	1,597
Kordia Group Limited	15	56	119	28	57	62	58
Kiwi Group Holdings Limited	-	-	-	-	-	-	2,246
New Zealand Railways Corporation	12	4,261	4,263	-	-	4,263	4,311
Other State-owned enterprises	5	22	85	11	30	55	49
Total State-owned Enterprises	**1,754**	**27,430**	**31,339**	**3,986**	**5,889**	**25,450**	**25,351**
Air New Zealand Limited	539	5,353	9,595	2,793	6,352	3,243	2,432
Genesis Energy Limited	77	3,743	4,974	1,365	2,567	2,407	2,377
Meridian Energy Limited	316	8,950	9,967	1,424	4,010	5,957	5,508
Mercury NZ Limited	250	8,008	9,313	2,245	4,465	4,848	4,767
Total mixed ownership companies	**1,182**	**26,054**	**33,849**	**7,827**	**17,394**	**16,455**	**15,084**
Intra-segmental eliminations	2	(170)	(290)	(142)	(188)	(102)	(2,437)
Total SOE segment	**2,938**	**53,314**	**64,898**	**11,671**	**23,095**	**41,803**	**37,998**
Crown entities							
Accident Compensation Corporation	16	33	52,508	1,204	57,636	(5,128)	(6,076)
Crown Infrastructure Partners	1	10	1,349	92	346	1,003	897
Crown Research Institutes	148	758	1,229	1	363	866	816
Callaghan Innovation	38	121	210	-	53	157	133
Earthquake Commission	-	1	791	-	1,644	(853)	(293)
New Zealand Fire Service Commission	69	1,358	1,711	75	261	1,450	1,473
Kāinga Ora - Homes and Communities	3,525	43,264	44,955	12,359	14,610	30,345	36,174
Kiwi Group Capital Limited[1]	10	51	33,731	30,994	31,146	2,585	-
Māori Health Authority (Te Aka Whai Ora)[2]	-	-	179	-	92	87	-
Museum of New Zealand Te Papa	24	1,503	1,576	-	11	1,565	1,603
New Zealand Blood Service	19	47	194	30	92	102	-
New Zealand Lotteries Commission	1	10	240	-	170	70	61
New Zealand Transport Agency	1,795	82,683	83,961	3,857	4,831	79,130	72,429
Pharmaceutical Management Agency Limited	-	-	492	-	333	159	37
Rau Paenga Limited[3]	62	720	920	29	419	501	425
Public Trust	-	3	337	259	263	74	71
Schools	275	1,809	4,335	243	1,383	2,952	2,822
Southern Response Earthquake Services	-	1	131	1	168	(25)	(79)
Tamaki Regeneration Limited	129	2,741	2,922	-	25	2,897	3,201
Te Pukenga - New Zealand Institute of Skills and Technology	92	2,358	3,080	165	576	2,504	2,652
Te Whatu Ora[2]	1,066	13,109	16,812	110	7,367	9,445	8,205
Television New Zealand	7	140	344	-	56	288	294
Tertiary Education Commission	-	3	679	10	511	153	119
Universities and Wānanga	-	-	14,617	-	-	14,618	13,979
Other Crown entities	137	518	3,646	82	766	2,881	2,468
Total Crown entities	**7,414**	**151,241**	**270,949**	**49,511**	**123,122**	**147,826**	**141,411**
Intra-segmental eliminations	-	(199)	(2,027)	(1,401)	(1,915)	(111)	(96)
Total Crown entities segment	**7,414**	**151,042**	**268,922**	**48,110**	**121,207**	**147,715**	**141,315**

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 2023 and Budget 2022)

Comparatives referred to as Budget 2022 were forecasts for the year ended 30 June 2023 published in the *2022 Budget Economic and Fiscal Update* in May 2022 while comparatives referred to as Budget 2023 were forecasts for the year ended 30 June 2023 published in *the 2023 Budget Economic and Fiscal Update* in May 2023.

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 58 to 60).

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 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

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 by the Treasury.

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

Represents debt issued by sovereign (core Crown) and includes Government stock held by NZS Fund, ACC, and the Toka Tū Ake EQC. It does not include debt issued by SOEs and Crown entities. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills.

Gross domestic product (GDP)

A measure of the value-added 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

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 SOEs) 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 debt

Net debt provides information about the sustainability of the Government’s accounts. Net debt represents core Crown and Crown entity borrowings (excluding Kiwi Group Capital) less core Crown financial assets (including advances). It includes the financial assets and borrowings of the NZS Fund.

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 SOEs and Crown entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

Optimised Depreciated Replacement Cost

Valuation method which represents the gross replacement cost of the asset, less allowances for physical deterioration (depreciated) and for obsolescence and relevant surplus capacity (optimised).

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 2021 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 recognised when taxable activity occurs, regardless of whether or not it has actually been paid.

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOEs or Crown entity forecasts.

Total borrowings

Represents the Government’s total debt obligations to external parties and can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of SOEs and Crown entities that are not explicitly guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs (which are listed on pages 58 to 60). 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.

Time Series of Fiscal Indicators

Year ended 30 June $ millions	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual
Revenue and expenses										
Core Crown tax revenue	61,563	66,636	70,445	75,644	80,224	86,468	85,102	97,983	108,458	112,358
Core Crown revenue	67,093	72,213	76,121	81,782	86,778	93,474	91,923	104,968	117,515	123,398
Total Crown revenue	88,536	93,805	97,416	103,422	109,973	119,142	116,003	129,335	141,627	153,011
Core Crown expenses	71,174	72,363	73,929	76,339	80,576	86,959	108,832	107,764	125,641	127,574
Total Crown expenses	91,179	93,064	95,137	99,007	104,014	111,376	138,916	133,722	150,956	161,822
Operating balance (excluding minority interests)	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	16,159	(16,932)	5,321
Fiscal strategy indicators										
OBEGAL (excluding minority interests)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(9,691)	(9,446)
Core Crown residual cash	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(27,043)	(25,648)
Net debt	25,208	22,825	23,193	16,249	11,219	5,432	35,710	35,921	61,850	71,367
Gross debt	81,956	86,125	86,928	87,141	88,053	84,449	102,257	100,835	118,950	135,789
Net core Crown debt	59,931	60,631	61,880	59,480	57,495	57,736	83,375	102,080	128,873	155,273
Statement of financial position										
Total assets	256,824	279,214	292,679	313,609	339,932	364,652	393,400	438,596	501,844	536,666
Total liabilities	176,127	186,978	197,158	197,137	204,295	221,313	277,457	281,403	327,525	345,194
Net worth	80,697	92,236	95,521	116,472	135,637	143,339	115,943	157,193	174,319	191,472
Net worth attributable to the Crown	75,486	86,454	89,366	110,532	129,644	136,949	110,320	151,469	167,036	183,514
Nominal GDP (revised)	236,991	245,593	258,799	275,547	295,673	310,283	317,284	342,985	363,707	395,896
% GDP										
Revenue and expenses										
Core Crown tax revenue	26.0%	27.1%	27.2%	27.5%	27.1%	27.9%	26.8%	28.6%	29.8%	28.4%
Core Crown revenue	28.3%	29.4%	29.4%	29.7%	29.3%	30.1%	29.0%	30.6%	32.3%	31.2%
Total Crown revenue	37.4%	38.2%	37.6%	37.5%	37.2%	38.4%	36.6%	37.7%	38.9%	38.6%
Core Crown expenses	30.0%	29.5%	28.6%	27.7%	27.3%	28.0%	34.3%	31.4%	34.5%	32.2%
Total Crown expenses	38.5%	37.9%	36.8%	35.9%	35.2%	35.9%	43.8%	39.0%	41.5%	40.9%
Operating balance (excluding minority interests)	1.2%	2.3%	(2.1%)	4.5%	2.8%	0.1%	(9.5%)	4.7%	(4.7%)	1.3%
Fiscal strategy indicators										
OBEGAL (excluding minority interests)	(1.2%)	0.2%	0.7%	1.5%	1.9%	2.4%	(7.3%)	(1.3%)	(2.7%)	(2.4%)
Core Crown residual cash	(1.7%)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(7.5%)	(4.0%)	(7.4%)	(6.5%)
Net debt	10.6%	9.3%	9.0%	5.9%	3.8%	1.8%	11.3%	10.5%	17.0%	18.0%
Gross debt	34.6%	35.1%	33.6%	31.6%	29.8%	27.2%	32.2%	29.4%	32.7%	34.3%
Net core Crown debt	25.3%	24.7%	23.9%	21.6%	19.4%	18.6%	26.3%	29.8%	35.4%	39.2%
Statement of financial position										
Total assets	108.4%	113.7%	113.1%	113.8%	115.0%	117.5%	124.0%	127.9%	138.0%	135.6%
Total liabilities	74.3%	76.1%	76.2%	71.5%	69.1%	71.3%	87.4%	82.0%	90.1%	87.2%
Net worth	34.1%	37.6%	36.9%	42.3%	45.9%	46.2%	36.5%	45.8%	47.9%	48.4%
Net worth attributable to the Crown	31.9%	35.2%	34.5%	40.1%	43.8%	44.1%	34.8%	44.2%	45.9%	46.4%