Financial Statements of the Government of New Zealand

for the year ended 30 June 2011

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Contents

Ministerial Statement

The devastating earthquakes in Canterbury have had a significant impact on the Government's fiscal position.

The Financial Statements of the Government for the year ended 30 June 2011 include net costs to the Crown of around $9.1 billion in relation to these tragic events.

In 2010/11, there was modest growth in tax revenue reflecting the economic recovery during the period, while core Crown expenses rose sharply due to large one-off factors (such as the Emissions Trading Scheme and the Weathertight homes financial assistance package), together with the impact of higher debt-financing costs due to rising Crown debt.

The net result of these factors is that the operating deficit before gains and losses weakened markedly to $18.4 billion at 30 June 2011. However, the Government has taken a series of decisions that will significantly reduce the deficit in the current year and set the Crown on a path back to surplus.

The recovery in world markets during the year helped produce gains for Crown investment funds (the New Zealand Superannuation Fund, the Accident Compensation Corporation and the Earthquake Commission). Including these gains, the headline operating deficit was $13.4 billion (compared with $4.5 billion a year earlier).

At 30 June 2011, core Crown net debt stood at $40.1 billion or 20.0% of GDP and the Crown's net worth stood at $80.9 billion, or 40.4% of GDP.

The global financial crisis and the Canterbury earthquakes have demonstrated to New Zealanders and to the Government the importance of the Crown maintaining a strong fiscal position.

Looking forward, the Government is committed to rebuilding the Crown's fiscal position to ensure that New Zealand is well place to deal with any future unexpected shocks.

Hon Bill English
Minister of Finance

30 September 2011

Statement of Responsibility

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

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

Gabriel Makhlouf
Secretary to the Treasury

30 September 2011

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

In my opinion, these financial statements fairly reflect the financial position of the Crown as at 30 June 2011 and its operations for the year ended on that date.

Hon Bill English
Minister of Finance

30 September 2011

COMMENTARY

Introduction

These financial statements[1] contain the audited results for the financial year ended 30 June 2011. The results are compared against previous years, and against two sets of forecasts:

- the Budget 2010 forecast as published in the *2010 Budget Economic and Fiscal Update*, and
- the Budget 2011 forecast as published in the *2011 Budget Economic and Fiscal Update* (the "forecast").

This commentary should be read in conjunction with the financial statements on pages 30 to 180.

At a Glance

Table 1 – Financial results

Year ended 30 June	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	Forecast 30 June 2011 Budget 11
$million								
Core Crown tax revenue	50,973	53,477	56,747	54,681	**50,744**	**51,557**	53,912	51,189
Core Crown expenses	49,320	54,004	56,997	64,002	**64,013**	**70,450**	70,651	72,794
Operating balance before gains and losses	7,091	5,860	5,637	(3,893)	**(6,315)**	**(18,396)**	(8,632)	(16,728)
Operating balance	9,542	8,022	2,384	(10,505)	**(4,509)**	**(13,360)**	(7,067)	(9,437)
Gross debt	33,903	30,647	31,390	43,356	**53,591**	**72,420**	66,969	71,578
Net debt	16,163	13,380	10,258	17,119	**26,738**	**40,128**	39,965	41,502
Total Crown net worth	83,971	96,827	105,514	99,515	**94,988**	**80,887**	89,416	85,519

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

Summary

The economy continues to recover from recession…

Despite the Canterbury earthquakes, the economy experienced higher growth in nominal GDP in 2010/11 owing to a recovery in domestic demand as well as higher prices, including for our exports. This translated into higher growth in business profitability and salary and wage earnings.

...and tax revenue has grown modestly.

Core Crown tax revenue increased by $0.8 billion over the year, reflecting growth in private consumption and company tax but tax policy changes have largely offset the impact of this growth. Table 4 on page 8 summarises the movements for the year.

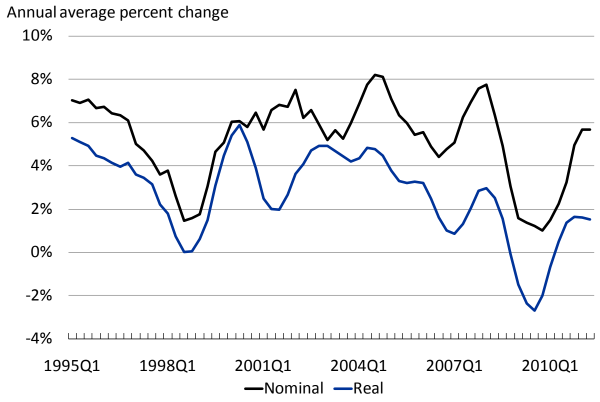
But expenses have risen sharply...

Of the total Crown expenses of $100.0 billion, $70.4 billion was for core Crown expenses (ie, incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank).

Total Crown expenses have increased by $18.9 billion from the previous year of which $13.6 billion was earthquake-related.

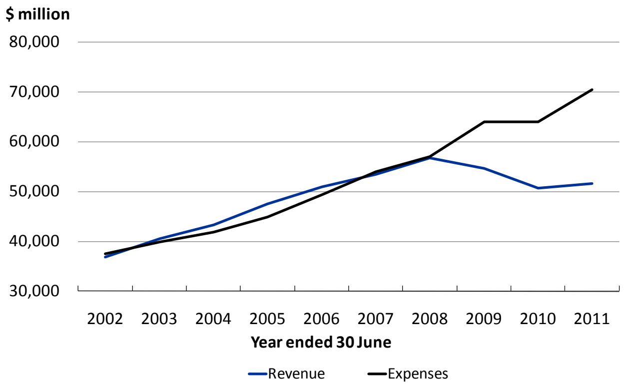
Within core Crown expenses, costs have risen by $6.4 billion (figure 2) of which non-earthquake costs increased by $4.5 billion. Health, education and welfare spending have all contributed to this latest financial year's increase along with the Emissions Trading Scheme and the weathertight homes financial assistance package. Table 6 on page 11 summarises the increases in core Crown expenses.

Figure 1 – Nominal and Real GDP growth



Source: The Treasury

Figure 2 – Core Crown tax revenue and core Crown expenses



Source: The Treasury

Earthquake expenses pushed up core Crown expenses by $1.9 billion, including financial support packages for the Red Zone and AMI and social assistance payments. Most earthquake expenses were, however, captured in the Crown Entity segment of these accounts, with EQC's insurance expenses pushed up by a net $7.5 billion (comprising a hike in insurance expenses of $11.7 billion, of which $4.2 billion was offset by reinsurance recoveries).

Although significant earthquake-related expenses have been recognised this year, more earthquake expenses are still to come. The section on Canterbury earthquakes on page 12 provides further details of the impact of the earthquakes on the Financial Statements of Government.

...resulting in a large operating deficit…

The operating deficit before gains and losses (OBEGAL) increased by $12.1 billion from last year to stand at $18.4 billion in the year ended 30 June 2011 (figure 3).

Recovery in investment markets in the first part of the year however, contributed to the Crown making a net gain in its financial portfolio of $5.0 billion (compared to a $1.8 billion gain in the previous year).

Overall, the operating balance inclusive of gains and losses was in deficit by $13.4 billion.

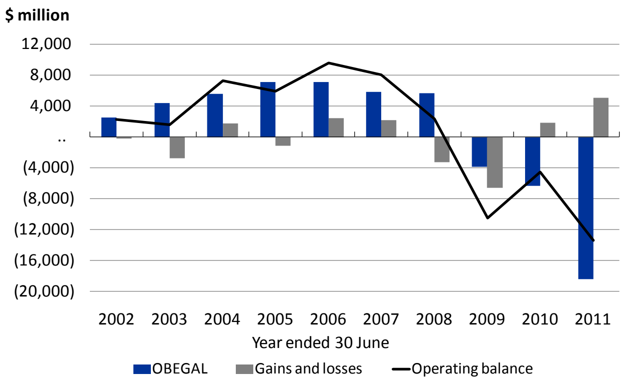
...leading to increased borrowings…

Combining the cash impact of the operating results with capital expenditure and advances, the Crown recorded a residual cash deficit for the year of $13.3 billion. This deficit was funded through an increase in borrowings, primarily through the domestic bond programme (figure 4).

...and a reduction in net worth.

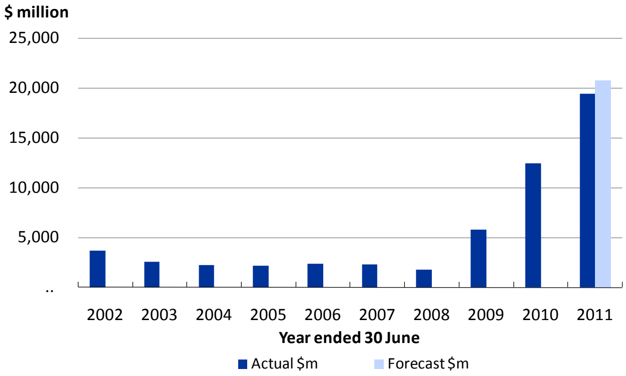
Operating deficits have led to a decline in net worth. The Crown's net worth fell $14.1 billion to stand at $80.9 billion at 30 June 2011.

Figure 3 – Components of the operating deficit



Source: The Treasury

Figure 4 – Cash proceeds from issue of market domestic bonds



Source: The Treasury

Fiscal Strategy

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

Table 2 – Financial results against the long-term fiscal objectives outlined in the *2011 Fiscal Strategy Report*

Fiscal Strategy	Financial Results	Actual 30 June 2011 $million	Actual 30 June 2010 $million	Forecast 30 June 2011 Budget 10 $million	Forecast 30 June 2011 Budget 11 $million
	Taxation as a % of GDP	25.7%	26.8%	26.4%	25.6%
Operating revenue Ensure sufficient revenue to meet the operating balance objective	Core Crown taxation revenue ...	51,557	50,744	53,912	51,189
	... combined with other core Crown revenue ...	5,993	5,472	6,348	5,761
Operating expenses To control the growth in spending so that over time, core Crown expenses are reduced to around 30% of GDP	... fund core Crown expenses...	(70,450)	(64,013)	(70,651)	(72,794)
	... and with SOE and Crown entity results and core Crown gains and losses...	(460)	3,288	3,324	6,407
Operating balance Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective	... result in an operating surplus or deficit...	(13,360)	(4,509)	(7,067)	(9,437)
	...with income in SOEs, CEs and the NZS Fund retained...	53	(3,667)	(3,445)	(6,014)
	... and some items not impacting cash ...	4,022	3,185	2,173	4,900
	... leaving operating cash flows to ...	**(9,285)**	**(4,991)**	**(8,339)**	**(10,551)**
	... build up assets in the NZS Fund ...	-	(250)	-	-
	... meet the capital expenditure budget ...	(1,524)	(1,778)	(2,240)	(1,786)
	... and make advances (e.g. to students and DHBs).	(2,534)	(1,981)	(2,748)	(2,614)
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 35% of GDP and brought back to a level no higher than 20% of GDP by the early 2020's	The resulting cash requirement...	**(13,343)**	**(9,000)**	**(13,327)**	**(14,951)**
	... when combined with opening net debt ...	26,738	17,119	26,642	26,738
	... and other fair value movements in financial assets and financial liabilities ...	47	619	(4)	(187)
	... results in a closing net debt ...	**40,128**	**26,738**	**39,965**	**41,502**
	... as a % of GDP	**20.0%**	**14.1%**	**19.6%**	**20.8%**

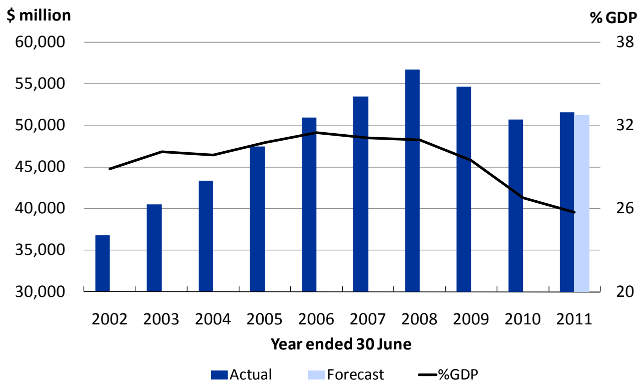
Revenue

Table 3 – Breakdown of revenue

Year ended 30 June	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	Budget 11
$ million								
Core Crown tax revenue	50,973	53,477	56,747	54,681	50,744	51,557	53,912	51,189
Core Crown other revenue	4,762	4,734	5,072	4,801	5,472	5,993	6,348	5,761
Core Crown revenue	55,735	58,211	61,819	59,482	56,216	57,550	60,260	56,950
Crown entities, SOEs and eliminations	15,690	16,378	19,660	20,024	18,509	24,013	21,521	23,219
Total Crown revenue	71,425	74,589	81,479	79,506	74,725	81,563	81,781	80,169
% of GDP								
Core Crown tax revenue	31.5%	31.1%	31.0%	29.5%	26.8%	25.7%	26.4%	25.6%
Core Crown other revenue	2.9%	2.8%	2.8%	2.6%	2.9%	3.0%	3.1%	2.9%
Core Crown revenue	34.4%	33.8%	33.7%	32.1%	29.7%	28.7%	29.6%	28.5%
Crown entities, SOEs and eliminations	9.7%	9.5%	10.7%	10.8%	9.8%	12.0%	10.6%	11.6%
Total Crown revenue	44.1%	43.4%	44.4%	42.9%	39.5%	40.7%	40.1%	40.1%

Total revenue increased over the year by $6.8 billion to $81.6 billion. Core Crown tax revenue contributed $0.8 billion (1.6%) to this increase (figure 5) and $4.2 billion was due to insurance claims on reinsurers as a result of the Canterbury Earthquakes. The impact of the earthquakes on the financial statements is discussed more fully in a separate section on page 12.

Figure 5 – Core Crown tax revenue



Source: The Treasury

Core Crown Tax Revenue

Core Crown tax revenue was close to forecast at $51.5 billion. Growth in tax has been diluted by policy changes introduced in Budget 2010. These policy changes had the impact of reducing taxes levied by $2.7 billion. Table 4 summarises the movements from last year. Specifically:

- Salary and wages have increased during the year although the impact of personal income tax cuts have more than offset any increases in tax coming from source deductions.
- Business profits (both corporate and individual) have also increased over the year but again the impact of policy changes through tax cuts have seen lower tax takes from corporate and 'other individuals' compared with a year earlier.
- On 1 October 2010, the GST rate increased from 12.5% to 15%. In addition there was a small increase in consumption over the year resulting in an increase in GST revenue.

Table 4 – Movement in core Crown tax revenue ($ billion)

Year ended 30 June	
2010 core Crown tax revenue	50.7
Tax cuts	(2.7)
Growth in income and domestic consumption	1.3
Higher business profits	0.5
Increase in GST rate	1.6
Other movements	0.1
2011 core Crown tax revenue	51.5

Source: The Treasury

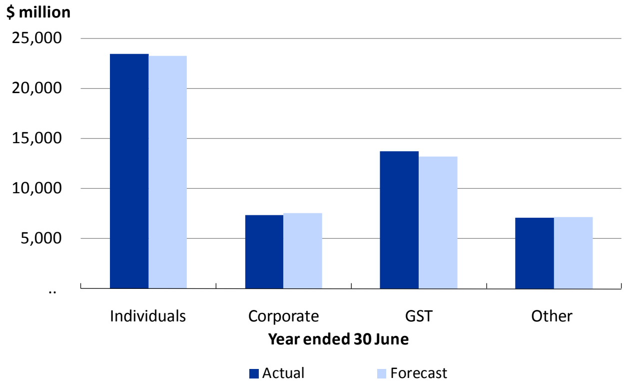
Revenue (continued)

Compared to forecast, core Crown tax revenue was $0.4 billion (0.7%) more than expected. Included in this result were the following items (figure 6):

- Both source deductions tax and GST revenue were higher than expected (by $0.2 billion and $0.5 billion respectively). The source deductions increase was due to stronger wage growth while GST was due to stronger than forecast consumption.

- In contrast, corporate tax and other tax revenue were lower than forecast (by $0.2 billion and $0.1 billion respectively) reflecting weaker than expected business profits and lower than expected customs and excise duties.

Figure 6 – Core Crown tax revenue against forecast



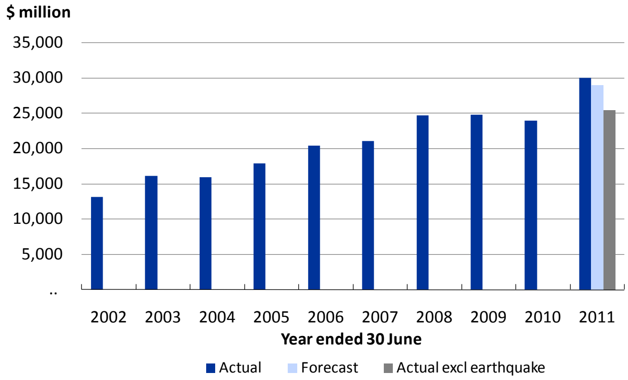
Source: The Treasury

Other Revenue

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

Other revenue increased by $6.1 billion over the year to $30.4 billion (figure 7). Of this increase in revenue, $4.2 billion relates to EQC's insurance claim on reinsurers and $0.8 billion relates to an increase in sales of goods and services primarily in the SOE and Crown Entity sectors. However, increases in SOE revenue were largely offset by increases in SOE operating expenses. Likewise, revenue from EQC's reinsurers was more than offset by the increase in insurance expenses (refer the Canterbury Earthquakes section on page 12).

Figure 7 – Other revenue



Source: The Treasury

The remainder includes $0.9 billion of increases in ACC levies, Emissions Trading Scheme revenues and interest and dividend revenue (primarily due to the increase in Kiwibank mortgages) ($0.3 billion for each).

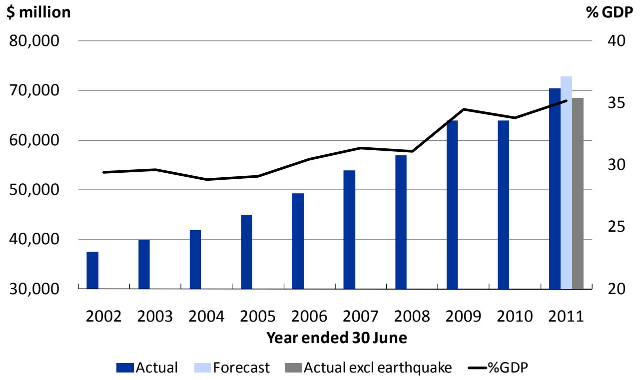
Expenses

Table 5 – Breakdown of expenses

Year ended 30 June	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	Forecast 30 June 2011 Budget 11
$ million								
Social security and welfare	15,598	16,768	17,877	19,382	21,185	22,005	22,120	22,175
Health	9,547	10,355	11,297	12,368	13,128	13,753	14,043	13,774
Education	9,914	9,269	9,551	11,455	11,724	11,650	11,992	12,039
Core government services	2,507	4,817	3,371	5,293	2,974	5,563	3,979	6,357
Law and order	2,235	2,699	2,894	3,089	3,191	3,382	3,537	3,526
Other core Crown expenses	9,519	10,096	12,007	12,415	11,811	14,097	14,980	14,923
Core Crown expenses	49,320	54,004	56,997	64,002	64,013	70,450	70,651	72,794
Crown entities, SOEs and eliminations	15,015	14,725	18,845	19,397	17,027	29,509	19,762	24,103
Total Crown expenses	64,334	68,729	75,842	83,399	81,040	99,959	90,413	96,897
% of GDP								
Social security and welfare	9.6%	9.7%	9.8%	10.5%	11.2%	11.0%	10.8%	11.1%
Health	5.9%	6.0%	6.2%	6.7%	6.9%	6.9%	6.9%	6.9%
Education	6.1%	5.4%	5.2%	6.2%	6.2%	5.8%	5.9%	6.0%
Core government services	1.5%	2.8%	1.8%	2.9%	1.6%	2.8%	2.0%	3.2%
Law and order	1.4%	1.6%	1.6%	1.7%	1.7%	1.7%	1.7%	1.8%
Other core Crown expenses	5.9%	5.9%	6.5%	6.7%	6.2%	7.0%	7.3%	7.5%
Core Crown expenses	30.5%	31.4%	31.1%	34.5%	33.8%	35.2%	34.7%	36.4%
Crown entities, SOEs and eliminations	9.3%	8.6%	10.3%	10.5%	9.0%	14.7%	9.7%	12.1%
Total Crown expenses	39.7%	39.9%	41.4%	45.0%	42.8%	49.9%	44.3%	48.5%

Total Crown expenses increased by $18.9 billion from the previous year to stand at $100.0 billion. Of this increase, $13.6 billion was due to expenses arising from the Canterbury earthquakes; EQC insurance expenses were $11.7 billion higher than last year due to the Canterbury earthquakes and core Crown spending increased by $1.9 billion due to earthquake-related expenditure (the balance relates to other SOE and Crown entities). A more detailed analysis of earthquake expenses is provided in the Canterbury Earthquakes section below.

Figure 8 – Core Crown expenses



Source: The Treasury

Core Crown expenses excluding earthquake-related expenses also increased by $4.5 billion compared to last year (figure 8). Increases in other operating expenses were also evident across the SOE and CE sectors but these increases were largely offset by increases in operating revenue.

Expenses (continued)

Core Crown Expenses

Core Crown expenses increased by $6.4 billion compared to the previous year as illustrated in Table 6. The main drivers of the increase included:

- Canterbury earthquake expenditure of $1.9 billion.
- Health expenses increased by $0.6 billion primarily as a result of new spending initiatives.
- Although education expenses decreased by $0.1 billion overall, this is due to a reversal of impairments on student loans of $0.4 billion. Excluding this impairment, education expenditure has increased by $0.3 billion primarily as a result of new spending initiatives.

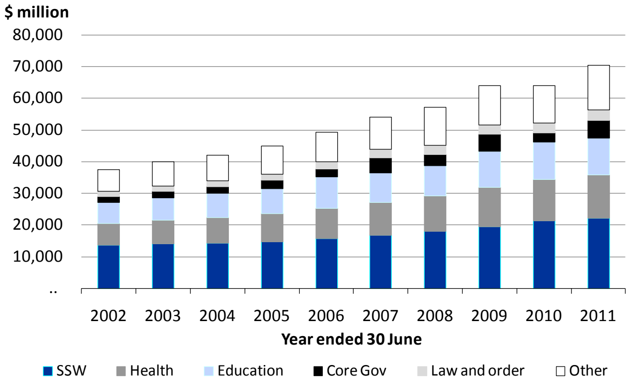
Table 6 – Movement in core Crown expenses

Year ended 30 June	
2010 core Crown expenses	64.0
Earthquake related expenditure	1.9
Health expenses	0.6
Education expenses	(0.1)
Benefit expenses (excl. earthquake support)	0.6
Weathertight homes	0.6
Treaty settlements	0.4
ETS provision increase	0.9
Interest expenses	0.8
Other movements	0.7
2011 core Crown expenses	70.4

Source: The Treasury

- Benefit expenses (excluding earthquake-related benefits) increased by $0.6 billion. This increase was primarily attributable to increases in New Zealand Superannuation which rose by $0.5 billion. $0.3 billion of this increase was due to an increase in the number of recipients while indexation of benefits led to an increase of $0.2 billion. Policy changes also increased expenses marginally.
- The establishment of the Crown's weathertight homes financial assistance package has contributed $0.6 billion in expenses this year.
- Treaty settlements have increased in the current year with $0.5 billion of settlements compared to $0.1 billion in 2010.
- The Emissions Trading Scheme (ETS) saw more NZ Units issued compared with the previous year with more sectors entering into the ETS. In 2009/10 only the forestry sector had entered the Scheme.
- Interest expenses have increased compared to last year due to the higher levels of debt held (gross debt has increased from $53.6 billion to $72.4 billion).

Figure 9 – Core Crown expenses by sector



Source: The Treasury

Compared to expectations in Budget 2011, core Crown expenses were $2.3 billion lower than forecast primarily as a result of:

- Lower-than-forecast earthquake expenses primarily due to delays in assessing and measuring damage. This resulted in $1.2 billion lower expenses than forecast. These expenses are now expected to occur in the next financial year.
- Fewer NZ units were issued under the ETS than forecast resulting in $0.4 billion lower expenses.
- The remainder of this underspend in other operating expenses was across a number of departments and expense types.

Canterbury Earthquakes

Operating Balance Impact

The operating deficit before gains and losses included a net cost of $9.1 billion in relation to the Canterbury earthquakes (table 7).

The impact on the OBEGAL consists of $13.6 billion of expenses offset by income (mostly insurance proceeds) of $4.5 billion.

These results do not represent the likely final cost to the Crown arising from the earthquakes, as a number of decisions affecting the cost have still to be made (eg, decisions regarding properties in the Orange zone) or, in the case of local infrastructure costs, have yet to be measured. The total cost is expected to emerge over the next few years as future expenses, such as the cost of the Orange zone, become known.

Table 7 – Impact on OBEGAL

Year ended 30 June

$ million	**Actual 2011**	**Budget 2011**	**Difference**
Local infrastructure	160	789	629
State-owned assets	46	25	(21)
Welfare support and emergency responses	363	457	94
AMI support package	335	427	92
Red zone properties[1]	653	653	-
Other costs[1]	36	36	-
Yet to be allocated	-	422	422
Total core Crown	1,593	2,809	1,216
EQC	7,471	3,050	(4,421)
ACC	7	181	174
Other SOEs and Ces	16	40	24
Total Crown	**9,087**	**6,080**	**(3,007)**

1. Classified as "unallocated" for Budget 2011.

Source: The Treasury

The major components of this result were:

- EQC insurance costs (net of reinsurance) ($7.5 billion)
- the purchase of residential properties in the Red Zone ($0.7 billion), and
- the AMI support package ($0.3 billion).

On 23 June 2011, the Government announced four zones of land damage in Christchurch and the Waimakariri district (Red, Orange, Green, and White) and its intention to purchase residential property in the Red Zone. The estimated cost of this offer (net of insurance proceeds) was $653 million. Offers made after 30 June 2011 to Orange or White Zone residents are not included in this estimate. Therefore any costs associated with these zones will be recorded in subsequent years.

The Government has agreed to provide back-up support to AMI Insurance in order to give policy holders certainty and to ensure an orderly rebuild of Christchurch. The total amount of the support arrangement was $500 million, of which $335 million represents the portion estimated to be non-recoverable in the event that the support is called on.

Note 30 in these financial statements provides a detailed explanation of the fiscal impact of the earthquakes.

Impact on the National Disaster Fund

The most significant expense recognised in the current financial year relates to the insurance of residential properties by the Earthquake Commission (EQC).

EQC has recorded total insurance expenses of $11.7 billion in the current financial year. Some of these expenses ($4.2 billion) will be met by reinsurers. The majority of the remaining costs are likely to be met by the National Disaster Fund which held around $6 billion prior to the September earthquake. Support will be provided by the Government in the event a shortfall arises in the Fund.

EQC's costs were significantly higher than the $3.1 billion (net of reinsurance) forecast in the May 2011 Budget. This increase reflects an increase in damage estimates for both the February and June earthquakes as building and land damage were estimated to be higher than originally thought.

Charges against the Canterbury Earthquake Recovery Fund

In the 2011 Budget the Government established the Canterbury Earthquake Recovery Fund (CERF) to provide for central government's cost of the earthquakes.

A total of $5.5 billion costs were estimated over a six year period; $2.8 billion of this cost was expected in the current year. Actual costs recorded against the fund this year were $1.6 billion (refer table 8) and includes the estimated cost of purchasing residential property in the Red Zone and the non-recoverable portion of the AMI support package.

Table 8 – Canterbury Earthquake Recovery Fund

Year ended 30 June

$ million	Actual 2011	Budget 2011	Difference
Canterbury Earthquake Recovery Fund			
Absorbed by reprioritisation	156	84	(72)
Budget 2010 contingency	64	198	134
Budget 2011	1,373	2,527	1,154
Total Canterbury Earthquake Recovery Fund	**1,593**	**2,809**	**1,216**

Source: The Treasury

While costs recorded against CERF in the current financial year were $1.2 billion less than anticipated, this was primarily caused by delays in assessing and measuring damage. It is therefore likely that this variance will reverse in the next financial year as these assessments are made.

Debt Impact

While the operating deficit increased markedly as a result of the earthquakes, the impact on cash (and net core Crown debt) was much smaller with $1.7 billion paid out during the year. The majority of the cash related to claims payments by EQC ($1.2 billion) out of the National Disaster Fund rather than increasing net core Crown debt.

While a number of expenses are recorded which represent obligations of the Government at 30 June 2011, the cash payments associated with those obligations are made over a longer period of time. Therefore, the full impact on debt is expected to be recorded over a number of years as claims are settled or the rebuild takes place.

Future Costs

The cost of the Government's contribution to repairing essential local infrastructure (fresh water, storm water, waste water, and river management systems) requires judgements on the extent and cost of damage in the Canterbury region, on which information remains limited, and judgements on the approach to rebuilding Christchurch, on which decisions have yet to be made. As a result, costs associated with these repairs have not been included in these financial statements. Instead, a contingent liability has been included in the notes to the financial statements (note 32) describing the types and potential range of costs.

In addition, there are still a number of significant decisions to be made regarding the nature of the reconstruction and rebuild. These decisions will likely have fiscal costs associated with them and they include the need to make decisions on the future of the recently announced orange and white zones.

There will also be expenses which will be incurred in the future, such as demolition costs, as the rebuild of Canterbury continues. These costs will be recognised at the time they are incurred.

It is likely that costs will continue to be recognised over the next few years as these decisions are made and the costs are finalised.

Judgements and Estimations

All financial statements include an element of judgement and estimation. The estimation of claims and provisions arising from the Canterbury earthquakes are key areas of judgement in these financial statements.

Cost estimates have been based on the information available at the time of preparing these financial statements. The largest and most complex valuations have been carried out by independent professional actuaries and represent a best estimate of the costs to date. However the final costs of the Canterbury earthquakes will not be certain for some time and these estimates may differ from those final costs.

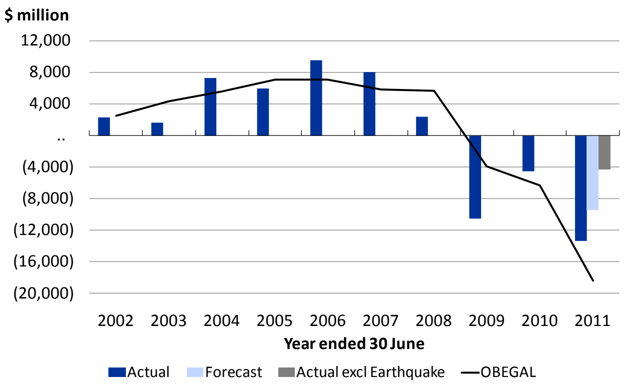
Operating Balance

Table 9 – Total Crown operating balance

Year ended 30 June	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	Forecast 30 June 2011 Budget 11
$ million								
Total Crown Operating balance before gains and losses	7,091	5,860	5,637	(3,893)	(6,315)	(18,396)	(8,632)	(16,728)
Total Crown gains/(losses)	2,451	2,162	(3,253)	(6,612)	1,806	5,036	1,565	7,291
Total Crown Operating balance	9,542	8,022	2,384	(10,505)	(4,509)	(13,360)	(7,067)	(9,437)
% of GDP								
Total Crown Operating balance before gains and losses	4.4%	3.4%	3.1%	(2.1)%	(3.3)%	(9.2)%	(4.2)%	(8.4)%
Total Crown gains/(losses)	1.5%	1.3%	(1.8)%	(3.6)%	1.0%	2.5%	0.8%	3.6%
Total Crown Operating balance	5.9%	4.7%	1.3%	(5.7)%	(2.4)%	(6.7)%	(3.5)%	(4.7)%

This year's operating deficit of $13.4 billion compares with a deficit of $4.5 billion in the previous financial year (figure 10). While an improvement in financial markets in the first part of the year resulted in the Crown recording large net gains for the full year, the increase in earthquake-related expenditure more than offset those gains so that the Crown's deficit has grown. Excluding the impact of the earthquakes ($9.1 billion), the operating balance deficit would have been similar to last year.

Figure 10 – Operating balance



Source: The Treasury

Operating Balance Before Gains and Losses

The operating deficit before gains and losses (OBEGAL) has increased by $12.1 billion to $18.4 billion, primarily as a result of the Canterbury earthquakes.

The OBEGAL deficit is $1.7 billion larger than forecast in Budget 2011. This increased deficit reflects higher than expected total Crown expenses of $3.1 billion offset by $1.4 billion higher revenue. Total Crown expenses exceeded forecast by $3.1 billion primarily due to increases in EQC's insurance costs arising from the Canterbury earthquakes. Small increases in tax revenue and other revenues have contributed to the $1.4 billion higher than forecast revenue. Refer page 8 for further details of revenue movements.

While total Crown expenses have exceeded forecast, core Crown expenses are lower than forecast by $2.3 billion. Refer page 10 for details of core Crown expenses.

Operating Balance (continued)

Gains and Losses

The Crown recorded net gains of $5.0 billion this year (compared to net gains of $1.8 billion last year).

Table 10 – Gains and losses

Year ended 30 June $ million	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	Forecast 30 June 2011 Budget 11
ACC actuarial gain/(loss)	(706)	(481)	(1,709)	(4,491)	410	996	-	1,251
GSF actuarial gain/(loss)	206	1,133	(1,098)	(695)	(1,231)	(574)	-	287
Kyoto net position	(303)	20	(226)	768	(15)	47	-	-
Investment portfolios:								
NZS Fund	1,130	1,313	(995)	(3,495)	1,750	3,518	978	3,576
ACC	681	419	(543)	(181)	745	961	53	945
Earthquake Commission	504	(84)	(166)	(349)	37	109	152	136
Other gains/(losses)	939	(158)	1,484	1,831	110	(21)	382	1,096
	2,451	2,162	(3,253)	(6,612)	1,806	5,036	1,565	7,291

The total Crown gain of $5.0 billion was $2.3 billion lower than forecast. Subsequent to the finalisation of Budget 2011 forecasts fluctuations in investment markets have seen a decline in investment returns and some previous gains have reversed.

The ACC actuarial gain of $1.0 billion compares with an actuarial gain of $0.4 billion in the previous year. This improvement from the prior year reflects a reduction in the number of claims and the cost of those claims as well as movements in the discount rate.

Each year the Government Superannuation Fund (GSF) estimates the present value of pension commitments that exist in respect of its defined benefit beneficiaries (former public servants). The GSF scheme recorded an actuarial loss of $0.6 billion in 2011 (compared to a loss of $1.2 billion last year and a forecast gain of $0.3 billion). This loss represents an increase in the liability predominantly as a result of changes in actuarial assumptions (meaning that future benefit payments are estimated to be higher than previously assessed).

The NZS Fund, established to part-fund future New Zealand superannuation costs, recorded a gain of $3.5 billion this year contributing to an operating balance of $3.0 billion for the year (refer table 11 below). The investment return for the year was 25.05% (compared to 15.45% last year). This strong return has resulted in an operating balance that was on track with forecast. Since inception the Fund has returned 7.83% (annualised) or 2.23% more than the rolling yield on 90 day Treasury bills.

Table 11 – NZS Fund results

Year ended 30 June $ million	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	Forecast 30 June 2011 Budget 11
Opening net worth	6,555	9,855	12,973	14,212	13,688	15,656	16,066	15,656
Revenue	359	436	385	383	433	518	520	495
Current tax expense	(468)	(707)	(237)	(4)	27	(872)	(310)	(795)
Inter-entity expenses	-	171	63	400	(421)	(58)	(46)	(32)
Other expenses	(52)	(119)	(97)	(77)	(81)	(111)	(89)	(235)
Gains/(losses)	1,130	1,313	(995)	(3,495)	1,750	3,518	978	3,576
Operating balance	969	1,094	(881)	(2,793)	1,708	2,995	1,053	3,009
Gross contribution from the Crown	2,337	2,048	2,104	2,243	250	-	-	-
Other movements in reserves	(6)	(24)	16	26	10	1	5	3
Closing net worth	9,855	12,973	14,212	13,688	15,656	18,652	17,124	18,668

Debt

Table 12 – Net debt[2] and Gross debt[3]

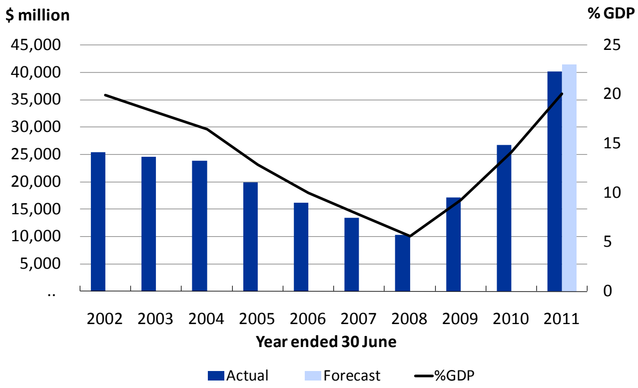
Year ended 30 June	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	Forecast 30 June 2011 Budget 11
Net debt ($m)	16,163	13,380	10,258	17,119	26,738	40,128	39,965	41,502
Net debt (% GDP)	10.0%	7.8%	5.6%	9.2%	14.1%	20.0%	19.6%	20.8%
Gross debt ($m)	33,903	30,647	31,390	43,356	53,591	72,420	66,969	71,578
Gross debt (% GDP)	20.9%	17.8%	17.1%	23.4%	28.3%	36.2%	32.8%	35.8%

Net Debt

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

The $13.4 billion increase in net debt over the year (figure 11) was primarily due to additional borrowings and a run-down of assets to meet the residual cash deficit of $13.3 billion recorded this year (refer table 13).

Figure 11 – Net debt



Source: The Treasury

Table 13 – Movement in net debt

Year ended 30 June $ million	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	Forecast 30 June 2011 Budget 11
Opening net debt	19,879	16,163	13,380	10,258	17,119	26,738	26,642	26,738
Net core Crown cash flow from operations	(8,859)	(8,586)	(7,292)	1,967	4,991	9,285	8,339	10,551
Contributions to NZS Fund	2,337	2,048	2,104	2,243	250	-	-	-
Purchase of physical assets	1,826	1,755	1,433	1,625	1,778	1,524	2,240	1,786
Advances and capital injections	1,711	1,990	1,698	2,804	1,981	2,534	2,748	2,614
Core Crown residual cash (surplus)/deficit	(2,985)	(2,793)	(2,057)	8,639	9,000	13,343	13,327	14,951
Movements in circulating currency	(165)	(81)	(86)	(475)	(15)	(234)	(181)	(34)
Other valuation changes in financial assets and financial liabilities	(566)	91	(979)	(1,303)	634	281	177	(153)
Closing net debt	16,163	13,380	10,258	17,119	26,738	40,128	39,965	41,502

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

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

Debt (continued)

The residual cash deficit was $1.6 billion lower than forecast and $4.3 billion larger than last year.

Table 14 summarises the movement in residual cash over the year. Specifically:

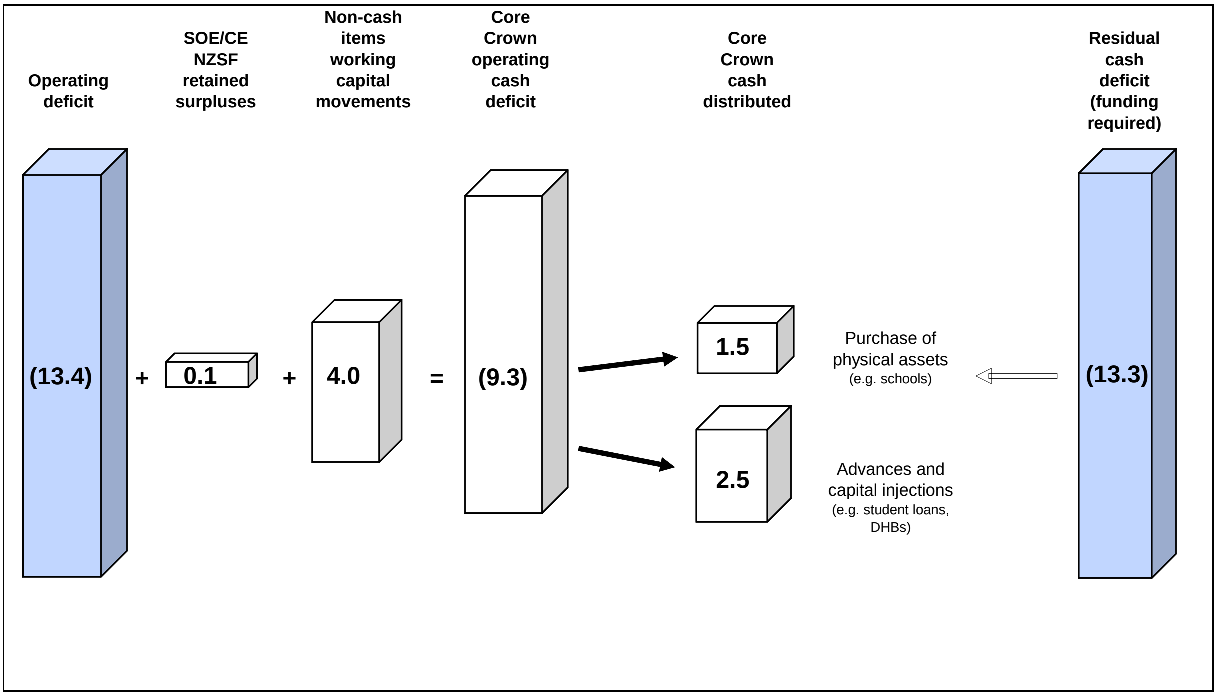
- Core Crown tax receipts were $0.8 billion higher than last year consistent with the increase in core Crown tax revenue.
- Benefit payments have increased by $0.6 billion in line with the increase in benefit expenses.
- While core Crown expenses have increased by $6.4 billion, other operating cash payments have only increased by $4.5 billion. This is due to a number of these increases not having an immediate cash impact (eg, earthquake related provisions, the weathertight homes financial assistance package and the increase in the ETS provision).
- Offsetting the increase in the residual cash deficit was the reduction in contributions to the NZS Fund.

Table 14 – Movements in residual cash ($billion)

Year ended 30 June	
2010 core Crown residual cash	(9.0)
Tax receipts	0.8
Benefit payments	(0.6)
Other operating cash flows	(4.5)
Reduction in NZS Fund contributions	0.3
Other movements	(0.3)
2011 core Crown residual cash	(13.3)

Source: The Treasury

Figure 12 – Reconciliation of the operating deficit and core Crown residual cash for the year ended 30 June 2011 ($ billion)

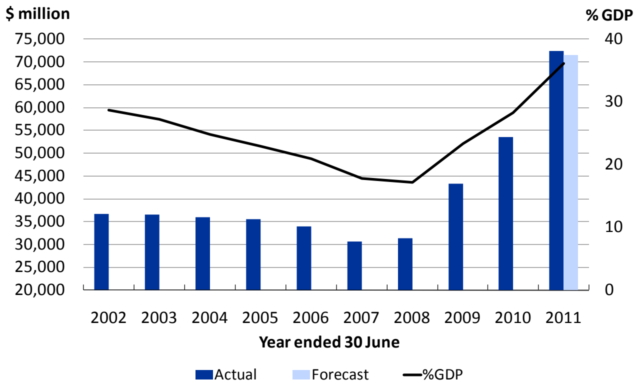


Debt (continued)

Gross Debt

Gross debt at 30 June 2011 was $18.8 billion higher than a year earlier (figure 13). The majority of this increase came from the issue of $19.5 billion of domestic market bonds (New Zealand Government bonds). No repayments of market domestic bonds were made during the year. When combined with the proceeds from non-market domestic bonds, the net issuance of domestic bonds increased gross debt by $18.9 billion (table 15).

Figure 13 – Gross debt



Source: The Treasury

The New Zealand Debt Management Office (NZDMO) increased the 2010/11 domestic bond programme by $1 billion to $13.5 billion in December 2010. The 2011 Budget approved a further $6 billion increase, allowing the issue of bonds up to $20 billion. These increases enabled the NZDMO to continue issuance over the fiscal year in line with market demand and means borrowing requirements in future years will be less than they would have needed to be in the absence of this additional pre-emptive borrowing. Net debt did not increase by the same amount as gross debt because surplus proceeds from these bond issuances were invested in financial assets.

Table 15 – Cash proceeds from net bond issuance

Year ended 30 June							Forecast	
	Actual	Actual	Actual	Actual	Actual	Actual	30 June 2011	
$ million	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Budget 10**	**Budget 11**
Domestic bonds (market)	2,375	2,294	1,757	5,775	12,424	19,468	12,776	20,760
Repayment of domestic bonds (market)	(2,574)	(2,777)	-	(2,750)	(4,197)	-	-	-
Net increase/(decrease) in market domestic bonds	(199)	(483)	1,757	3,025	8,227	19,468	12,776	20,760
Domestic bonds (non-market)	740	570	130	541	799	270	224	372
Repayment of domestic bonds (non-market)	(375)	(421)	-	(515)	(656)	(803)	-	(1,153)
Net increase/(decrease) in non-market domestic bonds	365	149	130	26	143	(533)	224	(781)
Net total bond issuance/(repayment)	166	(334)	1,887	3,051	8,370	18,935	13,000	19,979

Net Worth

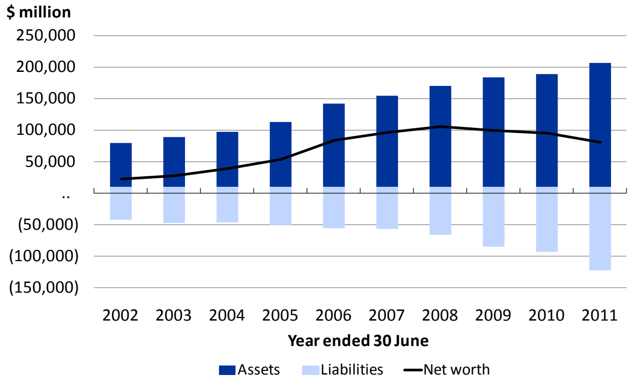
Table 16 – Movement in net worth

Year ended 30 June $ million	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	 Budget 11
Opening net worth	54,240	83,971	96,827	105,514	99,515	94,988	96,479	94,988
Operating balance	9,542	8,022	2,384	(10,505)	(4,509)	(13,360)	(7,067)	(9,437)
Property, plant and equipment revaluations	20,199	5,232	6,214	4,235	196	(443)	-	69
Other movements in reserves	(10)	(398)	89	271	(214)	(298)	4	(101)
Closing net worth	83,971	96,827	105,514	99,515	94,988	80,887	89,416	85,519

While assets increased by $21.9 billion, a $36.0 billion increase in liabilities and the continuation of operating deficits resulted in a decrease in the Crown's net worth for the third consecutive year (figure 14).

Assets grew by just under 10% (compared to 3% in the previous year). Financial assets increased by $19.4 billion while the property, plant and equipment held by the Crown increased by $1.5 billion. Growth in assets was mainly due to the increase in marketable securities from the increase in bond issues during the year.

Figure 14 – Net worth



Source: The Treasury

Growth in liabilities at 28% was mainly due to an increase in gross debt as discussed in the previous section. Earthquake obligations have also contributed to this increase.

The composition of the balance sheet has changed from last year with property, plant and equipment and borrowings now making up 47% of assets and 55% of liabilities respectively (51% and 54% last year).

Table 17 – Composition of the statement of financial position

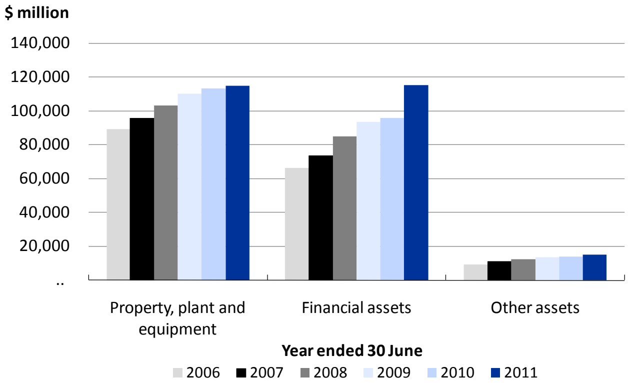
Year ended 30 June $ million	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 30 June 2011 Budget 10	 Budget 11
Property, plant and equipment	89,141	95,598	103,329	110,135	113,330	114,854	117,742	116,933
Financial assets	66,396	73,718	85,063	93,359	95,971	115,362	104,566	109,680
Other assets	9,503	11,031	12,443	13,657	14,054	14,999	14,609	14,799
Total assets	165,040	180,347	200,835	217,151	223,355	245,215	236,917	241,412
Borrowings	40,027	41,898	46,110	61,953	69,733	90,245	89,416	91,003
Other liabilities	41,042	41,622	49,211	55,683	58,634	74,083	58,085	64,890
Total liabilities	81,069	83,520	95,321	117,636	128,367	164,328	147,501	155,893
Net worth	83,971	96,827	105,514	99,515	94,988	80,887	89,416	85,519

Net Worth (continued)

Assets

Total Crown assets increased by $21.9 billion this year to reach $245.2 billion at 30 June 2011 (figure 15).

Figure 15 – Total Crown assets



Source: The Treasury

Property, plant and equipment increased by $1.5 billion (1.3%) since 2010. Asset purchases of $6.6 billion were offset by depreciation of $3.7 billion and disposals of $0.4 billion. The remaining movements related to asset revaluations and foreign exchange movements.

Significant asset purchases by sector were:

- Transport and communications – including state highways and KiwiRail ($2.8 billion)
- Economic and industrial – including the energy SOE's ($2.0 billion)
- Education – including school property ($0.6 billion)
- Health – including hospitals ($0.6 billion)
- Law and order – including correctional facilities ($0.4 billion).

Asset revaluations across asset classes resulted in downwards revaluations with the exception of the Crown's electricity generation assets. Of these asset classes, State highways and buildings were the largest of the downwards revaluations.

Financial assets (eg, advances) increased by $19.4 billion over the year. The largest contributor to the increase related to 'other receivables' which increased by $6.9 billion from June 2010 due to insurance claims receivable from reinsurers of $4.2 billion and $0.7 billion estimate of recoveries from receiverships under the deposit guarantee scheme. Cash and marketable securities and derivatives in gain increased by $7.4 billion due to increased borrowings over the year. The value of Kiwibank's mortgage book rose by $1.0 billion while increases in the value of share investments also contributed $2.0 billion to the increase in financial assets.

Other assets (including intangible assets, equity accounted investments and inventory) increased by $0.9 billion. The largest increase was in relation to the Crown's investment in Tertiary Education Institutions which increased $0.2 billion reflecting the increase in the net worth of these entities.

Net Worth (continued)

Liabilities

Total Crown liabilities increased by $36.0 billion (28.0%) compared to June 2010 (figure 16). The largest driver of the increase related to borrowings (an increase of $20.5 billion or 29.4%).

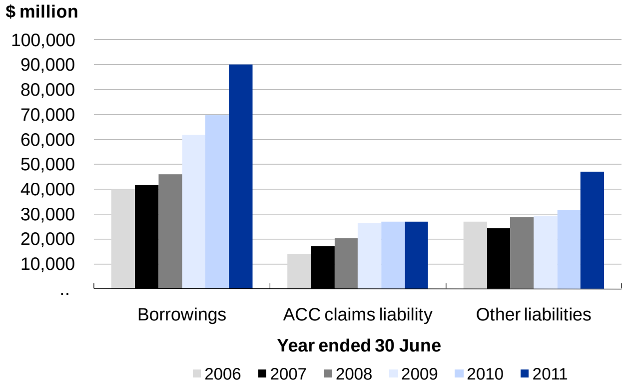
Borrowings are a combination of gross debt (discussed earlier), the financial liabilities of Crown entities and SOE's and liabilities associated with the Reserve Bank's settlement cash and bank bills.

Table 18 summarises the increase in borrowings over the year. While gross debt[4] increased by $18.8 billion, a portion of that increase related to debt held by other government reporting entities (which are excluded from total Crown borrowings). In addition, Reserve Bank settlement cash and Reserve Bank bills decreased by $0.4 billion over the year and Kiwibank deposits increased by $1.0 billion (mirroring the increase in their loan book).

The ACC claims liability remained static in comparison to the previous year.

Other liabilities (eg, accounts payable) increased by $15.5 billion. The main increase was in relation to EQC's insurance liability and the AMI financial support package increasing insurance liabilities from $0.1 billion to $12.3 billion. In addition earthquake-related provisions increased other liabilities by $1.2 billion. Other increases in liabilities were offset by a $0.7 billion reduction in the deposit guarantee scheme payment provision arising from payments to guaranteed depositors during the year.

Figure 16 – Total Crown liabilities



Source: The Treasury

Table 18 – Increase in borrowings

Year ended 30 June	
2010 Borrowings	69.7
Increase in gross debt	18.8
Increase in gross debt held by Crown entities and SOE's	2.8
Reduction in settlement cash and Reserve bank bills	(0.4)
Increase in Kiwibank deposits	1.0
Other movements	(1.7)
2011 Borrowings	90.2

Source: The Treasury

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

Historical Financial Information

Year ended 30 June $ million	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual
Statement of financial performance										
Core Crown tax revenue	36,809	40,518	43,358	47,468	50,973	53,477	56,747	54,681	50,744	51,557
Core Crown other revenue	3,136	2,922	2,861	3,577	4,762	4,734	5,072	4,801	5,472	5,993
Core Crown revenue	39,945	43,440	46,219	51,045	55,735	58,211	61,819	59,482	56,216	57,550
Crown entities, SOE revenue and eliminations	10,003	13,170	13,051	14,322	15,690	16,378	19,660	20,024	18,509	24,013
Total Crown revenue	**49,948**	**56,611**	**59,271**	**65,367**	**71,425**	**74,589**	**81,479**	**79,506**	**74,725**	**81,563**
Social security and welfare	13,485	13,907	14,252	14,682	15,598	16,768	17,877	19,382	21,185	22,005
Health	7,032	7,501	8,111	8,813	9,547	10,355	11,297	12,368	13,128	13,753
Education	6,473	7,016	7,585	7,930	9,914	9,269	9,551	11,455	11,724	11,650
Core government services	1,890	2,130	2,091	2,567	2,507	4,817	3,371	5,293	2,974	5,563
Other core Crown expenses	8,633	9,343	9,843	10,903	11,754	12,795	14,901	15,504	15,002	17,479
Core Crown expenses	37,513	39,897	41,882	44,895	49,320	54,004	56,997	64,002	64,013	70,450
Crown entities, SOE expenses and eliminations	9,964	12,347	11,816	13,397	15,015	14,725	18,845	19,397	17,027	29,509
Total Crown expenses	**47,476**	**52,245**	**53,698**	**58,292**	**64,334**	**68,729**	**75,842**	**83,399**	**81,040**	**99,959**
OBEGAL	**2,471**	**4,366**	**5,573**	**7,075**	**7,091**	**5,860**	**5,637**	**(3,893)**	**(6,315)**	**(18,396)**
Gains/(losses)	(185)	(2,745)	1,736	(1,144)	2,451	2,162	(3,253)	(6,612)	1,806	5,036
Operating balance	**2,286**	**1,621**	**7,309**	**5,931**	**9,542**	**8,022**	**2,384**	**(10,505)**	**(4,509)**	**(13,360)**
Statement of financial position										
Property, plant and equipment	50,536	52,667	57,940	67,494	89,141	95,598	103,329	110,135	113,330	114,854
Financial assets	22,497	27,799	32,654	42,005	66,396	73,718	85,063	93,359	95,971	115,362
Other assets	14,846	18,461	18,756	19,714	9,503	11,031	12,443	13,657	14,054	14,999
Total assets	**87,879**	**98,927**	**109,351**	**129,212**	**165,040**	**180,347**	**200,835**	**217,151**	**223,355**	**245,215**
Borrowings	38,492	39,327	37,720	37,728	40,027	41,898	46,110	61,953	69,733	90,245
Other liabilities	26,562	31,588	32,036	37,243	41,042	41,622	49,211	55,683	58,634	74,083
Total liabilities	**65,055**	**70,915**	**69,756**	**74,972**	**81,069**	**83,520**	**95,321**	**117,636**	**128,367**	**164,328**
Net worth	**22,825**	**28,012**	**39,595**	**54,240**	**83,971**	**96,827**	**105,514**	**99,515**	**94,988**	**80,887**
Debt Indicators										
Net debt	25,388	24,531	23,858	19,879	16,163	13,380	10,258	17,119	26,738	40,128
Gross debt	36,650	36,617	36,017	35,478	33,903	30,647	31,390	43,356	53,591	72,420

Historical Financial Information (continued)

Year ended 30 June as % of GDP	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual
Nominal GDP (revised)	127,511	134,659	145,200	154,376	161,890	172,060	183,325	185,449	189,359	200,291
Statement of financial performance										
Core Crown tax revenue	28.9%	30.1%	29.9%	30.7%	31.5%	31.1%	31.0%	29.5%	26.8%	25.7%
Core Crown other revenue	2.5%	2.2%	2.0%	2.3%	2.9%	2.8%	2.8%	2.6%	2.9%	3.0%
Core Crown revenue	31.3%	32.3%	31.8%	33.1%	34.4%	33.8%	33.7%	32.1%	29.7%	28.7%
Crown entities, SOE and elimination revenue	7.8%	9.8%	9.0%	9.3%	9.7%	9.5%	10.7%	10.8%	9.8%	12.0%
Total Crown revenue	**39.2%**	**42.0%**	**40.8%**	**42.3%**	**44.1%**	**43.4%**	**44.4%**	**42.9%**	**39.5%**	**40.7%**
Social security and welfare	10.6%	10.3%	9.8%	9.5%	9.6%	9.7%	9.8%	10.5%	11.2%	11.0%
Health	5.5%	5.6%	5.6%	5.7%	5.9%	6.0%	6.2%	6.7%	6.9%	6.9%
Education	5.1%	5.2%	5.2%	5.1%	6.1%	5.4%	5.2%	6.2%	6.2%	5.8%
Core government services	1.5%	1.6%	1.4%	1.7%	1.5%	2.8%	1.8%	2.9%	1.6%	2.8%
Other core Crown expenses	6.8%	6.9%	6.8%	7.1%	7.3%	7.4%	8.1%	8.4%	7.9%	8.7%
Core Crown expenses	29.4%	29.6%	28.8%	29.1%	30.5%	31.4%	31.1%	34.5%	33.8%	35.2%
Crown entities, SOE and elimination expenses	7.8%	9.2%	8.1%	8.7%	9.3%	8.6%	10.3%	10.5%	9.0%	14.7%
Total Crown expenses	**37.2%**	**38.8%**	**37.0%**	**37.8%**	**39.7%**	**39.9%**	**41.4%**	**45.0%**	**42.8%**	**49.9%**
OBEGAL	**1.9%**	**3.2%**	**3.8%**	**4.6%**	**4.4%**	**3.4%**	**3.1%**	**-2.1%**	**-3.3%**	**-9.2%**
Gains/(losses)	-0.1%	-2.0%	1.2%	-0.7%	1.5%	1.3%	-1.8%	-3.6%	1.0%	2.5%
Operating balance	**1.8%**	**1.2%**	**5.0%**	**3.8%**	**5.9%**	**4.7%**	**1.3%**	**-5.7%**	**-2.4%**	**-6.7%**
Statement of financial position										
Property, plant and equipment	39.6%	39.1%	39.9%	43.7%	55.1%	55.6%	56.4%	59.4%	59.8%	57.3%
Financial assets	17.6%	20.6%	22.5%	27.2%	41.0%	42.8%	46.4%	50.3%	50.7%	57.6%
Other assets	11.6%	13.7%	12.9%	12.8%	5.9%	6.4%	6.8%	7.4%	7.4%	7.5%
Total assets	**68.9%**	**73.5%**	**75.3%**	**83.7%**	**101.9%**	**104.8%**	**109.6%**	**117.1%**	**118.0%**	**122.4%**
Borrowings	30.2%	29.2%	26.0%	24.4%	24.7%	24.4%	25.2%	33.4%	36.8%	45.1%
Other liabilities	20.8%	23.5%	22.1%	24.1%	25.4%	24.2%	26.8%	30.0%	31.0%	37.0%
Total liabilities	**51.0%**	**52.7%**	**48.0%**	**48.6%**	**50.1%**	**48.5%**	**52.0%**	**63.4%**	**67.8%**	**82.0%**
Net worth	**17.9%**	**20.8%**	**27.3%**	**35.1%**	**51.9%**	**56.3%**	**57.6%**	**53.7%**	**50.2%**	**40.4%**
Debt Indicators										
Net debt	19.9%	18.2%	16.4%	12.9%	10.0%	7.8%	5.6%	9.2%	14.1%	20.0%
Gross debt	28.7%	27.2%	24.8%	23.0%	20.9%	17.8%	17.1%	23.4%	28.3%	36.2%

REPORT OF THE AUDITOR-GENERAL

OFFICE OF THE AUDITOR-GENERAL
Te Mana Arotake

To the Readers of the Financial Statements of the Government of New Zealand for the year ended 30 June 2011

I have audited the financial statements of the Government of New Zealand for the year ended 30 June 2011 using my staff, resources and appointed auditors and their staff.

The financial statements of the Government of New Zealand on pages 30 to 180 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2011, the statement of financial performance, analysis of expenses by functional classification, statement of comprehensive income, statement of changes in net worth and statement of cash flows for the year ended on that date, a statement of segments, and the notes to the financial statements that include accounting policies, a statement of borrowings in note 24, and other explanatory information; and
- the statement of unappropriated expenditure, statement of expenses or capital expenditure incurred in emergencies and statement of trust money.

Opinion

In my opinion, the financial statements of the Government of New Zealand on pages 30 to 180:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Government of New Zealand's:
  - financial position as at 30 June 2011;
  - financial performance and cash flows for the year ended on that date; and
  - the borrowings as at 30 June 2011, and unappropriated expenditure, expenses or capital expenditure incurred in emergencies, and trust money managed by the Government, for the year ended on that date.

Emphasis of matter – uncertainties due to the Canterbury earthquakes

Without modifying my opinion, I draw your attention to note 30 to the financial statements about the effects of the Canterbury earthquakes. The most significant effects of the earthquakes relate to the Earthquake Commission (EQC), the AMI support package, the Canterbury residential red zone support package, and the government's share of local authority costs in response to the earthquakes and its share of costs for restoring local authority infrastructure damaged by the earthquakes.

The note describes:

- the inherent uncertainties involved in estimating EQC's and AMI's earthquake related outstanding claims liabilities and reinsurance receivables, using actuarial assumptions (see notes 30a and 30c);
- the inherent uncertainties involved in estimating the provision resulting from the government's offer to purchase properties in the Canterbury residential red zone, using actuarial assumptions (see note 30b); and
- the high level of uncertainty associated with the government's share of costs for restoring local authority infrastructure damaged by the earthquakes (see note 30d). The uncertainty is such that it is not possible to reliably estimate the costs; therefore a provision has not been recognised for them. Instead, there is disclosure of a contingent liability for these unquantifiable costs.

I consider the disclosures about the uncertainties related to the Canterbury earthquakes to be adequate.

My audit was completed on 30 September 2011. This is the date at which my opinion is expressed.

The basis of my opinion is explained below. In addition, I outline the responsibilities of the Treasury and the Minister of Finance, and my responsibilities, and I explain my independence.

Basis of opinion

Using my staff and appointed auditors and their staff, I have carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require ethical requirements to be complied with. They also require me to plan and carry out the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgements of my staff and appointed auditors and their staff. Also, the procedures depend on my judgement, including my assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments I consider internal control relevant to the Treasury's preparation of the financial statements that fairly reflect the matters to which they relate. I consider internal control 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 Treasury's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

My staff and appointed auditors and their staff did not examine every transaction. Therefore, I do not guarantee complete accuracy of the financial statements. I have obtained all the information and explanations I have required and I believe I have obtained sufficient and appropriate audit evidence to provide a basis for my audit opinion.

Responsibilities of the Treasury and the Minister of Finance

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

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Government's financial position, financial performance and cash flows; and
- fairly reflect the Government's borrowings, unappropriated expenditure, expenses or capital expenditure incurred in emergencies, and trust money.

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

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

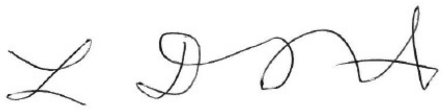
The responsibilities of the Treasury and the Minister of Finance arise from the Public Finance Act 1989.

Responsibilities of the Auditor

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 section 15 of the Public Audit Act 2001 and section 30 of the Public Finance Act 1989.

Independence

As an Officer of Parliament, I am constitutionally and operationally independent of the Government. Prior to commencing my role as Auditor-General on 5 October 2009, I was Deputy Commissioner of the New Zealand Police. Thus the Deputy Auditor-General deals with all matters relating to the New Zealand Police or the Independent Police Conduct Authority. Other than this matter, and in exercising 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.



Lyn Provost
Controller and Auditor-General
Wellington, New Zealand

AUDITED FINANCIAL STATEMENTS

Statement of Financial Performance

for the year ended 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Note	Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Revenue			
53,457	50,640	Taxation revenue	2	51,128	50,347
5,759	5,444	Other sovereign revenue	2	5,281	4,682
59,216	**56,084**	**Total revenue levied through the Crown's sovereign power**		**56,409**	**55,029**
15,399	15,128	Sales of goods and services	3	15,084	14,331
4,063	2,618	Interest revenue and dividends	4	2,570	2,315
3,103	6,339	Other revenue	5	7,500	3,050
22,565	**24,085**	**Total revenue earned through operations**		**25,154**	**19,696**
81,781	**80,169**	**Total revenue (excluding gains)**		**81,563**	**74,725**
		Expenses			
22,628	22,340	Transfer payments and subsidies	6	22,172	21,213
19,109	18,859	Personnel expenses	7	19,088	18,477
4,428	4,786	Depreciation and amortisation	8	4,682	4,229
35,927	38,137	Other operating expenses	9	35,829	31,338
4,612	3,506	Interest expenses	10	3,596	2,777
3,725	9,519	Insurance expenses	11	14,592	3,006
394	-	Forecast new operating spending		-	-
(410)	(250)	Top-down expense adjustment		-	-
90,413	**96,897**	**Total expenses (excluding losses)**		**99,959**	**81,040**
(8,632)	**(16,728)**	**Operating balance before gains/(losses)**		**(18,396)**	**(6,315)**
1,250	5,144	Net gains/(losses) on financial instruments	12	4,619	2,522
181	1,890	Net gains/(losses) on non-financial instruments	13	79	(960)
1,431	**7,034**	**Total gains/(losses)**		**4,698**	**1,562**
134	257	Net surplus from associates and joint ventures		237	227
(7,067)	**(9,437)**	**Operating balance (including minority interest)**		**(13,461)**	**(4,526)**
-	-	Operating balance attributable to minority interest in Air New Zealand		101	17
(7,067)	**(9,437)**	**Operating balance**		**(13,360)**	**(4,509)**

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

Statement of Comprehensive Income

for the year ended 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
(7,067)	**(9,437)**	**Operating balance (including minority interest)**	**(13,461)**	**(4,526)**
		Other comprehensive income		
-	69	Revaluation of physical assets	(443)	129
-	-	Share of associates revaluation of physical assets	-	67
5	(52)	Effective portion of changes in the fair value of cash flow hedges	(252)	(112)
(1)	(16)	Net change in fair value of cash flow hedges transferred to operating profit	17	(62)
-	(8)	Net change in fair value of cash flow hedges transferred to the hedged item	95	(3)
-	(37)	Foreign currency translation differences for foreign operations	(37)	(11)
1	4	Valuation gains/(losses) on investments available for sale taken to reserves	(1)	3
(1)	8	Other movements	1	(1)
4	**(32)**	**Total other comprehensive income**	**(620)**	**10**
(7,063)	**(9,469)**	**Total comprehensive income**	**(14,081)**	**(4,516)**
		Attributable to:		
-	-	- minority interest in Air New Zealand	(74)	(34)
(7,063)	(9,469)	- the Crown	(14,007)	(4,482)
(7,063)	**(9,469)**	**Total comprehensive income**	**(14,081)**	**(4,516)**

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

Analysis of Expenses by Functional Classification

for the year ended 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Total Crown expenses		
26,127	25,637	Social security and welfare	25,324	24,206
363	289	GSF pension expenses	311	333
13,379	13,118	Health	13,068	12,673
12,861	12,783	Education	12,406	12,440
3,922	6,083	Core government services	5,515	2,830
3,746	3,724	Law and order	3,567	3,354
1,862	1,850	Defence	1,778	1,771
8,184	8,244	Transport and communications	8,402	7,991
8,114	14,078	Economic and industrial services	18,818	7,541
1,742	1,624	Primary services	1,603	1,373
3,344	3,805	Heritage, culture and recreation	3,437	2,584
1,102	1,781	Housing and community development	1,655	1,087
1,071	625	Other	479	80
4,612	3,506	Finance costs	3,596	2,777
394	-	Forecast new operating spending	-	-
(410)	(250)	Top-down expense adjustment	-	-
90,413	**96,897**	**Total Crown expenses excluding losses**	**99,959**	**81,040**

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

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Core Crown expenses		
22,120	22,175	Social security and welfare	22,005	21,185
357	281	GSF pension expenses	305	328
14,043	13,774	Health	13,753	13,128
11,992	12,039	Education	11,650	11,724
3,979	6,357	Core government services	5,563	2,974
3,537	3,526	Law and order	3,382	3,191
1,912	1,890	Defence	1,809	1,814
2,417	2,330	Transport and communications	2,281	2,345
2,828	2,755	Economic and industrial services	2,609	2,839
757	731	Primary services	706	507
2,037	2,437	Heritage, culture and recreation	1,966	1,281
370	1,046	Housing and community development	876	306
1,088	625	Other	479	80
3,230	3,078	Finance costs	3,066	2,311
394	-	Forecast new operating spending	-	-
(410)	(250)	Top-down expense adjustment	-	-
70,651	**72,794**	**Total core Crown expenses excluding losses**	**70,450**	**64,013**

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

Statement of Cash Flows

for the year ended 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Budget 11 $m		Note	Actual 30 June 2011 $m	30 June 2010 $m
		Cash Flows From Operations			
		Cash was provided from			
52,681	50,094	Taxation receipts	2	50,418	50,104
4,792	4,768	Other sovereign receipts	2	4,693	4,268
15,173	15,027	Sales of goods and services		14,899	14,411
3,592	2,558	Interest and dividend receipts		2,682	2,378
2,960	3,204	Other operating receipts		2,990	2,974
79,198	**75,651**	**Total cash provided from operations**		**75,682**	**74,135**
		Cash was disbursed to			
22,642	22,426	Transfer payments and subsidies		22,172	21,335
54,693	56,604	Personnel and operating payments		55,152	50,767
3,979	3,378	Interest payments		3,107	2,420
394	-	Forecast new operating spending		-	-
(410)	(250)	Top-down expense adjustment		-	-
81,298	**82,158**	**Total cash disbursed to operations**		**80,431**	**74,522**
(2,100)	**(6,507)**	**Net cash flows from operations**		**(4,749)**	**(387)**
		Cash Flows From Investing Activities			
		Cash was provided from			
450	1,221	Sale of physical assets		521	437
35,401	43,891	Sale of shares and other securities		42,120	42,248
-	-	Sale of intangible assets		1	-
2,286	1,630	Repayment of advances		2,295	3,521
-	-	Cash balance in relation to AMI		152	-
1	45	Sale of investments in associates		53	70
38,138	**46,787**	**Total cash provided from investing activities**		**45,142**	**46,276**
		Cash was disbursed to			
8,292	8,523	Purchase of physical assets		6,517	6,302
36,489	48,581	Purchase of shares and other securities		50,525	40,156
513	432	Purchase of intangible assets		601	377
3,712	3,974	Issue of advances		3,298	3,831
469	24	Acquisition of investments in associates		32	268
282	-	Forecast for new capital spending		-	-
(300)	(100)	Top-down capital adjustment		-	-
49,457	**61,434**	**Total cash disbursed to investing activities**		**60,973**	**50,934**
(11,319)	**(14,647)**	**Net cash flows from investing activities**		**(15,831)**	**(4,658)**
(13,419)	**(21,154)**	**Net cash flows from operating and investing activities**		**(20,580)**	**(5,045)**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
(13,419)	**(21,154)**	**Net cash flows from operating and investing activities**	**(20,580)**	**(5,045)**
		Cash Flows From Financing Activities		
		Cash was provided from		
104	359	Issue of circulating currency	234	15
13,464	22,705	Issue of Government stock and treasury bills[1]	25,302	13,866
1	2,360	Issue of foreign currency borrowings	2,379	3,414
7,578	8,487	Issue of other New Zealand dollar borrowings	6,245	5,091
21,147	**33,911**	**Total cash provided from financing activities**	**34,160**	**22,386**
		Cash was disbursed to		
1,746	3,000	Repayment of Government stock and treasury bills[1]	4,214	6,709
5,321	3,892	Repayment of foreign currency borrowings	570	118
680	4,362	Repayment of other New Zealand dollar borrowings	6,151	8,842
-	-	Dividends paid to minority interests	13	13
7,747	**11,254**	**Total cash disbursed to financing activities**	**10,948**	**15,682**
13,400	**22,657**	**Net cash flows from financing activities**	**23,212**	**6,704**
(19)	**1,503**	**Net movement in cash**	**2,632**	**1,659**
6,143	7,774	**Opening cash balance**	7,774	6,268
2	(174)	Foreign-exchange gains/(losses) on opening cash	(605)	(153)
6,126	**9,103**	**Closing cash balance**	**9,801**	**7,774**

1 Net issues of Government stock and treasury bills is after elimination of holdings by entities such as NZS Fund, ACC and EQC. Further information on the proceeds and repayments of Government stock ("domestic bonds") is available on page 183.

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

Statement of Cash Flows (continued)

for the year ended 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance		
(2,100)	**(6,507)**	**Net Cash Flows from Operations**	**(4,749)**	**(387)**
		Items included in the operating balance but not in net cash flows from operations		
		Gains/(losses)		
1,250	5,144	Net gains/(losses) on financial instruments	4,619	2,522
181	1,890	Net gains/(losses) on non-financial instruments	79	(960)
1,431	**7,034**	**Total gains/(losses)**	**4,698**	**1,562**
		Other Non-cash Items in Operating Balance		
(4,428)	(4,786)	Depreciation and amortisation	(4,682)	(4,229)
(896)	(805)	Write-down on initial recognition of financial assets	(807)	(855)
5	52	Impairment of financial assets (excl receivables)	105	33
337	382	Decrease/(increase) in defined benefit retirement plan liabilities	358	284
(1,329)	(5,922)	Decrease/(increase) in insurance liabilities	(13,179)	(974)
135	260	Other	238	244
(6,176)	**(10,819)**	**Total other non-cash items in operating balance**	**(17,967)**	**(5,497)**
		Movements in Working Capital		
225	3,779	Increase/(decrease) in receivables	6,605	(338)
(162)	(68)	Increase/(decrease) in accrued interest	(599)	(420)
51	150	Increase/(decrease) in inventories	149	78
(7)	(13)	Increase/(decrease) in prepayments	39	18
109	195	Decrease/(increase) in deferred revenue	(46)	(202)
(438)	(3,188)	Decrease/(increase) in payables/provisions	(1,490)	677
(222)	**855**	**Total movements in working capital**	**4,658**	**(187)**
(7,067)	**(9,437)**	**Operating balance**	**(13,360)**	**(4,509)**

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 2011

Forecast Total Net Worth Budget 10	Forecast Total Net Worth Budget 11		Note	Actual Taxpayer funds	Actual Reserves	Actual Minority interest	Actual Total net worth
$m	$m			$m	$m	$m	$m
99,515	99,515	**Net worth at 30 June 2009**		36,382	62,686	447	99,515
(3,179)	(4,526)	Operating balance		(4,509)	-	(17)	(4,526)
323	196	Net revaluations		-	196	-	196
(180)	(96)	Transfers to/(from) reserves		(785)	689	-	(96)
-	(60)	(Gains)/losses transferred to the statement of financial performance		-	(60)	-	(60)
-	(30)	Other movements		(1)	(12)	(17)	(30)
(3,036)	**(4,516)**	**Total comprehensive income**		**(5,295)**	**813**	**(34)**	**(4,516)**
-	(11)	Transactions with minority interest in Air New Zealand		-	-	(11)	(11)
96,479	**94,988**	**Net worth at 30 June 2010**		**31,087**	**63,499**	**402**	**94,988**
(7,067)	(9,437)	Operating Balance		(13,360)	-	(101)	(13,461)
-	69	Net revaluations		-	(443)	-	(443)
5	(44)	Transfers to/(from) reserves		460	(739)	-	(279)
(1)	(16)	(Gains)/losses transferred to the statement of financial performance		-	17	-	17
-	(41)	Other movements		1	57	27	85
(7,063)	**(9,469)**	**Total comprehensive income**		**(12,899)**	**(1,108)**	**(74)**	**(14,081)**
-	-	Transactions with minority interest in Air New Zealand		-	-	(20)	(20)
89,416	**85,519**	**Net worth at 30 June 2011**	28	**18,188**	**62,391**	**308**	**80,887**

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

Statement of Financial Position

as at 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Note	Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Assets			
6,126	9,103	Cash and cash equivalents		9,801	7,774
14,038	17,514	Receivables	14	21,690	13,884
46,220	49,006	Marketable securities, deposits and derivatives in gain	15	49,056	43,687
17,771	14,206	Share investments	16	14,248	12,179
20,411	19,851	Advances	17	20,567	18,447
1,228	1,309	Inventory	18	1,308	1,160
1,488	1,668	Other assets	19	1,996	1,661
117,742	116,933	Property, plant & equipment	20	114,854	113,330
9,440	9,398	Equity accounted investments	21	9,301	9,049
2,596	2,524	Intangible assets and goodwill	22	2,394	2,184
282	-	Forecast for new capital spending		-	-
(425)	(100)	Top-down capital adjustment		-	-
236,917	**241,412**	**Total assets**		**245,215**	**223,355**
		Liabilities			
4,251	4,380	Issued currency		4,254	4,020
10,001	9,169	Payables	23	11,099	9,931
1,222	1,433	Deferred revenue		1,674	1,628
89,416	91,003	Borrowings	24	90,245	69,733
28,635	31,802	Insurance liabilities	25	39,314	27,131
8,821	9,271	Retirement plan liabilities	26	10,156	9,940
5,155	8,835	Provisions	27	7,586	5,984
147,501	**155,893**	**Total liabilities**		**164,328**	**128,367**
89,416	**85,519**	**Total assets less total liabilities**		**80,887**	**94,988**
		Net Worth			
26,983	21,720	Taxpayer funds		18,188	31,087
62,086	63,600	Property, plant and equipment revaluation reserve		62,690	63,593
(100)	(203)	Other reserves		(299)	(94)
88,969	**85,117**	**Total net worth attributable to the Crown**		**80,579**	**94,586**
447	402	Net worth attributable to minority interest in Air New Zealand		308	402
89,416	**85,519**	**Total net worth**	28	**80,887**	**94,988**

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

Statement of Segments

	Current Year Actual vs Estimated Actuals									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2011 $m	Estimated Actuals 2011 $m	Actual 2011 $m	Estimated Actuals 2011 $m	Actual 2011 $m	Estimated Actuals 2011 $m	Actual 2011 $m	Estimated Actuals 2011 $m	Actual 2011 $m	Estimated Actuals 2011 $m
Revenue										
Taxation revenue	51,557	51,189	-	-	-	-	(429)	(549)	51,128	50,640
Other sovereign revenue	1,275	1,346	5,080	5,209	-	-	(1,074)	(1,111)	5,281	5,444
Revenue from core Crown funding	-	-	23,442	23,552	-	-	(23,442)	(23,552)	-	-
Sales of goods and services	1,443	1,487	1,795	1,703	12,510	12,640	(664)	(702)	15,084	15,128
Interest revenue and dividends	2,169	2,185	1,234	1,106	801	763	(1,634)	(1,436)	2,570	2,618
Other revenue	1,106	743	6,485	5,444	935	1,017	(1,026)	(865)	7,500	6,339
Total Revenue (excluding gains)	**57,550**	**56,950**	**38,036**	**37,014**	**14,246**	**14,420**	**(28,269)**	**(28,215)**	**81,563**	**80,169**
Expenses										
Transfer payments and subsidies	22,227	22,396	-	-	-	-	(55)	(56)	22,172	22,340
Personnel expenses	5,996	5,905	10,410	10,309	2,695	2,654	(13)	(9)	19,088	18,859
Other operating expenses	39,161	41,663	32,670	27,566	9,727	9,841	(26,455)	(26,628)	55,103	52,442
Interest expenses	3,066	3,078	248	247	1,027	1,010	(745)	(829)	3,596	3,506
Forecast new operating spending and top down adjustment	-	(250)	-	-	-	-	-	-	-	(250)
Total Expenses (excluding losses)	**70,450**	**72,792**	**43,328**	**38,122**	**13,449**	**13,505**	**(27,268)**	**(27,522)**	**99,959**	**96,897**
Operating Balance before gains/(losses)	**(12,900)**	**(15,842)**	**(5,292)**	**(1,108)**	**797**	**915**	**(1,001)**	**(693)**	**(18,396)**	**(16,728)**
Gains/(losses)	3,633	4,951	2,149	2,523	(470)	49	(276)	(232)	5,036	7,291
Operating Balance	**(9,267)**	**(10,891)**	**(3,143)**	**1,415**	**327**	**964**	**(1,277)**	**(925)**	**(13,360)**	**(9,437)**
Assets										
Financial assets	76,475	74,041	36,391	33,897	20,241	17,613	(17,745)	(15,871)	115,362	109,680
Property, plant and equipment	29,549	30,334	48,480	49,722	36,825	36,877	-	-	114,854	116,933
Investments in associates, CEs and SOEs	30,093	29,878	7,979	7,977	197	382	(28,968)	(28,839)	9,301	9,398
Other assets	2,848	2,948	808	789	2,097	1,792	(55)	(28)	5,698	5,501
Forecast adjustments	-	(100)	-	-	-	-	-	-	-	(100)
Total Assets	**138,965**	**137,101**	**93,658**	**92,385**	**59,360**	**56,664**	**(46,768)**	**(44,738)**	**245,215**	**241,412**
Liabilities										
Borrowings	76,827	76,942	5,123	5,129	23,099	22,600	(14,804)	(13,668)	90,245	91,003
Other liabilities	27,207	26,427	45,105	38,439	9,021	6,732	(7,250)	(6,708)	74,083	64,890
Total Liabilities	**104,034**	**103,369**	**50,228**	**43,568**	**32,120**	**29,332**	**(22,054)**	**(20,376)**	**164,328**	**155,893**
Net Worth	**34,931**	**33,732**	**43,430**	**48,817**	**27,240**	**27,332**	**(24,714)**	**(24,362)**	**80,887**	**85,519**
Cost of Acquisition of Physical Assets	**1,465**	1,682	**2,462**	2,839	**2,590**	4,002	-	-	**6,517**	8,523

Statement of Segments (continued)

	Current Year Actual vs Prior Year Actual									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2011 $m	Actual 2010 $m	Actual 2011 $m	Actual 2010 $m	Actual 2011 $m	Actual 2010 $m	Actual 2011 $m	Actual 2010 $m	Actual 2011 $m	Actual 2010 $m
Revenue										
Taxation revenue	51,557	50,744	-	-	-	-	(429)	(397)	51,128	50,347
Other sovereign revenue	1,275	1,015	5,080	4,840	-	-	(1,074)	(1,173)	5,281	4,682
Revenue from core Crown funding	-	-	23,442	23,084	-	-	(23,442)	(23,084)	-	-
Sales of goods and services	1,443	1,387	1,795	1,642	12,510	11,979	(664)	(677)	15,084	14,331
Interest revenue and dividends	2,169	2,135	1,234	1,146	801	626	(1,634)	(1,592)	2,570	2,315
Other revenue	1,106	935	6,485	1,934	935	974	(1,026)	(793)	7,500	3,050
Total Revenue (excluding gains)	**57,550**	**56,216**	**38,036**	**32,646**	**14,246**	**13,579**	**(28,269)**	**(27,716)**	**81,563**	**74,725**
Expenses										
Transfer payments and subsidies	22,227	21,484	-	-	-	-	(55)	(271)	22,172	21,213
Personnel expenses	5,996	5,991	10,410	10,043	2,695	2,455	(13)	(12)	19,088	18,477
Other operating expenses	39,161	34,227	32,670	21,379	9,727	9,512	(26,455)	(26,545)	55,103	38,573
Interest expenses	3,066	2,311	248	245	1,027	845	(745)	(624)	3,596	2,777
Total Expenses (excluding losses)	**70,450**	**64,013**	**43,328**	**31,667**	**13,449**	**12,812**	**(27,268)**	**(27,452)**	**99,959**	**81,040**
Operating Balance before gains/(losses)	**(12,900)**	**(7,797)**	**(5,292)**	**979**	**797**	**767**	**(1,001)**	**(264)**	**(18,396)**	**(6,315)**
Gains/(losses)	3,633	797	2,149	1,394	(470)	(132)	(276)	(253)	5,036	1,806
Operating Balance	**(9,267)**	**(7,000)**	**(3,143)**	**2,373**	**327**	**635**	**(1,277)**	**(517)**	**(13,360)**	**(4,509)**
Assets										
Financial assets	76,475	65,981	36,391	28,136	20,241	16,065	(17,745)	(14,211)	115,362	95,971
Property, plant and equipment	29,549	29,986	48,480	48,109	36,825	35,235	-	-	114,854	113,330
Investments in associates, CEs and SOEs	30,093	28,663	7,979	7,760	197	223	(28,968)	(27,597)	9,301	9,049
Other assets	2,848	2,585	808	743	2,097	1,716	(55)	(39)	5,698	5,005
Total Assets	**138,965**	**127,215**	**93,658**	**84,748**	**59,360**	**53,239**	**(46,768)**	**(41,847)**	**245,215**	**223,355**
Liabilities										
Borrowings	76,827	57,583	5,123	4,835	23,099	19,747	(14,804)	(12,432)	90,245	69,733
Other liabilities	27,207	24,963	45,105	33,421	9,021	6,612	(7,250)	(6,362)	74,083	58,634
Total Liabilities	**104,034**	**82,546**	**50,228**	**38,256**	**32,120**	**26,359**	**(22,054)**	**(18,794)**	**164,328**	**128,367**
Net Worth	**34,931**	**44,669**	**43,430**	**46,492**	**27,240**	**26,880**	**(24,714)**	**(23,053)**	**80,887**	**94,988**
Cost of Acquisition of Physical Assets	**1,465**	1,667	**2,462**	2,433	**2,590**	2,202	-	-	**6,517**	6,302

Notes to the Financial Statements

Note 1: Summary of Accounting Policies

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

These financial statements were authorised for issue by the Minister of Finance on 30 September 2011.

Reporting Entity

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

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

The description “consolidated financial statements for the Government reporting entity” and the description “financial statements of the Government” have the same meaning and can be used interchangeably.

Basis of Preparation

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

The financial statements are prepared on an accrual basis.

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

Judgements and Estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

A second area of uncertainty relates to the immature nature of the claims experience available to assist in estimating the claims and provisions arising from the Canterbury earthquakes. Actuarial valuations of these liabilities using the best available information have been used, however it is common in such cases for adjustments to be required as the claims experience develops.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

Early Adoption Standards and Interpretations

The Government has elected to early-adopt all NZ IFRSs and Interpretations applicable to public benefit entities that had been approved by the New Zealand Accounting Standards Review Board as at 30 June 2011 but that are not yet effective, with the exception of *NZ IFRS 9: Financial Instruments*. The first of three phases of this new standard (which is incomplete as at 30 June 2011) were approved by the Accounting Standards Review Board in November 2009 and November 2010. The standard addresses the issues of classification and measurement of financial assets and financial liabilities and becomes effective for annual reporting periods commencing on or after 1 January 2013.

An initial assessment of standards approved since 30 June 2010 do not indicate any issues which would have a material impact on these financial statements.

Significant Accounting Policies

Reporting and Forecast Period

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

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

Basis of Combination

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

Core Crown entities

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

Other entities

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

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

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

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

- Jointly controlled operations: The Government reporting entity recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the jointly controlled operations' income.
- Jointly controlled assets: The Government reporting entity recognises its share of the jointly controlled assets, its share of any liabilities and expenses incurred jointly, any other liabilities and expenses it has incurred in respect of the jointly controlled asset, and income from the sale or use of its share of the output of the jointly controlled asset.
- Jointly controlled entities: Jointly controlled entities are equity accounted, whereby the Government reporting entity initially recognises its share of interest in these entities' net assets at cost and subsequently adjusts the cost for changes in net assets. The Government reporting entity's share of the jointly controlled entities' surpluses and deficits are recognised in the statement of financial performance.

Income

Taxation revenue levied through the Crown's sovereign power

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

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

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

Revenue earned through operations

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

Interest income

Interest income is accrued using the effective interest rate method.

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

Dividend income

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

Rental income

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

Donated or subsidised assets

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

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements

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

Grants and subsidies

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

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Foreign Currency

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

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

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

Sovereign Receivables and Taxes Repayable

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

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

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

Financial instruments

Financial assets

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

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

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

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

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

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

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

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

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

Financial liabilities

Major financial liability type	Designation
Accounts payable	All designated at amortised cost
Government stock	Generally designated at amortised cost
Treasury bills	Generally designated at amortised cost
Government retail stock	All designated at amortised cost
Settlement deposits with Reserve Bank	All designated as fair value through profit and loss
Issued currency	Not designated: Recognised at face value

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

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with 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.

Derivatives

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

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

Hedging

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

- whether an economic hedge exists and the effectiveness of that hedge
- whether the hedge accounting qualifications could be met, and
- the extent to which it would improve the relevance of reported results.

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

(a) Cash flow hedge

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

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

(b) Fair value hedge

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

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

Inventories

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

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

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

Property, Plant and Equipment (PPE)

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

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

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

Class of PPE	Accounting policy
Land and buildings	Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where available. Otherwise, valuations conducted in accordance with the Rating Valuation Act 1998, may be used if they have been confirmed as appropriate by an independent valuer. When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out.
Specialist military equipment	Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the bases of these valuations are confirmed as appropriate by an independent valuer.
State highways	State highways are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the state highways is valued using an opportunity cost based on adjacent use, as an approximation to fair value.
Rail network	The rail network is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the rail network is valued using an opportunity cost based on adjacent use, as an approximation to fair value.
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Electricity distribution network	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation assets	Electricity generation assets are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Specified cultural and heritage assets	Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Such physical assets are recorded at fair value less subsequent impairment losses and, for non-land assets, less subsequent accumulated depreciation. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and when they do not generate cash flows and where no market exists to provide a valuation.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.

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

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

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

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

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

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

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

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

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

Specified heritage and cultural assets are generally not depreciated.

Equity Accounted Investments

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

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

Biological Assets

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

Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as property, plant and equipment in accordance with the policies for property, plant and equipment.

Intangible Assets

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

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

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

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

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

Intangible assets with finite lives are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance.

Goodwill is tested for impairment annually.

Non-current Assets Held for Sale and Discontinued Operations

Non-current assets or disposal groups are separately classified where their carrying amount will be recovered through a sale transaction rather than continuing use; that is, where such assets are available for immediate sale and where sale is highly probable. Non-current assets or disposal groups are recorded at the lower of their carrying amount and fair value less costs to sell.

Investment Property

Investment property is property held primarily to earn rentals or for capital appreciation or both. It does not include property held primarily for strategic purposes or to provide a social service (eg, affordable housing) even though such property may earn rentals or appreciate in value – such property is reported as property, plant and equipment.

Investment properties are measured at fair value. Gains or losses arising from fair value changes are included in the statement of financial performance. Valuations are undertaken in accordance with standards issued by the New Zealand Property Institute.

Employee Benefits

Pension liabilities

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

Other employee entitlements

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

Termination benefits

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

Insurance Contracts

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

Reinsurance

Premiums paid to reinsurers are recognised as reinsurance expense in the statement of financial performance from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the Statement of Financial Position.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, and unexpired risk liabilities are recognised as income in the statement of financial performance.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are measured as the present value of the expected future receipts.

Deferred Acquisition Costs

Accident compensation and earthquake commission levies are imposed through regulation and do not attract acquisition costs. Costs incurred in obtaining other insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Risks under the Group's general insurance contracts cover a period of up to 12 months, therefore, deferred acquisition costs are amortised within 1 year.

Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

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

Other Liabilities and Provisions

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

Contingent Liabilities and Contingent Assets

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

Commitments

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

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

Commitments are classified as:

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

Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of Commitments.

Comparatives

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

Comparatives referred to as Budget 10 were forecasts published in the *2010 Budget Economic and Fiscal Update* while Budget 11 were forecasts published in the *2011 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment Analysis

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

- Core Crown: This group, which includes Ministers, Departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes.
- State-owned enterprises: This group includes entities governed by the State–owned Enterprises Act 1986, and for the purposes of these statements also includes Air New Zealand Limited and AMI Insurance. This group represents entities that undertake commercial activity.
- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

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

Related Parties

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

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

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

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

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

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

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Direct Income Tax Revenue (accrual)		
		Individuals		
20,174	20,670	Source deductions	20,857	21,774
4,403	3,822	Other persons	3,791	3,987
(1,484)	(1,681)	Refunds	(1,679)	(1,831)
430	461	Fringe benefit tax	462	461
23,523	**23,272**	**Total individuals**	**23,431**	**24,391**
		Corporate Tax		
8,214	6,907	Gross companies tax	6,687	6,698
(376)	(363)	Refunds	(197)	(379)
628	498	Non-resident withholding tax	467	884
8	1	Foreign-source dividend withholding payments	-	(3)
8,474	**7,043**	**Total corporate tax**	**6,957**	**7,200**
		Other Direct Income Tax		
1,465	1,707	Resident withholding tax on interest income	1,704	1,804
240	203	Resident withholding tax on dividend income	195	130
1	2	Estate and gift duties	2	2
1,706	**1,912**	**Total other direct income tax**	**1,901**	**1,936**
33,703	**32,227**	**Total direct income tax**	**32,289**	**33,527**
		Indirect Income Tax Revenue (accrual)		
		Goods and Services Tax		
23,968	23,253	Gross goods and services tax	23,484	19,797
(9,524)	(10,047)	Refunds	(9,776)	(7,880)
14,444	**13,206**	**Total goods and services tax**	**13,708**	**11,917**
		Other Indirect Taxation		
955	995	Road user charges	1,016	910
907	862	Petroleum fuels excise - domestic production	872	805
657	625	Alcohol excise - domestic production	623	600
209	238	Tobacco excise - domestic production	220	217
600	650	Petroleum fuels excise - imports[1]	575	622
242	234	Alcohol excise - imports[1]	229	225
1,020	953	Tobacco excise - imports[1]	924	851
198	154	Other customs duty	188	175
228	218	Gaming duties	214	219
175	169	Motor vehicle fees	172	171
81	73	Approved issuer levy and cheque duty	62	69
38	36	Energy resources levies	36	39
5,310	**5,207**	**Total other indirect taxation**	**5,131**	**4,903**
19,754	**18,413**	**Total indirect taxation**	**18,839**	**16,820**
53,457	**50,640**	**Total taxation revenue**	**51,128**	**50,347**
		Other Sovereign Revenue (accrual)		
3,823	3,670	ACC levies	3,586	3,261
309	313	Fire service levies	312	301
87	87	EQC levies	88	86
629	535	Child support	523	572
284	198	Court fines	190	238
627	641	Other miscellaneous items	582	224
5,759	**5,444**	**Total other sovereign revenue**	**5,281**	**4,682**
59,216	**56,084**	**Total sovereign revenue**	**56,409**	**55,029**

1 Customs excise-equivalent duty.

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

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Direct Income Tax Receipts (cash)		
		Individuals		
20,314	20,575	Source deductions	20,699	21,744
4,875	4,320	Other persons	4,386	4,630
(2,255)	(2,445)	Refunds	(2,463)	(2,793)
433	456	Fringe benefit tax	457	469
23,367	**22,906**	**Total individuals**	**23,079**	**24,050**
		Corporate Tax		
9,051	7,871	Gross companies tax	7,588	8,650
(1,314)	(970)	Refunds	(772)	(1,644)
627	494	Non-resident withholding tax	462	889
8	1	Foreign-source dividend withholding payments	(1)	6
8,372	**7,396**	**Total corporate tax**	**7,277**	**7,901**
		Other Direct Income Tax		
1,463	1,714	Resident withholding tax on interest income	1,701	1,833
240	202	Resident withholding tax on dividend income	196	114
1	2	Estate and gift duties	2	2
1,704	**1,918**	**Total direct other income tax**	**1,899**	**1,949**
33,443	**32,220**	**Total direct income tax**	**32,255**	**33,900**
		Indirect Tax Receipts (cash)		
		Goods and Services Tax		
23,052	22,056	Gross goods and services tax	22,162	18,797
(9,124)	(9,393)	Refunds	(9,177)	(7,456)
13,928	**12,663**	**Total goods and services tax**	**12,985**	**11,341**
		Other Indirect Taxation		
955	995	Road user charges	1,015	908
907	862	Petroleum fuels excise - domestic production	869	805
657	625	Alcohol excise - domestic production	625	622
209	238	Tobacco excise - domestic production	181	214
2,060	1,991	Customs duty	2,005	1,805
228	220	Gaming duties	216	218
175	169	Motor vehicle fees	171	195
81	75	Approved issuer levy and cheque duty	60	59
38	36	Energy resources levies	36	37
5,310	**5,211**	**Total other indirect taxation**	**5,178**	**4,863**
19,238	**17,874**	**Total indirect taxation**	**18,163**	**16,204**
52,681	**50,094**	**Total tax receipts collected**	**50,418**	**50,104**
		Other Sovereign Receipts (cash)		
3,761	3,688	ACC levies	3,612	3,291
309	313	Fire service levies	312	301
87	90	EQC levies	88	86
207	218	Child support	208	190
182	177	Court fines	179	184
246	282	Other miscellaneous items	294	216
4,792	**4,768**	**Total other sovereign receipts**	**4,693**	**4,268**
57,473	**54,862**	**Total sovereign receipts**	**55,111**	**54,372**

Note 3: Sales of Goods and Services

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
8,124	7,786	Sales of goods	7,590	7,222
112	116	Deposit guarantee schemes - guarantee fees	118	163
7,163	7,226	Rendering of services	7,376	6,946
15,399	**15,128**	**Total sales of goods and services**	**15,084**	**14,331**
		By source		
1,481	1,487	Core Crown	1,443	1,387
14,057	14,391	Crown entities	14,680	14,107
12,849	12,640	State-owned enterprises	12,510	11,979
(12,988)	(13,390)	Inter-segment eliminations	(13,549)	(13,142)
15,399	**15,128**	**Total sales of goods and services**	**15,084**	**14,331**

Note 4: Interest Revenue and Dividends

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
506	501	Student loans (interest unwind)	484	463
236	273	Other financial assets classified as amortised cost or available for sale	913	645
4	3	Financial assets classified as held for trading	40	3
2,736	1,488	Financial assets classified as fair value through profit and loss	705	815
3,482	**2,265**	**Total interest revenue**	**2,142**	**1,926**
581	353	Dividends	428	389
4,063	**2,618**	**Total interest revenue and dividends**	**2,570**	**2,315**
		By source		
2,487	2,185	Core Crown	2,169	2,135
939	1,106	Crown entities	1,234	1,146
1,550	763	State-owned enterprises	801	626
(913)	(1,436)	Inter-segment eliminations	(1,634)	(1,592)
4,063	**2,618**	**Total interest revenue and dividends**	**2,570**	**2,315**
		Included in total interest revenue above is interest on impaired financial assets of:		
		Impaired student loans	420	463
		Impaired other financial assets classified as amortised cost or available for sale	7	4
		Total interest revenue on impaired financial assets	**427**	**467**

Note 5: Other Revenue

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
535	416	Sale of royalties	399	353
1,062	1,091	Rental income	1,082	1,042
-	3,200	EQC insurance claim on reinsurers	4,185	-
1,506	1,632	Other revenue	1,834	1,655
3,103	**6,339**	**Total other revenue**	**7,500**	**3,050**

Note 6: Transfer Payments and Subsidies

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Social Assistance Grants		
8,822	8,833	New Zealand superannuation	8,830	8,290
2,239	2,214	Family tax credit	2,139	2,168
1,756	1,765	Domestic purposes benefit	1,757	1,693
1,319	1,307	Invalids benefit	1,306	1,303
1,221	1,202	Accommodation supplement	1,197	1,154
969	959	Unemployment benefit	943	930
760	742	Sickness benefit	743	710
597	592	In-work tax credit	585	595
656	626	Student allowances	620	570
559	559	Income related rents	553	522
421	410	Disability allowances	409	411
1,645	1,599	Other social assistance benefits	1,553	1,408
20,964	**20,808**	**Total social assistance grants**	**20,635**	**19,754**
		Subsidies		
1,179	1,039	KiwiSaver subsidies	1,042	1,024
		Other transfer payments		
485	493	Official development assistance	495	435
22,628	**22,340**	**Total transfer payments and subsidies**	**22,172**	**21,213**

Note 7: Personnel Expenses

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
17,923	17,705	Salaries and wages	17,913	17,282
368	304	Costs incurred on GSF and other defined benefit plans	314	341
384	352	Costs incurred on SSRSS and other defined contribution plans	468	380
434	498	Other personnel expenses	393	474
19,109	**18,859**	**Total personnel expenses**	**19,088**	**18,477**
		By source		
6,076	5,905	Core Crown	5,996	5,991
10,516	10,309	Crown entities	10,410	10,043
2,526	2,654	State-owned enterprises	2,695	2,455
(9)	(9)	Inter-segment eliminations	(13)	(12)
19,109	**18,859**	**Total personnel expenses**	**19,088**	**18,477**
		Key management personnel compensation		
		Salaries and other short-term employee benefits	8	8
		Post-employment benefits	-	-
		Other long-term benefits	-	-
		Termination benefits	-	-
			8	**8**

Key management personnel are the 27 Ministers of the Crown who are members of the Executive Council.

Note 8: Depreciation and Amortisation

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Depreciation expense		
1,116	1,120	Buildings	1,080	1,073
105	130	Electricity distribution network	147	140
399	384	Electricity generation assets	374	356
212	197	Aircraft (excluding military)	171	173
386	377	State highways	408	403
208	229	Rail network	210	208
315	279	Specialist military equipment	272	286
21	19	Specified cultural and heritage assets	19	17
1,072	1,032	Other plant and equipment	1,046	926
3,834	**3,767**	**Total depreciation expense**	**3,727**	**3,582**
594	1,019	Amortisation and impairment of non-financial assets	955	647
4,428	**4,786**	**Total depreciation and amortisation**	**4,682**	**4,229**

Note 9: Other Operating Expenses

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
19	343	Retail deposit guarantee scheme - expenses accrued for entities in default and valuation of receivables	282	(25)
5,009	4,940	Donations and ex-gratia payments	4,220	3,486
6	6	Fees paid to audit firms (refer below)	7	4
196	251	Inventory expenses	467	526
1,711	1,528	Impairment of financial assets	1,300	1,278
-	-	Impairment of inventory	8	11
447	464	Lottery prize payments	521	436
1,116	1,111	Rental and leasing costs	1,156	1,121
896	805	Write-down on initial recognition of financial assets	807	855
26,527	28,689	Other operating expenses	27,061	23,646
35,927	**38,137**	**Total other operating expenses**	**35,829**	**31,338**
		By source		
37,200	39,803	Core Crown	37,454	32,822
16,374	16,562	Crown entities	16,368	16,854
8,814	8,401	State-owned enterprises	8,125	8,206
(26,461)	(26,629)	Inter-segment eliminations	(26,118)	(26,544)
35,927	**38,137**	**Total other operating expenses**	**35,829**	**31,338**

Operating expenses relate to those expenses incurred in the course of undertaking the functions and activities of entities included in the financial statements of the Government, excluding those expenses separately identified in the statement of financial performance and other notes. Items disclosed separately are those required by financial reporting standards.

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

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Audit and related expenses		
Auditor-General fees for the audit of financial statements[1]	34	34
Auditor-General fees for assurance and related services	1	1
Fees for other services	1	-
	36	35
Inter-segment eliminations	(36)	(35)
Total audit and related expenses	**-**	**-**
Fees for other work [2]		
Fees for assurance and related services	4	2
Fees for tax services	1	1
Fees for other services	2	1
Fees paid to audit firms	**7**	**4**

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

Note 10: Interest Expenses

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
1,783	3,216	Financial liabilities classified as amortised cost	3,060	2,221
-	-	Financial liabilities classified as held for trading	7	-
2,754	211	Financial liabilities classified as fair value through profit and loss	478	503
75	79	Interest unwind on provisions	51	53
4,612	**3,506**	**Total interest expenses**	**3,596**	**2,777**
		By source		
3,230	3,078	Core Crown	3,066	2,311
181	247	Crown entities	248	245
1,733	1,010	State-owned enterprises	1,027	845
(532)	(829)	Inter-segment eliminations	(745)	(624)
4,612	**3,506**	**Total interest expenses**	**3,596**	**2,777**

Note 11: Insurance Expenses

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By entity		
3,668	3,103	Accident Compensation Corporation (ACC)	2,979	2,922
39	6,389	Earthquake Commission	11,776	64
-	-	AMI insurance	151	-
18	27	Other	22	20
-	-	Inter-segment eliminations	(336)	-
3,725	**9,519**	**Total insurance expenses**	**14,592**	**3,006**
		By type		
		Property damage claims in relation to Canterbury earthquakes	11,475	-
		Personal accident and injury claims	2,979	2,922
		Other insurance expenses	138	84
		Total insurance expenses	**14,592**	**3,006**

Insurance expenses include costs associated with the Canterbury earthquakes. Refer to note 30 for further discussion. These expenses do not include any proceeds from reinsurance. These proceeds are included as "other revenue" in the statement of financial performance.

AMI insurance expenses only include costs incurred after 7 April 2011 (the date that AMI Insurance became controlled by the government and combined as part of the government reporting entity). As a result, the insurance expenses of AMI are not included in the 2010 comparatives.

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

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

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

Note 11: Insurance Expenses (continued)

Analysis of ACC insurance expense	Actual 30 June 2011 $m	30 June 2010 $m
By type		
ACC claims expense	2,396	3,275
Movement in ACC unexpired risk liability	(105)	(459)
Other underwriting expenses	90	81
Total ACC claims and other expenses	**2,381**	**2,897**
less actuarial gain/(loss)	996	410
less operating costs relating to claims	(398)	(385)
Total ACC insurance expenses (excluding losses and operations)	**2,979**	**2,922**

Given the uncertainty over insurance claims, it is likely that the final cost will be different from the original liability established. Claims development refers to the adjustment in the liability arising from claims incurred in the current financial year and reassessment of claims incurred in previous years. This reassessment results from new information on these claims (including new claims relating to incidents incurred in previous years) and changes in assumptions.

Historical Analysis

	Actual 30 June 2011 $m	30 June 2010 $m	30 June 2009 $m	30 June 2008 $m
ACC Claims Development				
Current year net ACC claims incurred				
Gross claims incurred and related expenses – undiscounted	7,800	7,422	7,511	5,804
Reinsurance and other recoveries – undiscounted	-	-	-	-
Net claims incurred – undiscounted	7,800	7,422	7,511	5,804
Discount and discount movement				
– gross claims incurred	(4,857)	(4,286)	(3,996)	(2,923)
– reinsurance and other recoveries	-	-	-	-
Net discount movement	(4,857)	(4,286)	(3,996)	(2,923)
Total current year net claims incurred	**2,943**	**3,136**	**3,515**	**2,881**
Previous years' net ACC claims incurred				
Gross claims incurred and related expenses – undiscounted	348	1,188	14,698	6,763
Reinsurance and other recoveries – undiscounted	-	-	-	-
Net claims incurred – undiscounted	348	1,188	14,698	6,763
Discount and discount movement				
– gross claims incurred	(895)	(1,049)	(9,607)	(4,522)
– reinsurance and other recoveries	-	-	-	-
Net discount movement	(895)	(1,049)	(9,607)	(4,522)
Total previous years' net claims incurred	**(547)**	**139**	**5,091**	**2,241**
ACC claims expense	**2,396**	**3,275**	**8,606**	**5,122**

Note 11: Insurance Expenses (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Net ACC Underwriting Result		
Premium revenue	3,586	3,261
Recoveries revenue (including reinsurance recovery)	-	-
ACC underwriting revenue	**3,586**	**3,261**
Less claims and other expenses	(2,381)	(2,897)
Net ACC underwriting surplus/(deficit)	**1,205**	**364**

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

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

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	3,612	3,291
Cash payments	(3,017)	(3,558)
Net ACC operating cash flows	**595**	**(267)**

Analysis of EQC insurance expense	Actual 30 June 2011 $m	Actual 30 June 2010 $m
By type		
EQC claims expense	11,446	25
Movement in EQC unexpired risk liability	281	6
Other underwriting expenses	49	33
Total EQC claims and other expenses	**11,776**	**64**
less actuarial gain/(loss)	-	-
less operating costs relating to claims	-	-
Total EQC insurance expenses (excluding losses and operations)	**11,776**	**64**
Net EQC Underwriting Result		
Premium revenue	88	86
Recoveries revenue (including reinsurance recovery)	4,185	-
EQC underwriting revenue	**4,273**	**86**
Less claims and other expenses	11,776	64
Net EQC underwriting surplus/(deficit)	**(7,503)**	**22**
EQC operating cash flows associated with the underwriting result are:		
Cash receipts	88	86
Cash payments	1,230	63
Net EQC operating cash flows	**(1,142)**	**23**

Prior to the Canterbury earthquakes EQC insurance expenses were immaterial. As a result, an historical analysis of the EQC claims expense has not been provided.

Analysis of the insurance liabilities is provided in note 25.

Note 12: Gains and Losses on Financial Instruments

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
-	(15)	Foreign exchange gains on financial assets measured at amortised cost	15	-
(22)	(131)	Foreign exchange losses on financial assets measured at amortised cost	(445)	(339)
-	-	Change in fair value of financial assets classified as held for trading	2	(8)
-	(9)	Gain/(loss) on disposal of financial assets measured at amortised cost	(25)	(17)
770	1,344	Change in fair value of financial assets classified as fair value through profit and loss	(1,979)	457
748	**1,189**	**Net gains/(losses) on financial assets**	**(2,432)**	**93**
-	3	Foreign exchange gain on financial liabilities measured at amortised cost	178	154
-	(75)	Foreign exchange loss on financial liabilities measured at amortised cost	(119)	(7)
-	-	Change in fair value of financial liabilities classified as held for trading	-	3
-	177	Gain/(loss) on disposal of financial liabilities measured at amortised cost	(5)	5
63	(66)	Change in fair value of financial liabilities classified as fair value through profit and loss	270	(37)
63	**39**	**Net gains/(losses) on financial liabilities**	**324**	**118**
439	3,916	Net gain/(loss) on derivatives	6,727	2,311
1,250	**5,144**	**Net gains/(losses) on financial instruments**	**4,619**	**2,522**
		By source		
1,231	4,455	Core Crown	4,116	2,094
209	1,082	Crown entities	1,058	787
(11)	(163)	State-owned enterprises	(281)	(105)
(179)	(230)	Inter-segment eliminations	(274)	(254)
1,250	**5,144**	**Net gains/(losses) on financial instruments**	**4,619**	**2,522**

Note 13: Gains and Losses on Non-Financial Instruments

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
-	-	Foreign exchange gains/(losses)	(153)	(40)
-	287	Actuarial gains/(losses) on GSF liability	(574)	(1,231)
-	1,251	Actuarial gains/(losses) on ACC outstanding claims	996	410
19	225	Other gains/(losses) on non-financial liabilities	187	(80)
(5)	(37)	Gains/(losses) on disposal or revaluation of property, plant and equipment	(565)	(170)
166	169	Gains/(losses) on agricultural assets	310	183
-	-	Gains/(losses) on intangible assets	1	(18)
1	(5)	Other gains/(losses) on non-financial assets	(123)	(14)
181	**1,890**	**Net gains/(losses) on non-financial instruments**	**79**	**(960)**
		By source		
21	441	Core Crown	(588)	(1,351)
(17)	1,241	Crown entities	931	398
177	208	State-owned enterprises	(264)	(7)
-	-	Inter-segment eliminations	-	-
181	**1,890**	**Net gains/(losses) on non-financial instruments**	**79**	**(960)**

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

Note 14: Receivables

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
6,288	6,449	Tax receivables	7,104	6,864
3,769	3,792	Levies, fines and penalty receivables	3,440	3,560
549	470	Social benefit receivables	480	461
10,606	10,711	**Sovereign receivables**	11,024	10,885
320	723	Recoveries from receiverships	739	-
3,112	6,080	Trade and other receivables	9,927	2,999
14,038	**17,514**	**Total receivables**	**21,690**	**13,884**
		By maturity		
12,718	12,658	Expected to be realised within one year	14,916	12,912
1,320	4,856	Expected to be outstanding for more than one year	6,774	972
14,038	**17,514**	**Total receivables**	**21,690**	**13,884**
		By source		
8,357	8,956	Core Crown	11,376	8,776
5,033	8,218	Crown entities	8,999	4,713
2,229	2,223	State-owned enterprises	3,576	1,740
(1,581)	(1,883)	Inter-segment eliminations	(2,261)	(1,345)
14,038	**17,514**	**Total receivables**	**21,690**	**13,884**

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

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

All sovereign receivables are denominated in New Zealand dollars.

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Tax Receivables		
Gross tax receivable	11,248	10,784
Impairment of tax receivables	(4,144)	(3,920)
Total tax receivables	**7,104**	**6,864**
Gross Tax Receivable		
Current	6,138	5,958
Past due	5,110	4,826
Total gross tax receivable	**11,248**	**10,784**
% past due	45%	45%
Impairment of Tax Receivables		
Opening balance	3,920	3,996
Impairment losses recognised during the year	1,009	591
Amounts written off as uncollectible	(785)	(667)
Impairment losses reversed	-	-
Closing balance	**4,144**	**3,920**

Note 14: Receivables (continued)

The Inland Revenue Department (IRD) administers the majority of the tax receivable portfolio. The recoverable amount of the portfolio is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current market rate. 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.

	Actual	
	30 June 2011 $m	30 June 2010 $m
The estimated recoverable amount of this portfolio and key assumptions underpinning the valuation are:		
Recoverable amount of tax receivables (current)	6,102	5,907
Recoverable amount of tax receivables (past due)	1,002	957
Discount rate	6.10%	8.50%
Impact on recoverable amount of a 2% increase in discount rate	(16)	(15)
Impact on recoverable amount of a 2% decrease in discount rate	17	16

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

	Actual	
	30 June 2011 $m	30 June 2010 $m
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	982	948
Between six months and one year	467	601
Between one year and two years	1,014	1,097
Greater than two years	2,647	2,180
Tax receivables past due	**5,110**	**4,826**

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

Note 14: Receivables (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Levies, Fines and Penalty Receivables		
Gross ACC levy receivables	3,251	3,355
Gross other levies, fines and penalty receivables	2,205	2,014
Total gross levies, fines and penalty receivables	**5,456**	**5,369**
Impairment of ACC levy receivables	(79)	(80)
Impairment of other levies, fines and penalty receivables	(1,937)	(1,729)
Total impairment of receivables	**(2,016)**	**(1,809)**
Total levies, fines and penalty receivables	**3,440**	**3,560**
Impairment of ACC Levy Receivables		
Opening balance	80	72
Impairment losses recognised during the year	11	8
Amounts written off as uncollectible	(12)	-
Impairment losses reversed	-	-
Closing balance	**79**	**80**
Collective impairment allowance	79	80
Individual impairment allowance	-	-
Impairment of ACC Levy Receivables	**79**	**80**
Impairment of other Levies, Fines and Penalty Receivables		
Opening balance	1,729	1,428
Impairment losses recognised during the year	370	497
Amounts written off as uncollectible	-	-
Impairment losses reversed	(162)	(196)
Closing balance	**1,937**	**1,729**
Collective impairment allowance	1,937	1,729
Individual impairment allowance	-	-
Impairment of other Levies, Fines and Penalty Receivables	**1,937**	**1,729**
Ageing of Levies, Fines and Penalty Receivables Past Due But Not Impaired		
Less than six months	-	34
Between six months and one year	-	-
Greater than one year	-	-
Total levies, fines and penalty receivables past due but not impaired	**-**	**34**

The ACC levy receivables are short term, so their carrying amount provides a reasonable approximation of their fair value. Of the other levy, fines and penalties receivables, the majority is in the debtor portfolio administered by the Ministry of Justice (ie, court fines, associated court fees and enforcement fees) with a carrying value of $226 million (2010: $230 million). Their carrying amount provides a reasonable approximation of their fair value. The recoverable amount of these Justice receivables is calculated using discounted cash flows (net of estimated service costs).

Note 14: Receivables (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Social Benefit Receivables		
Gross social benefit receivables	1,050	982
Impairment of social benefit receivables	(570)	(521)
Total social benefit receivables	**480**	**461**
Impairment of Social Benefit Receivables		
Opening balance	521	528
Impairment losses recognised during the year	60	45
Amounts written off as uncollectible	(11)	(52)
Impairment losses reversed	-	-
Closing balance	**570**	**521**
Collective impairment allowance	570	521
Individual impairment allowance	-	-
Impairment of Social Benefit Receivables	**570**	**521**
Ageing of Social Benefit Receivables Past Due But Not Impaired		
Less than six months	-	-
Between six months and one year	-	-
Greater than one year	101	100
Total social benefit receivables past due but not impaired	**101**	**100**

Social benefit receivables comprise benefit overpayments, advances on benefits and recoverable special needs grants primarily administered by the Ministry of Social Development with a carrying value of $466 million (2010: $450 million). The recoverable amount of social benefit receivables is determined by discounting the expected future cash flows (net of estimated service costs).

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

Note 14: Receivables (continued)

	30 June 2011 $m	30 June 2010 $m
Recoveries from receiverships		
Opening balance of recoveries expected from receiverships	13	-
Recoveries expected from entities defaulting during the year	1,104	-
Revision of expected recoveries	(236)	-
Payments received from receivers	(142)	-
Closing balance	**739**	**-**
Total payments to depositors under the Guarantee scheme	**1,897**	43

As a consequence of payments made to depositors of failed finance companies under the deposit guarantee scheme, the Crown has inherited the beneficial interest in the proceeds that can be recovered from the secured assets of the receiverships. The reported receivables represent the receivers' best prudent estimates of likely recoveries from the receiverships. However the eventual return to the Crown is dependent upon the value that can be realised from these entities' assets and the timing of receipts. A range of outcomes for eventual recoveries is possible. The Crown monitors the receiverships to obtain assurance that optimal proceeds are realised as soon as possible. In the 2010 financial statements the recoveries from receiverships were disclosed as part of the provision for the deposit guarantee scheme (refer note 27).

	Actual	
	30 June 2011 $m	30 June 2010 $m
Trade and Other Receivables		
Gross trade and other receivables	10,009	3,064
Impairment of trade and other receivables	(82)	(65)
Total trade and other receivables	**9,927**	**2,999**
Impairment of Trade and Other Receivables		
Opening balance	65	43
Impairment losses recognised during the year	33	26
Amounts written off as uncollectible	(15)	(3)
Impairment losses reversed	(1)	(1)
Closing balance	**82**	**65**
Collective impairment allowance	68	54
Individual impairment allowance	14	11
Impairment of Trade and Other Receivables	**82**	**65**
Ageing of Trade and Other Receivables Past Due But Not Impaired		
Less than six months	175	136
Between six months and one year	9	14
Greater than one year	5	3
Total trade and other receivables past due but not impaired	**189**	**153**

Trade and other receivables include $5,381 million relating to AMI and EQC relating to reinsurance receivables. The rest of the trade and other receivables are short term, with $4,310 million (2010: $2,776 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

Note 15: Marketable securities, deposits and derivatives in gain

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
39,663	41,485	Marketable securities	39,214	35,732
2,240	2,161	Long term deposits	2,259	2,784
1,771	3,053	Derivatives in gain	5,415	2,972
2,546	2,307	IMF financial assets	2,168	2,199
46,220	**49,006**	**Total marketable securities, deposits and derivatives in gain**	**49,056**	**43,687**
		By maturity		
36,443	38,131	Expected to be realised within one year	36,448	32,446
9,777	10,875	Expected to be held for more than one year	12,608	11,241
46,220	**49,006**	**Total marketable securities, deposits and derivatives in gain**	**49,056**	**43,687**
		By source		
36,998	39,236	Core Crown	39,686	35,376
14,333	15,744	Crown entities	16,939	14,091
3,093	3,188	State-owned enterprises	2,651	2,566
(8,204)	(9,162)	Inter-segment eliminations	(10,220)	(8,346)
46,220	**49,006**	**Total marketable securities, deposits and derivatives in gain**	**49,056**	**43,687**

Marketable securities comprise bonds, commercial paper, debentures and similar tradable financial assets held by the Government for the purposes of realising capital gains or interest revenue. Marketable securities and derivatives in gain are reported at their fair value. Fair value is either based on quoted market price or using a valuation model 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 discounts these values back to present value.

Long-term deposits are instruments with maturities greater than three months that are not traded in an active market. Long-term deposits are measured at amortised cost. Their carrying amount provides a reasonable approximation of their fair value.

Note 16: Share Investments

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By maturity		
11,936	8,660	Expected to be realised within one year	8,284	7,451
5,835	5,546	Expected to be held for more than one year	5,964	4,728
17,771	**14,206**	**Total share investments**	**14,248**	**12,179**
		By source		
9,948	7,101	Core Crown	6,879	5,768
7,786	7,088	Crown entities	7,198	6,392
65	57	State-owned enterprises	207	60
(28)	(40)	Inter-segment eliminations	(36)	(41)
17,771	**14,206**	**Total share investments**	**14,248**	**12,179**

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

Note 17: Advances

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
7,300	7,325	Student loans	7,460	6,790
12,411	11,255	Kiwibank mortgages	11,495	10,419
700	1,271	Other advances	1,612	1,238
20,411	**19,851**	**Total advances**	**20,567**	**18,447**
		By source		
11,543	12,267	Core Crown	12,447	11,088
364	368	Crown entities	368	416
12,762	11,720	State-owned enterprises	12,382	11,114
(4,258)	(4,504)	Inter-segment eliminations	(4,630)	(4,171)
20,411	**19,851**	**Total advances**	**20,567**	**18,447**
		Student Loans		
12,050	12,024	Nominal value	12,070	11,145
(4,750)	(4,699)	Write-down on initial recognition and impairment	(4,610)	(4,355)
7,300	**7,325**	**Total student loans**	**7,460**	**6,790**
		Gross carrying value	8,697	8,152
		Impairment of student loans	(1,237)	(1,362)
		Total student loans	**7,460**	**6,790**
		By maturity		
		Expected to be repaid within one year	787	759
		Expected to be outstanding for more than one year	6,673	6,031
		Total student loans	**7,460**	**6,790**
		Movement During the Year		
6,874	6,790	Opening balance	6,790	6,553
1,616	1,579	Amount lent in the current year	1,564	1,525
(772)	(707)	Less initial write-down to fair value	(713)	(728)
(826)	(786)	Repayments made during the year	(802)	(754)
506	501	Interest unwind	484	463
(110)	(64)	Impairment losses (recognised)/reversed during the year	125	(280)
12	12	Other movements	12	11
7,300	**7,325**	**Closing balance student loans**	**7,460**	**6,790**
		Impairment of Student Loans		
		Opening balance	1,362	1,082
		Impairment losses recognised during the year	(125)	280
		Amounts written off as uncollectible	-	-
		Impairment losses reversed	-	-
		Closing balance	**1,237**	**1,362**

Note 17: Advances (continued)

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

	Actual	
	30 June 2011 $m	30 June 2010 $m
Significant assumptions behind the carrying value are:		
Effective interest rate - current year	8.1%	9.5%
Effective interest rate - weighted average	7.1%	7.0%
Interest rate applied to loans for overseas borrowers	6.6%-6.7%	6.6%-6.8%
CPI	2.5%-2.8%	2.4%-3.0%
Future salary inflation	3.5%-3.8%	3.0%-3.5%

In contrast with the amortised cost approach described above, fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2011. It is determined by discounting the cash flows at an appropriate discount rate.

	Actual	
	30 June 2011 $m	30 June 2010 $m
Fair value of the student loan portfolio	7,221	6,366
Impact on fair value of a 1% increase in discount rate	(416)	(361)
Impact on fair value of a 1% decrease in discount rate	475	412

The fair value differs from the carrying value due to changes in market interest rates at reporting date. The carrying value is not adjusted for such changes as it is valued using the effective interest rate determined when the loan was initially drawn. However, the fair value was calculated on a discount rate that was current at 30 June 2011. At that date the fair value was calculated on a discount rate of 7.6% (2010: 7.7%) whereas a weighted average effective interest rate of 7.1% was used for the carrying value. Therefore the lower fair value does not represent an impairment of the asset.

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

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

Note 17: Advances (continued)

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Kiwibank Mortgages		
		By maturity		
993	1,045	Expected to be repaid within one year	1,028	908
11,418	10,210	Expected to be outstanding for more than one year	10,467	9,511
12,411	**11,255**	**Total Kiwibank mortgages**	**11,495**	**10,419**
		Impairment of Kiwibank Mortgages		
		Opening balance	20	12
		Impairment losses recognised on mortgages	56	8
		Amounts written off as uncollectible	12	-
		Impairment losses reversed	(1)	-
		Closing balance	**87**	**20**
		Collective impairment allowance	37	10
		Individual impairment allowance	50	10
		Impairment of Kiwibank Mortgages	**87**	**20**
		Ageing of Kiwibank Mortgages Past Due But Not Impaired		
		Less than six months	185	218
		Between six months and one year	-	-
		Greater than one year	-	-
		Total Kiwibank mortgages past due but not impaired	**185**	**218**
		Fair value of collateral held	166	207
		Measurement Basis for Kiwibank Mortgages		
		Kiwibank mortgages measured at amortised cost	11,047	9,183
		Kiwibank mortgages measured at fair value	448	1,236
		Total Kiwibank mortgages	**11,495**	**10,419**

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

The fair value of Kiwibank mortgages measured at amortised cost is $11,107 million (2010: $9,218 million). This valuation is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses.

The maximum loss due to default on Kiwibank mortgages is the carrying value reported in the statement of financial position. Collateral is obtained to mitigate any risk of loss, which in the case of Kiwibank mortgages are primarily in the form of properties.

Note 17: Advances (continued)

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Other Advances		
		By maturity		
70	235	Expected to be repaid within one year	763	269
630	1,036	Expected to be outstanding for more than one year	849	969
700	**1,271**	**Total other advances**	**1,612**	**1,238**
		Impairment of Other Advances		
		Opening balance	84	102
		Impairment losses recognised during the year	141	67
		Amounts written off as uncollectible	(33)	(78)
		Impairment losses reversed	(2)	(7)
		Closing balance	**190**	**84**
		Collective impairment allowance	134	73
		Individual impairment allowance	56	11
		Impairment of Other Advances	**190**	**84**
		Ageing of Other Advances Past Due But Not Impaired		
		Less than six months	-	14
		Between six months and one year	-	-
		Greater than one year	-	-
		Total other advances past due but not impaired	**-**	**14**
		Measurement Basis for Other Advances		
680	1,024	Other advances measured at amortised cost	1,367	1,011
20	247	Other advances measured at fair value	245	227
700	**1,271**	**Total other advances**	**1,612**	**1,238**

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

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

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

Note 18: Inventory

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
		Inventories held for sale	100	93
		Military inventories	317	287
		Other consumables	891	780
1,228	**1,309**	**Total inventory**	**1,308**	**1,160**
		By maturity		
1,035	1,083	Expected to be sold or consumed within one year	1,112	959
193	226	Expected to be sold or consumed after one year	196	201
1,228	**1,309**	**Total inventory**	**1,308**	**1,160**
		By source		
472	450	Core Crown	450	422
178	193	Crown entities	180	177
578	666	State-owned enterprises	678	561
-	-	Inter-segment eliminations	-	-
1,228	**1,309**	**Total inventory**	**1,308**	**1,160**

Note 19: Other Assets

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
354	415	Prepayments	467	428
56	65	Investment property	56	71
664	704	Agricultural assets	759	664
315	379	Investment in supranational organisations	360	302
99	105	Other	354	196
1,488	**1,668**	**Total other assets**	**1,996**	**1,661**
		By maturity		
488	543	Expected to be realised within one year	859	642
1,000	1,125	Expected to be held for more than one year	1,137	1,019
1,488	**1,668**	**Total other assets**	**1,996**	**1,661**
		By source		
963	1,125	Core Crown	1,241	1,041
123	152	Crown entities	199	149
431	420	State-owned enterprises	611	509
(29)	(29)	Inter-segment eliminations	(55)	(38)
1,488	**1,668**	**Total other assets**	**1,996**	**1,661**

Note 20: Property, Plant and Equipment

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Net Carrying Value		
		By class of asset		
16,570	16,803	Land (valuation)	16,372	16,688
25,831	24,822	Buildings (valuation)	24,539	24,019
2,887	2,812	Electricity distribution network (cost)	2,690	2,251
12,333	13,953	Electricity generation assets (valuation)	14,439	13,642
2,347	2,083	Aircraft (excluding military) (valuation)	1,805	1,731
25,596	25,838	State highways (valuation)	25,126	24,838
13,224	12,554	Rail network (valuation)	12,749	12,437
3,835	3,382	Specialist military equipment (valuation)	3,331	3,413
8,645	8,522	Specified cultural and heritage assets (valuation)	8,133	8,505
6,474	6,164	Other plant and equipment (cost)	5,670	5,806
117,742	**116,933**	**Total property, plant and equipment**	**114,854**	**113,330**
		By source		
31,877	30,334	Core Crown	29,549	29,986
49,453	49,722	Crown entities	48,480	48,109
36,412	36,877	State-owned enterprises	36,825	35,235
-	-	Inter-segment eliminations	-	-
117,742	**116,933**	**Total property, plant and equipment**	**114,854**	**113,330**
		By holding		
1,639	1,121	Leasehold	1,316	1,166
116,103	115,812	Freehold	113,538	112,164
117,742	**116,933**	**Total property, plant and equipment**	**114,854**	**113,330**
		Property, plant and equipment pledged to secure borrowing	**1,246**	1,156

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

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

Note 20: Property, Plant and Equipment (continued)

	Actual	
	30 June 2011 $m	30 June 2010 $m
Total Property, Plant and Equipment		
Cost or Valuation		
Opening balance	123,941	119,547
Additions	6,558	6,274
Acquisitions through business combinations	86	281
Disposals	(1,283)	(977)
Net revaluations	(2,471)	(1,143)
Net foreign currency exchange differences	(9)	(19)
Other	(221)	(22)
Total cost or valuation	**126,601**	**123,941**
Accumulated Depreciation and Impairment		
Opening balance	10,611	9,412
Eliminated on disposal	(832)	(587)
Eliminated on revaluation	(1,884)	(1,349)
Impairment losses charged to operating balance	30	4
Reversals of impairment losses charged to operating balance	(21)	(465)
Depreciation expense	3,727	3,582
Net foreign currency exchange differences	1	(12)
Other	115	26
Total accumulated depreciation and impairment	**11,747**	**10,611**
Total property, plant and equipment	**114,854**	**113,330**

Note 20: Property, Plant and Equipment (continued)

	Actual	
	30 June 2011 $m	30 June 2010 $m
Land (valuation)		
Opening balance	16,688	16,289
Additions	180	224
Acquisitions through business combinations	-	4
Disposals	(148)	(135)
Net revaluations	(376)	302
Other	28	4
Carrying value of land	**16,372**	**16,688**
By holding		
Leasehold	-	-
Freehold	16,372	16,688
Carrying value of land	**16,372**	**16,688**

The value of the land underneath state highways and the rail network, as well as land set aside for cultural and heritage purposes (i.e. national parks, forest parks, conservation areas and recreational facilities) is included as a component of the value of those separate classes of assets.

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Buildings (valuation)		
Opening balance	26,051	25,184
Additions	1,537	1,819
Acquisitions through business combinations	33	19
Disposals	(157)	(306)
Net revaluations	(702)	(564)
Net foreign currency exchange differences	(8)	(13)
Other	(102)	(88)
Total buildings (valuation)	**26,652**	**26,051**
Accumulated Depreciation and Impairment on Buildings		
Opening balance	2,032	1,465
Eliminated on disposal	(118)	(22)
Eliminated on revaluation	(902)	36
Impairment losses charged to operating balance	3	1
Reversals of impairment losses charged to operating balance	6	(462)
Depreciation expense	1,080	1,073
Net foreign currency exchange differences	-	(12)
Other	12	(47)
Accumulated depreciation and impairment on buildings	**2,113**	**2,032**
Carrying value of buildings	**24,539**	**24,019**
By holding		
Leasehold	216	253
Freehold	24,323	23,766
Carrying value of buildings	**24,539**	**24,019**

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

Note 20: Property, Plant and Equipment (continued)

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

Category	Valuer/Reviewer	Approach	Timing	Carrying value ($m)
Housing stock	Quotable Value NZ Limited	Valuations based on market evidence or adjusted current rating valuations.	Annual valuation cycle. Latest valuation completed as at 30 June 2011.	14,998 (2010: 15,165)
School property	Darroch Limited or experienced ministry staff (reviewed by Darroch)	Valuations based on market evidence where possible, or depreciated replacement cost.	Annual valuation cycle. Latest valuation completed as at 30 June 2011.	10,170 (2010: 10,048)
Corrections Land and Buildings	Darroch Limited	The latest full valuation was based on market evidence, except for prison buildings, which were valued at optimised depreciated replacement cost.	Two-year valuation cycle. Latest full valuation completed as at 30 June 2011.	2,070 (2010: 1,978)
NZ Defence Force Land and Buildings	Darroch Limited	Valuations were based on market evidence or rating valuations.	Five-year valuation cycle. Latest full valuation completed as at 30 June 2010.	1,851 (2010: 1,819)
Landcorp land and buildings on owned land (excluding protected land and buildings on leased land)	Quotable Value NZ Limited	Valuations based on market evidence where possible. Buildings on leased land and protected land is not revalued.	Annual valuation cycle. Latest valuation completed as at 30 June 2011.	1,176 (2010: 997)
Auckland District Health Board land and Buildings	Telfer Young	The latest full valuation for land was based on market evidence, while buildings were valued at optimised depreciated replacement cost.	Annual valuation cycle. Latest full valuation completed as at 30 June 2011.	754 (2010: 790)
New Zealand Police Land and Buildings	Experienced staff undertake the property valuation in-house, using Beca Valuations Ltd as an expert adviser.	Valuations based on market evidence where possible, or depreciated replacement cost.	Three-year valuation cycle. Latest full valuation performed as at 30 June 2009.	727 (2010: 746)
Ministry of Justice Land and Buildings	Beca Valuations Ltd	Valuations based on market evidence where possible.	Annual valuation cycles with physical inspections every three years. The latest full physical inspection was as at 30 June 2009.	584 (2010: 583)

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Electricity Distribution Network (cost)		
Opening balance	2,993	2,677
Additions	484	320
Disposals	(7)	(3)
Other	77	(1)
Total electricity distribution network (cost)	**3,547**	**2,993**
Accumulated Depreciation and Impairment on Electricity Distribution Network		
Opening balance	742	631
Eliminated on disposal	(32)	(30)
Depreciation expense	147	140
Other	-	1
Accumulated depreciation and impairment on electricity distribution network	**857**	**742**
Carrying value of electricity distribution network	**2,690**	**2,251**
By holding		
Leasehold	-	-
Freehold	2,690	2,251
Carrying value of electricity distribution network	**2,690**	**2,251**

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Electricity Generation Assets (valuation)		
Opening balance	13,816	12,079
Additions	366	406
Acquisitions through business combinations	-	236
Disposals	(6)	(9)
Net revaluations	633	993
Net foreign currency exchange differences	7	-
Other	(361)	111
Total electricity generation assets	**14,455**	**13,816**
Accumulated Depreciation and Impairment on Electricity Generation Assets		
Opening balance	174	415
Eliminated on disposal	(9)	(8)
Eliminated on revaluation	(414)	(589)
Depreciation expense	374	356
Other	(109)	-
Accumulated depreciation and impairment on electricity generation assets	**16**	**174**
Carrying value of electricity generation assets	**14,439**	**13,642**
By holding		
Leasehold	2	2
Freehold	14,437	13,640
Carrying value of electricity generation assets	**14,439**	**13,642**

Note 20: Property, Plant and Equipment (continued)

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

Entity	Valuer/Reviewer	Approach	Timing	Carrying value ($m)
Meridian Energy Limited	Pricewaterhouse Coopers	Valuations of generation structures and plant are based on both the capitalisation of earnings methodology, applied to Meridian as a whole, and the discounted cash flow methodology.	Regular revaluations not to exceed five years. Latest valuation completed as at 30 June 2011.	7,558 (2010: 8,031)
Mighty River Power Limited	Pricewaterhouse Coopers	Valuations based on net present value of future earnings of the assets on an existing use basis, excluding disposal and restoration costs.	Regular revaluations not to exceed five years. All generation assets were last valued as at 30 June 2011.	4,418 (2010: 4,061)
Genesis Power Limited	Internal valuation performed by management which was independently reviewed by Pricewaterhouse Coopers.	The valuation was based on the present value of future cash flows associated with the assets on an existing use basis.	Regular revaluations not to exceed five years. Latest valuation completed as at 30 June 2011.	2,603 (2010: 1,479)

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Aircraft (excluding military) (valuation)		
Opening balance	1,743	1,957
Additions	671	126
Disposals	(16)	(11)
Net revaluations	(578)	(312)
Other	1	(17)
Total aircraft (excluding military)	**1,821**	**1,743**
Accumulated Depreciation and Impairment on Aircraft		
Opening balance	12	5
Eliminated on disposal	(6)	(5)
Eliminated on revaluation	(161)	(147)
Impairment losses charged to operating balance	-	1
Reversals of impairment losses charged to operating balance	-	(1)
Depreciation expense	171	173
Other	-	(14)
Accumulated depreciation and impairment on aircraft	**16**	**12**
Carrying value of aircraft (excluding military)	**1,805**	**1,731**
By holding		
Leasehold	1,040	812
Freehold	765	919
Carrying value of aircraft (excluding military)	**1,805**	**1,731**

Aircraft and related assets are valued annually. Independent valuations as at 30 June 2011 have been obtained from The Aircraft Value Analysis Company and Ascend Worldwide Limited to ascertain indicative market values of each aircraft on a stand-alone basis. The carrying value of the aircraft is recorded at an average of the valuations provided by the two valuers.

Related assets include spare engines and flight simulators.

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
State Highways (valuation)		
Opening balance	24,838	24,067
Additions	1,351	1,289
Disposals	(28)	(43)
Net revaluations	(1,050)	(470)
Other	15	(5)
Total state highways	**25,126**	**24,838**
Accumulated Depreciation and Impairment on State Highways		
Opening balance	-	-
Eliminated on revaluation	(408)	(403)
Depreciation expense	408	403
Accumulated depreciation and impairment on state highways	**-**	**-**
Carrying value of state highways	**25,126**	**24,838**
By holding		
Leasehold	-	-
Freehold	25,126	24,838
Carrying value of state highways	**25,126**	**24,838**

State highways comprise the land, formation works, road structure, drainage works and traffic facilities of the roads, bridges, culverts, tunnels, stock and pedestrian underpasses, protection works and retaining structures. The state highways valuation is performed by an independent valuer, Opus International Consultants Limited with property valuations supplied by Darroch Limited. All 14 state highway regions were subject to a full revaluation in 2008/09. A cyclical basis is now being used so that each region is revalued at an interval not exceeding 3.5 years. Those regions that are not subject to a full revaluation in a particular year will be subject to a valuation update through the use of price indices.

State highways are valued at depreciated replacement cost based on the estimated present cost of constructing the existing assets by the most appropriate method of construction, reduced by factors for the age and condition of the asset. State highway corridor land, is included as part of the state highway, and is valued using an opportunity cost based on adjacent use, as an approximation to fair value.

Note 20: Property, Plant and Equipment (continued)

	Actual	
	30 June 2011 $m	30 June 2010 $m
Rail Network (valuation)		
Opening balance	12,635	12,520
Additions	577	462
Disposals	(55)	-
Net revaluations	-	(347)
Total rail network	**13,157**	**12,635**
Accumulated Depreciation and Impairment on Rail Network		
Opening balance	198	14
Eliminated on disposal	11	-
Eliminated on revaluation	-	(24)
Reversals of impairment losses charged to operating balance	(12)	-
Depreciation expense	210	208
Other	1	-
Accumulated depreciation and impairment on rail network	**408**	**198**
Carrying value of rail network	**12,749**	**12,437**
By holding		
Leasehold	-	-
Freehold	12,749	12,437
Carrying value of rail network	**12,749**	**12,437**

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

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

Railway infrastructure assets and specialised land and buildings are valued using optimised depreciated replacement cost. Non-specialised land and buildings which could be sold with relative ease are valued at market value. Land associated with the rail corridor is valued using an opportunity cost based on adjacent use, as an approximation to fair value.

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2011 $m	30 June 2010 $m
Specialist Military Equipment (valuation)		
Opening balance	3,889	4,394
Additions	198	176
Disposals	(42)	(23)
Net revaluations	6	(658)
Other	(13)	-
Total specialist military equipment	**4,038**	**3,889**
Accumulated Depreciation and Impairment on Specialist Military Equipment		
Opening balance	476	467
Eliminated on disposal	(42)	(31)
Eliminated on revaluation	1	(245)
Depreciation expense	272	286
Other	-	(1)
Accumulated depreciation and impairment on specialist military equipment	**707**	**476**
Carrying value of specialist military equipment	**3,331**	**3,413**
By holding		
Leasehold	-	-
Freehold	3,331	3,413
Carrying value of specialist military equipment	**3,331**	**3,413**

Valuations use a market based approach, except where reliable market evidence is unavailable and then optimised depreciated replacement cost is used to calculate fair value.

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

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Specified Cultural and Heritage Assets (valuation)		
Opening balance	8,872	8,957
Additions	64	75
Disposals	(19)	(12)
Net revaluations	(405)	(87)
Other	1	(61)
Total specified cultural and heritage assets	**8,513**	**8,872**
Accumulated Depreciation and Impairment on Specified Cultural and Heritage Assets		
Opening balance	367	375
Eliminated on disposal	(6)	(48)
Eliminated on revaluation	-	23
Reversals of impairment losses charged to operating balance	(22)	-
Depreciation expense	19	17
Other	22	-
Accumulated depreciation and impairment on specified cultural and heritage assets	**380**	**367**
Carrying value of specified cultural and heritage assets	**8,133**	**8,505**
By holding		
Leasehold	-	-
Freehold	8,133	8,505
Carrying value of specified cultural and heritage assets	**8,133**	**8,505**
By group		
National Archives	440	522
National Library	844	984
Conservation property	6,021	6,240
Parliamentary Library	29	29
Te Papa	776	725
Other	23	5
Carrying value of specified cultural and heritage assets	**8,133**	**8,505**

Note 20: Property, Plant and Equipment (continued)

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

National Archives Holdings

Archives in the possession of the Department of Internal Affairs (previously held by Archives New Zealand) have been valued and recorded at a best estimate of fair value as at 30 June 2011. Non exceptional items are revalued every three years and were last revalued in June 2011 using a methodology that divided the collection into categories by format and age, to associate records that could be said to have a broad commonality of value. Benchmark valuations were obtained from an independent valuer, Dunbar Sloane, through market assessments and from other collections of a similar nature to Government archives. Accessions since the date of valuation are valued on the basis of these benchmarks.

The value of the Treaty of Waitangi was based on a valuation as at 30 June 2011, supported by Sotheby's, an independent valuer. Other items of exceptional value were based on a valuation from Dunbar Sloane, also obtained in June 2011. These valuations were based on market assessments and comparisons with other items of a similar nature.

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

National Library collections

The Heritage Collections are valued at fair value with valuations performed every three years. The latest valuation was performed by National Library staff as at 30 June 2011. The carrying value includes the value of purchases for the collections since the last revaluation and the value of material received through donation and legal deposit.

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

Conservation Property

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

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

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

Parliamentary Library

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

Library Reference Collections are measured at historic cost.

Note 20: Property, Plant and Equipment (continued)

Te Papa's collections

Te Papa's collections have been valued at cost or market value, with the exception of the Natural Environment collections, which are shown at replacement cost. Collections are valued annually, with each class of collection valued at least once every three years. Acquisitions to collections between revaluations are recorded at cost. As the collections tend to have an indefinite life and are generally not of a depreciable nature, depreciation is not applicable.

The valuation for the Library, History and Photographic collections was undertaken by Webb's (Auckland) as independent valuers in 2011.

The valuation of the Botanical, Vertebrate and Invertebrate Collections was conducted by a Te Papa-developed in house model based on current replacement costs. The model was independently validated by Simon Storey, of Simon Storey Valuers, Sydney, an accredited valuer of similar collections for the Australian Government.

Crown Research Institutes "collection type" asset values

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

Note 20: Property, Plant and Equipment (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Other Plant and Equipment (cost)		
Opening balance	12,416	11,423
Additions	1,130	1,377
Acquisitions through business combinations	53	22
Disposals	(805)	(435)
Net revaluations	1	-
Net foreign currency exchange differences	(8)	(6)
Other	133	35
Total other plant and equipment	**12,920**	**12,416**
Accumulated Depreciation and Impairment on Other Plant and Equipment		
Opening balance	6,610	6,040
Eliminated on disposal	(630)	(443)
Impairment losses charged to operating balance	27	2
Reversals of impairment losses charged to operating balance	7	(2)
Depreciation expense	1,046	926
Net foreign currency exchange differences	1	-
Other	189	87
Accumulated depreciation and impairment on other plant and equipment	**7,250**	**6,610**
Carrying value of other plant and equipment	**5,670**	**5,806**
By holding		
Leasehold	58	99
Freehold	5,612	5,707
Carrying value of other plant and equipment	**5,670**	**5,806**

Note 21: Equity Accounted Investments

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
7,558	7,972	Tertiary Education Institutions	7,968	7,740
1,882	1,426	Other	1,333	1,309
9,440	**9,398**	**Total equity accounted investments**	**9,301**	**9,049**

Tertiary Education Institutions (TEIs)

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

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

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

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

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Operating Results		
2,208	2,239	Revenue from Crown	2,200	2,232
1,982	1,972	Other revenue	2,217	1,968
(4,138)	(4,002)	Expenses	(4,249)	(3,992)
52	**209**	**Net surplus**	**168**	**208**
		Net worth		
		Assets		
1,275	1,435	Financial assets	1,450	1,435
7,431	7,864	Property, plant and equipment	7,867	7,638
328	291	Other assets	322	285
9,034	**9,590**	**Total assets**	**9,639**	**9,358**
		Liabilities		
230	242	Borrowings	228	242
1,246	1,376	Other liabilities	1,443	1,376
1,476	**1,618**	**Total liabilities**	**1,671**	**1,618**
7,558	**7,972**	**Net worth**	**7,968**	**7,740**

Note 22: Intangible Assets and Goodwill

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
		Computer software	1,266	1,260
		Net Kyoto position	291	212
		Goodwill	485	487
		Other intangible assets	352	225
2,596	**2,524**	**Total intangible assets and goodwill**	**2,394**	**2,184**
		By maturity		
		Expected to be sold or consumed within one year	398	363
		Expected to be sold or consumed after one year	1,996	1,821
		Total intangible assets and goodwill	**2,394**	**2,184**
		By source		
1,327	1,375	Core Crown	1,157	1,122
503	444	Crown entities	430	417
766	705	State-owned enterprises	807	645
-	-	Inter-segment eliminations	-	-
2,596	**2,524**	**Total intangible assets and goodwill**	**2,394**	**2,184**

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Computer Software		
Internally-Generated Computer Software		
Cost		
Opening balance	2,148	1,934
Additions	225	202
Disposals	(121)	(29)
Other movements	80	41
Total cost	**2,332**	**2,148**
Accumulated Amortisation		
Opening balance	1,393	1,173
Eliminated on disposal	(102)	(19)
Impairment losses charged to operating balance	4	5
Reversals of impairment losses charged to operating balance	-	29
Amortisation	235	222
Other movements	21	(17)
Total accumulated amortisation	**1,551**	**1,393**
Carrying value of internally-generated computer software	**781**	**755**
Purchased Computer Software		
Cost		
Opening balance	1,526	1,315
Additions	178	271
Disposals	(202)	(32)
Other movements	1	(28)
Total cost	**1,503**	**1,526**
Accumulated Amortisation		
Opening balance	1,021	899
Eliminated on disposal	(172)	(23)
Impairment losses charged to operating balance	(2)	18
Reversals of impairment losses charged to operating balance	-	(29)
Amortisation	163	141
Other movements	8	15
Total accumulated amortisation	**1,018**	**1,021**
Carrying value of purchased computer software	**485**	**505**
Total computer software	**1,266**	**1,260**

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2011 $m	30 June 2010 $m
Net Kyoto Position		
Opening net asset/(provision)	212	207
Change in the price of carbon and foreign exchange rate	(123)	(30)
Change in net projected emission units	202	35
Closing net asset	**291**	**212**

	30 June 2011 Emission Units million tonnes (Mt)	30 June 2010 Emission Units million tonnes (Mt)
Net Kyoto Position		
Kyoto target (assigned amount units)	309.6	309.6
Less AAUs allocated to emission reducing projects	3.4	5.0
Total commitment target	**306.2**	**304.6**
Projected emission units		
Agriculture	170.1	177.6
Energy (incl. transport) and industrial processes	183.6	184.9
Waste	9.9	8.2
Solvent and other product use	0.1	0.2
Total projected emission units	**363.7**	**370.9**
Removals via forest	89.3	89.1
Deforestation emissions	(6.6)	(9.2)
Less net removals via forests	82.7	79.9
Net projected emission units	**281.0**	**291.0**
Less net transfers of AAUs	3.4	2.4
Surplus units	**21.8**	**11.2**

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

New Zealand's net Kyoto position as at 30 June 2011 of $NZ291 million (2010: $NZ212 million) is based on the projected surplus of 21.8 million Kyoto Protocol emission units and a carbon price of €7.63 per unit. The carbon price in New Zealand dollars equates to $NZ13.31 (2010: $NZ18.94), using the 30 June 2011 exchange rate of €0.5734 =$NZ1 (30 June 2010: €0.5677 = $NZ1, and a carbon price of €10.75 per unit).

The carbon price has been determined by the Ministry for the Environment based on a report commissioned from Point Carbon on the international market transactions that have occurred in the AAU markets.

Note 22: Intangible Assets and Goodwill (continued)

Net Kyoto Position (continued)

The projected balance of Kyoto Protocol units (the net position) is compiled by the Ministry for the Environment using sectoral projection reports from across government. This includes reports on agriculture emissions and net removals from eligible forests from the Ministry of Agriculture and Forestry; energy emissions (including transport) and industrial processes emissions from the Ministry of Economic Development, and emissions from the waste sector from the Ministry for the Environment. Details of the net position can be found on the Ministry for the Environment's website: www.mfe.govt.nz. The sectoral reports from other departments can also be found by following links on this website. The projections use the latest information from the national inventory of greenhouse gas emissions and removals submitted to the United Nations Framework Convention on Climate Change secretariat on 15 April 2011.

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

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

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

During the first commitment period, the Ministry for the Environment estimate that 89.3 million tonnes of credits will be generated by carbon removals via forests (2010: 89.1 million tonnes). Of this amount, 14.4 million tonnes has been allocated to foresters through the ETS as at 30 June 2011 (2010: 5.1 million tonnes). To the extent that these forests are harvested (in subsequent commitment periods), and a future international agreement is negotiated, there will be an associated liability generated that will need to be repaid. As the forestry credits have been incorporated when calculating the current position for the first commitment period, the associated obligation of the Crown in respect of future commitment periods has been reported as a separate contingent liability (refer note 32). Using the carbon price for measuring the net Kyoto position as at 30 June 2011, this contingent liability can be measured at $NZ997 million (ie, 74.9 million tonnes x $NZ13.31) (2010: $1,590 million).

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

Note 22: Intangible Assets and Goodwill (continued)

	Actual	
	30 June 2011 $m	30 June 2010 $m
Goodwill		
Cost		
Opening balance	706	679
Additions	4	30
Disposals	-	(3)
Other movements	(3)	-
Total cost	**707**	**706**
Accumulated Impairment		
Opening balance	219	218
Eliminated on disposal	-	-
Impairment losses charged to operating balance	-	2
Reversals of impairment losses charged to operating balance	-	-
Amortisation charge	2	-
Other movements	1	(1)
Total accumulated impairment	**222**	**219**
Carrying value of goodwill	**485**	**487**

Goodwill in relation to Air New Zealand of $258 million (2010: $258 million) has been tested for impairment in June 2011 based on a value in use discounted cash flow valuation. Cash flow forecasts were prepared for five years using Air New Zealand board reviewed business plans. Key assumptions include exchange rates, jet fuel costs, passenger load factors and route yields. These assumptions have been based on historical data and current market information. The cash flow forecasts are particularly sensitive to fluctuations in fuel prices and exchange rates and are extrapolated using an average nominal growth rate of approximately 1.5%. The cash flow projections are discounted using post-tax discount rate scenarios of 10 - 10.5%. The 2011 valuation confirmed that there was no impairment to the goodwill asset required.

Note 23: Payables

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
6,242	5,941	Accounts payable	7,337	6,703
3,759	3,228	Taxes repayable	3,762	3,228
10,001	**9,169**	**Total payables**	**11,099**	**9,931**
		By maturity		
9,649	8,892	Expected to be settled within one year	10,721	9,734
352	277	Expected to be outstanding for more than one year	378	197
10,001	**9,169**	**Total payables**	**11,099**	**9,931**
		By source		
7,011	6,160	Core Crown	6,997	7,120
3,680	4,747	Crown entities	5,587	4,390
4,876	4,842	State-owned enterprises	4,779	4,652
(5,566)	(6,580)	Inter-segment eliminations	(6,264)	(6,231)
10,001	**9,169**	**Total payables**	**11,099**	**9,931**

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

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

Note 24: Borrowings

Forecast 30 June 2011 Budget 10 $m	Budget 11 $m		Actual 30 June 2011 $m	30 June 2010 $m
		By type		
41,328	47,016	Government stock[1]	46,018	27,926
9,509	6,698	Treasury bills	7,028	7,625
337	270	Government retail stock	261	309
7,602	6,736	Settlement deposits with Reserve Bank	6,276	6,679
1,369	1,777	Derivatives in loss[2]	2,767	2,376
1,037	1,231	Finance lease liabilities	1,176	920
28,234	27,275	Other borrowings	26,719	23,898
89,416	**91,003**	**Total borrowings[3]**	**90,245**	**69,733**
		By source		
73,196	76,942	Core Crown	76,827	57,583
4,988	5,129	Crown entities	5,123	4,835
23,646	22,600	State-owned enterprises	23,099	19,747
(12,414)	(13,668)	Inter-segment eliminations	(14,804)	(12,432)
89,416	**91,003**	**Total borrowings**	**90,245**	**69,733**
		By maturity		
58,458	47,662	Expected to be settled within one year	33,384	30,246
30,958	43,341	Expected to be outstanding for more than one year	56,861	39,487
89,416	**91,003**	**Total borrowings**	**90,245**	**69,733**
		By guarantee		
65,890	68,536	Sovereign-guaranteed debt[4]	67,765	50,017
23,526	22,467	Non-sovereign debt	22,480	19,716
89,416	**91,003**	**Total borrowings**	**90,245**	**69,733**

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

All principal, interest and other money payable in relation to money borrowed by the core Crown is a charge on, and payable out of, the revenues of the core Crown equally and rateably with all other general borrowing obligations of the core Crown.

The Government is not liable to contribute towards the payments of debts of Government entities, their subsidiaries or any entity in which the Government has an interest or that is controlled or wholly owned by the Government. Exceptions to this rule only occur for items the Government is liable for under any Act, any guarantee given by the Government, by virtue of an action a creditor has against the Government, or liability the Government has to a creditor of the Reserve Bank.

1. Government stock includes $395 million of infrastructure bonds (2010: $395 million).

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

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

4. Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by State-owned enterprises and Crown entities are not explicitly guaranteed by the Crown.

Note 24: Borrowings (continued)

Government Stock

	Actual	
	30 June 2011 $m	30 June 2010 $m
Government stock measured at amortised cost	42,971	26,814
Government stock measured at fair value	3,047	1,112
Total Government stock	**46,018**	**27,926**

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

The fair value of government stock measured at amortised cost is $47,244 million (2010: $27,836 million). This valuation is based on observable market prices.

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

	Actual	
	30 June 2011 $m	30 June 2010 $m
Government stock measured at fair value		
Carrying value	3,047	1,112
Amount payable on maturity	324	904
Fair value impact from changes in credit risk for the year	-	-
Cumulative fair value impact from changes in credit risk	-	-

Treasury Bills

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

Note 24: Borrowings (continued)

Settlement Deposits with Reserve Bank

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

Settlement deposits with the Reserve Bank are technically a form of borrowing by the Reserve Bank, where the liability is matched by a corresponding financial asset (reported as an element of marketable securities and deposits – refer note 15). Settlement deposits are reported at fair value, which is equivalent to the amount payable to depositors given the short term (ie, overnight) nature of these liabilities.

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

Finance Lease Liabilities

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By source		
7	11	Core Crown	16	12
46	51	Crown entities	49	46
984	1,174	State-owned enterprises	1,115	866
-	(5)	Inter-segment eliminations	(4)	(4)
1,037	**1,231**	**Total finance lease liabilities**	**1,176**	**920**
		Undiscounted Minimum Lease Payments		
		No later than one year	136	110
		Later than one year and not later than five years	581	459
		Later than five years	596	516
		Total undiscounted minimum lease payments	**1,313**	**1,085**
		Present Value of Minimum Lease Payments		
		No later than one year	120	90
		Later than one year and not later than five years	518	392
		Later than five years	541	445
		Total present value of minimum lease payments	**1,179**	**927**
		Future finance charges	**134**	**158**

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

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

Note 24: Borrowings (continued)

Other Borrowings

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
16,951	15,727	Other borrowings measured at amortised cost	20,999	18,587
11,283	11,548	Other borrowings measured at fair value	5,720	5,311
28,234	**27,275**	**Total other borrowings**	**26,719**	**23,898**

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

The fair value of other borrowings measured at amortised cost is $20,688 million (2010: $18,571 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets are determined by reference to quoted market prices. Where such prices are not available use is made of estimated discounted cash flows models with reference to market interest rates.

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

Of these borrowings, $7,179 million (2010: $6,414 million) is sovereign-issued debt administered by the Reserve Bank and NZDMO. As there have been no changes in the international credit rating for Sovereign debt there has been no value change attributable to credit risk for these borrowings.

The remaining borrowings of $19,530 million (2010: $17,484 million) comprise non-sovereign-issued debt of Crown entities and State-owned enterprises. The following table identifies the difference between the carrying amount and amount payable at maturity as well as the extent that fair value movements have resulted from changes in credit risk of the issuing entity. The carrying value can differ to the amount actually payable on maturity where the effect of discounting cash flows is material.

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Other borrowings measured at fair value		
Carrying value	5,720	5,311
Amount payable on maturity	6,424	5,011
Fair value impact from changes in credit risk for the year	121	(7)
Cumulative fair value impact from changes in credit risk	(311)	(191)

Note 25: Insurance Liabilities

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By entity		
28,483	26,761	ACC liability	26,939	26,997
86	4,985	EQC property damage liability	10,570	88
-	-	AMI insurance liability	2,082	-
66	56	Other insurance liabilities	59	46
-	-	Inter-segment eliminations	(336)	-
28,635	**31,802**	**Total insurance liabilities**	**39,314**	**27,131**
		By component		
		Outstanding claims liability	36,422	24,517
		Unearned premium liability	2,572	2,508
		Unearned premium liability deficiency	320	106
		Other	-	-
		Total insurance liabilities	**39,314**	**27,131**
		By maturity		
5,586	10,169	Expected to be settled within one year	8,880	4,919
23,049	21,633	Expected to be outstanding for more than one year	30,434	22,212
28,635	**31,802**	**Total insurance liabilities**	**39,314**	**27,131**
		Assets arising from insurance obligations are:		
		Receivables for premiums	**3,101**	3,230
		Reinsurance claim recoveries	**5,381**	-

Information on insurance expenses can be found in note 11. Additional information on the risks and uncertainties in relation to the Canterbury earthquakes can be found in note 30.

The Crown acquired effective control of AMI on the 7th of April 2011 (refer note 34). As a result, the insurance obligations of AMI are not included in the 2010 comparatives.

The objectives, policies and procedures for managing these risks are set out in the governing statutes and policy documents of each entity.

All assets held by the three insurance entities are considered available to back present and future claims obligations. ACC and EQC have not deferred any acquisition costs (eg, marketing costs) in respect of insurance obligations at the reporting date. AMI had deferred acquisition costs of $2.1 million at 30 June 2011.

Analysis of insurance liabilities

The remainder of the note provides a detailed analysis of the ACC, EQC and AMI insurance liabilities. Further information on these liabilities may also be found in the annual reports of each of these entities and on their respective websites. The analysis includes a breakdown of the outstanding claims liability, unearned premium liability, and the unearned premium liability deficiency.

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

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

The unearned premium liability deficiency is the extent that the unearned premium liability is insufficient to cover expected future claims (ie, payments for future accidents within the period covered by the premiums received).

Note 25: Insurance Liabilities (continued)

Analysis of ACC insurance liability

ACC's insurance obligations arise primarily from the accident compensation scheme provision of personal injury cover for all New Zealand citizens, residents and temporary visitors to New Zealand.

PricewaterhouseCoopers Actuarial Pty Limited have prepared the independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2011. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual	
	30 June 2011 $m	**30 June 2010 $m**
The ACC liability comprises:		
ACC outstanding claims liability	24,510	24,430
ACC unearned premium liability	2,429	2,462
ACC unearned premium liability deficiency	-	105
Total ACC liability	**26,939**	**26,997**
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	74,895	69,768
Discount adjustment	(53,174)	(48,114)
Risk margin	2,789	2,776
Total outstanding ACC claims liability	**24,510**	**24,430**
Expected future claims payments - central estimate	20,374	20,342
Claims handling expenses	1,347	1,312
Outstanding claims liability before risk margin	21,721	21,654
Risk margin	2,789	2,776
Total outstanding ACC claims liability	**24,510**	**24,430**
Movement in Outstanding ACC Claims Liability		
Opening balance	24,430	23,786
Claims incurred for the year	3,652	3,913
Claims paid out in the year	(2,896)	(3,175)
Discount rate unwind	832	708
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	(1,966)	(1,661)
- change in discount rate	862	1,170
- change in inflation rate	108	49
- change in other economic assumptions	-	32
Other movements	(512)	(392)
Closing outstanding ACC claims liability	**24,510**	**24,430**
Movement in ACC Unearned Premium Liability		
Opening balance	2,462	2,095
Earning of premiums previously deferred	(2,462)	(2,095)
Deferral of premiums on current year	2,429	2,462
Other	-	-
Closing ACC unearned premium liability	**2,429**	**2,462**

Note 25: Insurance Liabilities (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	2,429	2,462
Adjusted for unearned premium relating to residual claims and premium liabilities without deficiency	(2,429)	(2,327)
Adjusted ACC unearned premium liability	**-**	**135**
Central estimate of discounted cash flows for future claims	-	195
Central estimate of discounted future reinsurance recoveries	-	-
Risk margin	-	45
Present value of expected cash flows for future accident claims	**-**	**240**
Total ACC unearned premium liability deficiency	**-**	**105**

Unearned premiums relating to residual claims are excluded from this calculation as they relate to accidents that occurred prior to 1999.

Key Assumptions

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

(i) Risk-free discount rates

The projected cash flows were discounted using a series of forward discount rates at the balance date derived from the yield curve for New Zealand government bonds. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is a short term discount rate of 5.61% (2010: 5.69% up to 10 years) and a long term discount rate of 6.00% beyond 17 years (2010: 6.00% beyond 16 years).

(ii) Risk margin

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

(iii) Inflation and indexation

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

(iv) Case management and the 'tail' of claims

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

(v) Liability adequacy test

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

Note 25: Insurance Liabilities (continued)

	30 June 2011 Next Year	30 June 2011 Beyond Next Year	30 June 2010 Next Year	30 June 2010 Beyond Next Year
Summary of assumptions				
Average weighted term to settlement from reporting date	14 years 7 months		13 years 10 months	
Weighted average risk margin	12.8%		12.8%	
Probability of adequacy of liability	75.0%		75.0%	
Risk margin for liability adequacy test	18.0%		18.0%	
Probability of adequacy of liability to cover unearned premiums	75.0%		75.0%	
Risk-free discount rate[1]	2.8%	3.8% to 6.2%	3.5%	4.5% to 6.2%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	3.8%	3.5%	3.4%	3.4% to 3.5%
Impairment benefits	4.5%	2.5% to 2.9%	2.0%	2.4% to 5.9%
Social rehabilitation benefits (serious and non serious injury)	3.0%	2.7%	2.6%	2.6% to 2.7%
Hospital rehabilitation benefits	3.0%	2.7%	2.6%	2.6% to 2.7%
Medical costs	3.0%	2.7%	2.6%	2.6% to 2.7%
Superimposed inflation:				
Social rehabilitation benefits (serious injury)	1.7%	2.9% to 4.9%	2.3%	2.4% to 8.6%
Social rehabilitation benefits (non-serious injury)	2.5%	2.0% to 2.5%	4.5%	2.0% to 2.5%
Hospital rehabilitation benefits	5.0%	4.0% to 5.0%	5.0%	4.0% to 5.0%
Medical costs (GP's & physiotherapists)	2.0%	2.0% to 3.0%	1.0%	3.5% to 9.5%
Medical costs others (specialists)	1.8%	1.8% to 2.5%	2.0%	2.5% to 6.0%

1. The risk-free discount rate beyond 17 years is 6.0% (2010: the rate beyond 16 years was 6.0%).

Note 25: Insurance Liabilities (continued)

Sensitivity Analysis

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

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

	Change	Impact on liability Actual 30 June 2011 $m	Impact on liability Actual 30 June 2010 $m
Sensitivity of assumptions			
Average weighted term to settlement from reporting date	+1 year	(735)	(732)
	-1 year	758	754
Risk-free discount rate	+1%	(3,005)	(2,828)
	-1%	3,937	3,668
Inflation rates (including superimposed inflation)	+1%	4,085	3,850
	-1%	(3,163)	(2,986)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	741	737
	-1%	(719)	(528)
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims	+1%	1,904	1,606
	-1%	(1,415)	(1,217)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $21,721 million (2010: $21,654 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 2011. These estimated cash flows include the effects of assumed future inflation.

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
No later than 1 year	1,834	2,025
Later than 1 year and no later than 2 years	1,378	1,495
Later than 2 years and no later than 5 years	3,728	3,936
Later than 5 years and no later than 10 years	5,884	6,040
Later than 10 years and no later than 15 years	5,800	5,896
Later than 15 years and no later than 20 years	5,842	5,876
Later than 20 years and no later than 25 years	5,952	5,867
Later than 25 years and no later than 30 years	6,034	5,793
Later than 30 years and no later than 35 years	5,996	5,613
Later than 35 years and no later than 40 years	5,845	5,331
Later than 40 years and no later than 45 years	5,567	4,958
Later than 45 years and no later than 50 years	5,136	4,468
Later than 50 years	15,899	12,470
Undiscounted outstanding claims liability	**74,895**	**69,768**

Note 25: Insurance Liabilities (continued)

Analysis of EQC insurance liability

EQC covers the following types of hazard: earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami, as well as fire caused by any of the above.

EQC recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required by financial reporting standards, a risk margin is applied to a central estimate to increase to 75% the likelihood that claims will be settled within this amount.

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
The EQC liability comprises:		
EQC outstanding claims liability	10,204	12
EQC unearned premium liability	46	46
EQC unearned premium liability deficiency	320	30
Total EQC liability	**10,570**	**88**
By type		
Property damage claims in relation to Canterbury earthquakes	10,151	-
Other insurance liabilities	419	88
Total EQC liability	**10,570**	**88**
Analysis of Outstanding EQC Insurance Liability		
Undiscounted outstanding claims liability	10,535	12
Discount adjustment	(891)	-
Risk margin	560	-
Total outstanding EQC insurance liability	**10,204**	**12**
Expected future claims payments - central estimate	9,035	11
Claims handling expenses	609	1
Outstanding claims liability before risk margin	9,644	12
Risk margin	560	-
Total outstanding EQC insurance liability	**10,204**	**12**
Movement in Outstanding EQC Insurance Liability		
Opening balance	12	9
Claims incurred for the year - Canterbury earthquakes	11,380	-
Claims incurred for the year - other	68	40
Claims paid out in the year	(1,256)	(37)
Discount rate unwind	-	-
Experience adjustments (actuarial gains and losses):	-	
- actual and assumed claim experience	-	-
- change in discount rate	-	-
- change in inflation rate	-	-
- change in other economic assumptions	-	-
Other movements	-	-
Closing outstanding EQC insurance liability	**10,204**	**12**

Note 25: Insurance Liabilities (continued)

	Actual 30 June 2011 $m	30 June 2010 $m
Movement in EQC Unearned Premium Liability		
Opening balance	46	45
Earning of premiums previously deferred	(46)	(45)
Deferral of premiums on current year	46	46
Other	-	-
Closing EQC unearned premium liability	**46**	**46**
Analysis of EQC unearned premium liability deficiency		
Unearned premium liability	**46**	**46**
Central estimate of discounted cash flows for future claims	313	76
Central estimate of discounted future reinsurance recoveries	(11)	(8)
Risk margin	64	8
Present value of expected cash flows for future claims	**366**	**76**
Total EQC unearned premium liability deficiency	**320**	**30**

Key Assumptions

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

(i) Weighted average term to settlement

The weighted average term to settlement varies by valuation groupings having regard to the estimated future patterns of gross claim payments for these groupings.

(ii) Claims inflation rate

The claims inflation rates have made some allowance for higher levels of claims inflation for the building claims. In addition, the risk margin implicitly allows for somewhat higher levels of claims inflation.

(iii) Risk-free discount rate

Where applicable, claims and recoveries have been discounted using a risk-free rate based on New Zealand government bonds and the payment profile of the underlying recovery payments.

(iv) Risk margin

The risk margins are derived directly from the claims distributions produced by the net incurred claims models. The risk margin is expressed as a percentage of the net discounted outstanding claims liability and is intended to achieve a 75% probability of adequacy in meeting the actual amount of liability to which it relates.

(v) Claims handling expenses ratio

Claims handling expenses are subdivided into event groups and estimated on a per-claim basis using per-claim assumptions derived from an analysis of expenses. Risk margins are also applied to claims handling expenses. The claims handling expenses ratio is expressed as a percentage of the gross undiscounted outstanding claims liability.

Note 25: Insurance Liabilities (continued)

Summary of assumptions	30 June 2011
Weighted average term to settlement	0.3 to 1.9 years
Claims inflation rate	2.5% to 5.0%
Risk-free discount rate	2.84% to 6.24%
Risk margin	10.4%
Claims handling expense ratio	6.1%

Sensitivity Analysis

The value of the EQC claims liability is sensitive to underlying assumptions such as the construction inflation, nil claim rate and reinstatement percentage.

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

Sensitivity of assumptions		Impact on liability Actual 30 June 2011 $m
Weighted average term to settlement	+ 0.5 years	(31)
	- 0.5 years	35
Claims inflation rate	+1%	105
	-1%	(107)
Risk-free discount rate	+1%	(125)
	-1%	143
Risk margin	+1%	54
	-1%	(54)
Claims handling expense ratio	+1%	59
	-1%	(59)

Note 25: Insurance Liabilities (continued)

Analysis of AMI insurance liability

AMI is a fire and general insurance company, specialising in motor vehicle, house, contents, boat and farm insurance.

Finity Consulting Pty Limited have prepared the independent actuarial estimate of the AMI claims liability as at 30 June 2011. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual 30 June 2011 $m
The AMI liability comprises:	
AMI outstanding claims liability	1,985
AMI unearned premium liability	97
AMI unearned premium liability deficiency	-
Total AMI liability	**2,082**
By type	
Property damage claims in relation to Canterbury earthquakes	1,937
Other insurance liabilities	145
Total AMI liability	**2,082**
Analysis of Outstanding AMI Claims Liability	
Undiscounted outstanding claims liability	1,846
Discount adjustment	(95)
Risk margin	234
Total outstanding AMI claims liability	**1,985**
Expected future claims payments - central estimate	1,715
Claims handling expenses	36
Outstanding claims liability before risk margin	1,751
Risk margin	234
Total outstanding AMI claims liability	**1,985**
Movement in Outstanding AMI Claims Liability	
Opening balance	-
Claims liability acquired through business combination	1,928
Claims incurred for the year - Canterbury earthquakes	95
Claims incurred for the year - other	42
Claims paid out in the year	(80)
Discount rate unwind	-
Experience adjustments (actuarial gains and losses):	
- actual and assumed claim experience	-
- change in discount rate	-
- change in inflation rate	-
- change in other economic assumptions	-
Other movements	-
Closing outstanding AMI claims liability	**1,985**

Note 25: Insurance Liabilities (continued)

	Actual 30 June 2011 $m
Movement in AMI Unearned Premium Liability	
Opening balance	-
Claims liability acquired through business combination	96
Earning of premiums previously deferred	43
Deferral of premiums on current year	(42)
Other	-
Closing AMI unearned premium liability	**97**
Analysis of AMI unearned premium liability deficiency	
Unearned premium liability	-
Central estimate of discounted cash flows for future claims	-
Central estimate of discounted future reinsurance recoveries	-
Risk margin	-
Present value of expected cash flows for future claims	**-**
Total AMI unearned premium liability deficiency	**-**

Key Assumptions

The valuation of the outstanding claims liability is based on detailed assumptions about the number of properties damaged, the mix and cost of rebuilds, repairs, and cash settlements, and the amount of damage which will be covered by EQC. In addition, the key assumptions made regarding future economic conditions are as follows:

(i) Average weighted term to settlement

Expected payment patterns have been used to determine the outstanding claims liability. The payment patterns adopted have been set based on the Actuary's best estimate of when the payments are likely to be made.

(ii) Inflation

The actuarial models adopted allows for any inflationary impact which is likely to affect future claims payments. A 6% inflation assumption has been made relating to building costs in Canterbury.

(iii) Discount rate

Where applicable, claims and recoveries have been discounted using a risk-free rate based on New Zealand government bonds and the payment profile of the underlying recovery payments.

(iv) Risk margin

The risk margin was determined at a line of business level, allowing for the uncertainty of the outstanding claims estimate for each line of business. Uncertainty was analysed for each portfolio, taking into account past volatility in general insurance claims, actuarial model and parameter error, and diversification between the lines of business. The risk margin is intended to achieve at least a 75% probability of adequacy for the outstanding claims.

Note 25: Insurance Liabilities (continued)

	30 June 2011
Summary of assumptions	
Average weighted term to settlement from reporting date	
Earthquake related claims	2.6 years
Non-earthquake related claims	0.4 years
Inflation (earthquake related claims)	
Building costs	6.0%
Other cover types	3.0%
Risk-free discount rate	2.74% to 4.58%
Weighted average risk margin	
Earthquake related claims	14.1%
Non-earthquake related claims	9.0%
Probability of adequacy of liability	75.0%
Risk margin for liability adequacy test	9.0%
Probability of adequacy of liability to cover unearned premiums	75.0%

Sensitivity Analysis

The value of the AMI claims liability is sensitive to underlying assumptions such as the discount rate, claims handling expense rate, and the risk margin.

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

	Change	Impact on liability Actual 30 June 2011 $m
Sensitivity of assumptions		
Inflation (earthquake related claims)	+1%	27
	-1%	(26)
Risk-free discount rate	+1%	(14)
	-1%	14
Weighted average risk margin		
Earthquake related claims	+1%	15
	-1%	(15)

Note 26: Retirement Plan Liabilities

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
8,817	9,268	Government Superannuation Fund (GSF)	10,152	9,936
4	3	Other funds	4	4
8,821	**9,271**	**Total retirement plan liabilities**	**10,156**	**9,940**
		By source		
8,819	9,269	Core Crown	10,154	9,938
1	1	Crown entities	1	1
1	1	State-owned enterprises	1	1
-	-	Inter-segment eliminations	-	-
8,821	**9,271**	**Total retirement plan liabilities**	**10,156**	**9,940**

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

The GSF obligation has been calculated by the Government Actuary as at 30 June 2011. A Projected Unit Credit Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from the GSF in respect of past service to be estimated and then discounted back to the valuation date.

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

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Net GSF Obligation		
Present value of defined benefit obligation	13,311	12,881
Fair value of plan assets	(3,159)	(2,945)
Present value of unfunded defined benefit obligation	**10,152**	**9,936**
Present value of defined benefit obligation		
Opening defined benefit obligation	12,881	11,792
Expected current service cost	111	122
Expected unwind of discount rate	448	447
Actuarial losses/(gains)	733	1,348
Benefits paid	(863)	(826)
Other	1	(2)
Closing defined benefit obligation	**13,311**	**12,881**
Fair value of plan assets		
Opening fair value of plan assets	2,945	2,804
Expected return on plan assets	177	168
Actuarial gains/(losses)	159	117
Funding of benefits paid by Government	663	611
Contributions from other entities	23	13
Contributions from members	54	60
Benefits paid	(863)	(826)
Other	1	(2)
Closing fair value of plan assets	**3,159**	**2,945**

Note 26: Retirement Plan Liabilities (continued)

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

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Personnel Expenses		
		Expected current service cost	111	122
		Expected unwind of discount rate on GSF obligation	448	447
		Expected return on plan assets	(177)	(168)
		Contributions from members and funding employers	(77)	(73)
		Past service cost	-	-
357	281	Total included in personnel expenses	305	328
		Net (Gains)/Losses on Non-Financial Instruments		
-	(287)	Actuarial losses recognised in the year	574	1,231
357	**(6)**	**Total GSF expense**	**879**	**1,559**

The Government expects to make a contribution of $679 million to GSF in the year ended 30 June 2012.

In addition to its obligations to past and present employees, because GSF is liable for income tax, the Crown will be required to make additional contributions equivalent to the tax on future investment income.

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

	Actual 30 June 2011 %	Actual 30 June 2010 %
Summary of assumptions		
For following year		
Discount rate	2.84%	3.48%
Expected return on plan assets	6.00%	6.00%
Expected rate of salary increases	3.00%	3.00%
Expected rate of inflation	3.00%	5.90%
Beyond next year		
Discount rates between 2 and 16 years	3.81% to 6.24%	4.45% to 6.21%
Discount rate from 17 years onwards	6.00%	6.00%
Expected return on plan assets	6.00%	6.00%
Expected rate of salary increases	3.00%	3.00%
Expected rate of inflation from 2 to 15 years	2.50%	2.40% to 2.50%
Expected rate of inflation from 16 years onwards	2.50%	2.50%

The 2011 valuation includes an adjustment for improvements in mortality assumptions. This assumption is calculated at 0.25% of total past service liability and results in an increase in the GSF obligation of $325 million and a corresponding increase in actuarial losses.

Note 26: Retirement Plan Liabilities (continued)

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

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Equity instruments	1,587	1,551
Other debt instruments	707	776
Property	150	168
Other	715	450
Fair value of plan assets	**3,159**	**2,945**

The expected rate of return on the plan assets of 6.00% (2010: 6.00%) has been calculated by taking the expected long term returns from each asset class, reduced by tax and investment expenses (using the current rates of tax and investment expenses).

The actual return on plan assets for the year ended 30 June 2011 was 11.63%, or $336 million (2010: 10.42% or $285 million).

Sensitivity Analysis

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

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

	Change	Impact on obligation Actual 30 June 2011 $m	Impact on obligation Actual 30 June 2010 $m
Sensitivity of assumptions			
Discount rate	+ 1%	(1,236)	(1,243)
	- 1%	1,480	1,492

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

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

	Impact on operating balance Actual		Impact on net worth Actual	
Change in share prices	30 June 2011 $m	30 June 2010 $m	30 June 2011 $m	30 June 2010 $m
Strengthen/weaken by 10%	159	155	159	155

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

Note 26: Retirement Plan Liabilities (continued)

Historical Analysis

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

			Actual	
	30 June 2011 $m	30 June 2010 $m	30 June 2009 $m	30 June 2008 $m
Present value of defined benefit obligation	13,311	12,881	11,792	11,831
Fair value of plan assets	(3,159)	(2,945)	(2,804)	(3,574)
Present value of unfunded defined benefit obligation	**10,152**	**9,936**	**8,988**	**8,257**
Experience adjustment - increase/(decrease) in plan liabilities	388	286	79	164
Experience adjustment - increase/(decrease) in plan assets	159	117	(806)	(479)
Total experience adjustments	(229)	(169)	(885)	(643)
Changes in actuarial assumptions	(345)	(1,062)	190	(455)
Actuarial (losses)/gains recognised in the year	**(574)**	**(1,231)**	**(695)**	**(1,098)**

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $13,311 million (2010: $12,881 million) represents the net present value of estimated cash flows associated with this obligation. The following table represents the timing of future undiscounted cash flows for entitlements to 30 June 2011. These estimated cash flows include the effects of assumed future inflation.

	30 June 2011 $m	30 June 2010 $m
No later than 1 year	866	841
Later than 1 year and no later than 2 years	875	878
Later than 2 years and no later than 5 years	2,655	2,646
Later than 5 years and no later than 10 years	4,489	4,464
Later than 10 years and no later than 15 years	4,371	4,392
Later than 15 years and no later than 20 years	4,001	4,066
Later than 20 years and no later than 25 years	3,400	3,510
Later than 25 years and no later than 30 years	2,607	2,742
Later than 30 years and no later than 35 years	1,804	1,935
Later than 35 years and no later than 40 years	1,121	1,230
Later than 40 years and no later than 45 years	620	699
Later than 45 years and no later than 50 years	298	349
Undiscounted defined benefit obligation	**27,107**	**27,752**

After 50 years there is expected to be a reducing level of cash for a further 20 years totalling approximately $168 million (2010: $211 million).

Note 27: Provisions

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		By type		
2,516	2,896	Provision for employee entitlements	3,050	2,836
722	928	Provision for ETS credits	612	74
-	-	Provision for future retail deposit guarantee scheme payments	-	748
883	965	Provision for National Provident Fund guarantee	983	1,007
-	-	Provision for Canterbury Red Zone support package	1,039	-
-	697	Provision for weathertight services financial assistance package	567	-
1,034	3,349	Other provisions[1]	1,335	1,319
5,155	**8,835**	**Total provisions**	**7,586**	**5,984**
		By source		
2,788	6,258	Core Crown	5,351	3,424
1,563	1,698	Crown entities	1,770	1,695
862	952	State-owned enterprises	1,028	925
(58)	(73)	Inter-segment eliminations	(563)	(60)
5,155	**8,835**	**Total provisions**	**7,586**	**5,984**
		By maturity		
2,165	2,850	Expected to be settled within one year	4,656	2,741
2,990	5,985	Expected to be outstanding for more than one year	2,930	3,243
5,155	**8,835**	**Total provisions**	**7,586**	**5,984**

1. The Budget 2011 forecast of $3,349 million included an unspecified provision of $1,565 million to cover potential costs in relation to the Canterbury earthquakes.

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Provision for employee entitlements		
Opening provision	2,836	2,580
Additional provisions recognised	1,733	1,872
Provision used during the period	(1,464)	(1,387)
Reversal of previous provision	(64)	(228)
Unwind of discount rate	9	(1)
Effect of changes in discount rate	-	-
Closing provision	**3,050**	**2,836**

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

Note 27: Provisions (continued)

	Actual	
	30 June 2011 $m	30 June 2010 $m
Provision for ETS credits		
Opening provision	74	17
New provision recognised during the period (ETS expenses)	860	80
Provision used during the period (ETS revenue)	(322)	(23)
Reversal of previous provision	-	-
Closing provision	**612**	**74**

The Emissions Trading Scheme (ETS) was established to encourage a reduction in New Zealand's greenhouse gas emissions. The ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate freely. The allocation of NZ Units creates a provision (and an expense if allocated for free). The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters. Emitters can also use international Kyoto units to settle their emission obligation, which might occur where obligations exceed the number of allocated NZ Units. In the ETS transition period to the end of 2012, emitters can also use the NZ$25 price option to settle their emission obligation.

Until the end of 2012, the Government's net position regarding its climate change obligations will be determined by the net Kyoto position and the provisions for ETS credits. After 2012, the net position will depend on any future international climate change commitments.

The carbon price used to calculate the ETS provision is based on the estimated current carbon price of €11.63. The carbon price in New Zealand dollars equates to $NZ20.28 (2010: $NZ18.94), using the 30 June 2011 exchange rate of €0.5734 =$NZ1 (30 June 2010: €0.5677 = $NZ1, and a carbon price of €10.75 per unit).

The carbon price for the ETS provision has been determined by the Ministry for the Environment based on international market transactions that have occurred in the certified emission reduction (CER) markets. Currently, the CER market has been determined to be the most relevant market to use for determining the carbon price for NZ Units and the calculation of the provision for ETS credits, then the market for Kyoto assigned amount units (AAUs). As the market for NZ Units develops the basis for determining this carbon price will be reviewed.

	Actual	
	30 June 2011 $m	30 June 2010 $m
Provision for future retail deposit guarantee scheme payments		
Opening provision	748	831
New provision recognised during the period	-	-
Provision used during the period	(746)	(47)
Reversal of previous provision	(2)	(36)
Unwind of discount rate and effect of changes in discount rate	-	-
Closing provision	**-**	**748**

The provision for future retail deposit guarantee scheme payments was eliminated during the year as payments were made to depositors of entities that defaulted during the year.

Note 27: Provisions (continued)

	Actual	
	30 June 2011 $m	30 June 2010 $m
Provision for National Provident Fund guarantee		
Opening provision	1,007	954
Additional provisions recognised	-	28
Provision used during the period	(75)	(77)
Reversal of previous provision	(22)	(6)
Unwind of discount rate and effect of changes in discount rate	73	108
Closing provision	**983**	**1,007**

The Government has guaranteed superannuation schemes managed by the National Provident Fund (NPF) (refer to note 32 for details of the guarantee). Included in the provision is the NPF's DBP Annuitants Scheme unfunded liability position of $981 million (2010: $1,003 million), represented by a gross estimated pension obligation of $1,020 million (2010: $1,053 million) with net investment assets valued at $39 million (2010: $50 million).

	Actual	
	30 June 2011 $m	30 June 2010 $m
Provision for Canterbury Red Zone support package		
Opening provision	-	-
Additional provisions recognised	1,039	-
Provision used during the period	-	-
Reversal of previous provision	-	-
Unwind of discount rate and effect of changes in discount rate	-	-
Closing provision	**1,039**	**-**
Net provision		
Provision for Red Zone properties	1,039	**-**
Estimated insurance proceeds from Red Zone Properties	386	**-**
Net provision for Red Zone properties	**653**	**-**

Melville Jessup Weaver has prepared an independent actuarial valuation of both the estimated cost of purchasing the red zone properties and the estimated insurance proceeds from those properties as at 30 June 2011 using quantity surveying data and aggregate information regarding the level of land damage in the red zone. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine these valuations.

Note 27: Provisions (continued)

Key Assumptions

The key assumptions and the methodology applied in the valuation of the red zone valuations are as follows:

(i) Option choice

The valuation has assumed that homeowners will choose option B (purchase land only) if the expected total damage is greater than 80% of the improvement value of the property.

(ii) Price of purchase

The price the Government has to pay to purchase properties under option A and B are the 2007 capital value rating and land value rating issued by the Christchurch City Council. An allowance has been made for subsequent improvements to properties since 2007.

(iii) Insurance recoveries

Insurance recoveries are based on current insurance policy settings (including coverage and excess limits). Individual policies may differ between insurers. Therefore a number of policies were reviewed to establish "typical" policy settings. Assumptions have also been made regarding the proportion of damage to red zone properties.

(iv) Discount rate

Due to the short term nature of the liabilities the impact of discounting is not generally material. Where applicable, claims and recoveries have been discounted using a risk-free rate based on New Zealand Government bonds and the payment profile of the underlying cash flows.

Sensitivity Analysis

The net provision for red zone properties is most sensitive to the assumption regarding the choice of option A or option B. The table below illustrates the impact if the expected current assumption threshold (80%) is changed:

	Change	Impact on net obligation Actual 30 June 2011 $m
Sensitivity of assumptions		
Damage threshold	+ 10%	12
	- 10%	(20)

Note 27: Provisions (continued)

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Provision for weathertight services financial assistance		
Opening provision	-	-
Additional provisions recognised	567	-
Provision used during the period	-	-
Reversal of previous provision	-	-
Unwind of discount rate and effect of changes in discount rate	-	-
Closing provision	**567**	**-**

This provision represents the Government's obligation to contribute 25% of agreed repair costs to eligible owners of leaky homes under the Weathertight services financial assistance package.

Description of weathertight services financial assistance package (FAP)

The FAP offers qualifying homeowners a share of the agreed actual repair cost of repairing leaky homes. The Government and the Territorial Authority (if the Territorial Authority is participating in the FAP) each pay 25% of the agreed repair cost and the homeowner pays the remaining 50%. Under the FAP the homeowner agrees not to sue contributing Territorial Authorities and the government, although homeowners can still pursue other liable parties such as builders, developers and manufacturers of defective products.

The FAP scheme became available to homeowners from 29 July 2011 and eligible homeowners must lodge claims with the Department of Building and Housing prior to 29 July 2016. The 10 year limitation on lodging a weathertight claim means that over time the forecast eligible claims will reduce.

Key Assumptions

Due to the early stage of the claims process for this support package, there is considerably uncertainty attached to this provision and what the ultimate cost of the Government's contribution will be under the FAP. Because there are no claims as at the reporting date under the FAP, actuarial analysis of experience has not been possible. Therefore the Department of Building and Housing management have estimated the provision applying three critical assumptions; the number of eligible homes, the take-up rate, and the cost of repair.

The most critical assumption in estimating the Governments obligations under the FAP is the number of weathertightness failures in New Zealand, from which a forecast of eligible claims can be derived, recognising the requirement that houses must have been built or altered (if the alterations leak) within 10 years of the date of lodging a claim.

In 2009, a report prepared by PriceWaterhouseCoopers (PwC) estimated the total number and economic costs of weathertightness failures in New Zealand. The total estimated failures were in the range of 22,000 to 89,000, with experts agreeing on a consensus of approximately 42,000 failures, which is the number of eligible homes used in calculating the provision.

The second most critical assumption is the take-up rate for the scheme. In the absence of historical data or sufficiently comparable programmes that may be used as a proxy, a take-up rate of 70% was estimated. This rate is higher than several territorial authorities and takes the following into consideration:

- the level of awareness of the scheme and certainty over eligibility rules providing an effective resolution to the cost of the weathertightness issue
- the certainty the scheme offers over the total amount owners can expect to receive fairly quickly to get their homes repaired
- the wide consultation with stakeholders in designing the scheme to obtain support and acceptance of it

Note 27: Provisions (continued)

- the desire of owners to avoid the legal and evidential costs, time delays and stress of dispute resolution or litigation
- the recognition by owners that damaged homes tend to deteriorate, with wider damage and higher repair costs.

The third critical assumption is the assumed cost of repair per eligible homes at $241,474. The 2009 PwC report estimated the typical cost (repair cost and transaction cost) for three categories of weathertightness failure (maintenance, targeted repair and full repair). The estimate of costs was prepared using data sourced from Weathertight Homes Resolution Service claims, North Island territorial authorities, a property manager and Home Owners and Buyers Association of New Zealand. A weighted average of the cost of the typical cost of repair has been used, updated for inflation and excluding the legal costs assumed in PwC's report.

Sensitivity Analysis

The sensitivity of the provision for FAP against the three critical assumptions described above is further described below:

	Change	Impact on Provision 30 June 2011 $m
Sensitivity of assumptions		
Number of eligible houses	+1,000	49.7
	-1,000	(49.7)
Take-up rates	+10%	78.8
	-20%[1]	(148.2)
Repair costs	+10%	56.7
	-10%	(56.7)

[1] This assumption i.e 50% has been applied by several territorial authorities in making a provision for their share of costs.

	Actual 30 June 2011 $m	30 June 2010 $m
Other provisions		
Opening provision	1,319	1,171
Additional provisions recognised	294	524
Provision used during the period	(33)	(385)
Reversal of previous provision	(261)	(14)
Unwind of discount rate and effect of changes in discount rate	16	23
Closing provision	**1,335**	**1,319**

Note 28: Net Worth

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
26,983	21,720	Taxpayer funds	18,188	31,087
62,086	63,600	Property, plant and equipment revaluation reserve	62,690	63,593
62	63	Investment revaluation reserve	58	59
(186)	(219)	Cash flow hedge reserve	(310)	(143)
24	(47)	Foreign currency translation reserve	(47)	(10)
447	402	Net worth attributable to minority interest in Air New Zealand	308	402
89,416	**85,519**	**Total net worth**	**80,887**	**94,988**
		Taxpayer Funds		
34,027	31,087	Opening taxpayers funds	31,087	36,382
(7,067)	(9,437)	Operating balance excluding minority interest	(13,360)	(4,509)
24	62	Transfers from/(to) property, plant and equipment revaluation reserve	460	(785)
(1)	8	Other movements	1	(1)
26,983	**21,720**	**Closing taxpayers funds**	**18,188**	**31,087**
		Property, Plant and Equipment Revaluation Reserve		
62,110	63,593	Opening revaluation reserve	63,593	62,612
-	69	Net revaluations	(443)	196
(24)	(62)	Transfers from/(to) taxpayer funds	(460)	785
62,086	**63,600**	**Closing revaluation reserve**	**62,690**	**63,593**

The property, plant and equipment revaluation reserve arises on the revaluation of physical assets. Where revalued property, plant or equipment is sold, the portion of the property, plant and equipment revaluation reserve that relates to that asset, and is effectively realised, is transferred to taxpayer funds.

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Investment Revaluation Reserve		
61	59	Opening investment revaluation reserve	59	56
1	4	Increase arising on revaluation of available-for-sale financial assets	(1)	1
-	-	Cumulative (gain)/loss transferred to the statement of financial performance on sale of available-for-sale financial assets	-	2
62	**63**	**Closing investment revaluation reserve**	**58**	**59**

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

Note 28: Net Worth (continued)

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Cash Flow Hedge Reserve		
(190)	(143)	Opening cash flow hedge reserve	(143)	18
5	(52)	Transfer into reserve	(279)	(96)
(1)	(16)	Transfer to the statement of financial performance	17	(62)
-	(8)	Transfer to initial carrying value of hedged item	95	(3)
(186)	**(219)**	**Closing cash flow hedge reserve**	**(310)**	**(143)**

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

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Foreign currency translation reserve		
24	(10)	Opening foreign currency translation reserve	(10)	-
-	(37)	Arising from translation of foreign operations	(37)	(10)
24	**(47)**	**Closing foreign currency translation reserve**	**(47)**	**(10)**

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

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Net Worth Attributable to Minority Interest in Air New		
447	402	Opening minority interest	402	447
-	-	Operating balance attributable to minority interests	(101)	(17)
-	-	Transactions with minority interest	(20)	(11)
-	-	Other movements	27	(17)
447	**402**	**Closing minority interest**	**308**	**402**

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

Note 29: Capital Objectives and Fiscal Policy

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

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

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

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

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

Note 29: Capital Objectives and Fiscal Policy (continued)

Long Term Fiscal Intentions	
Fiscal Strategy Report 2010	**Fiscal Strategy Report 2011**
Debt Manage total debt at prudent levels. Over the short to medium term it is prudent to allow an increase in debt to deal with the current economic and fiscal shock. However, we need to ensure that this increase is eventually reversed and that we return to a level of debt that can act as a buffer against future shocks. We will do this by ensuring that net debt remains consistently below 40% of GDP, and is then brought back to a level no higher than 20% of GDP by the early 2020s. We will work towards achieving this earlier as conditions permit.	**Debt** Manage total debt at prudent levels. Over the short to medium term it is prudent to allow an increase in debt to deal with the current economic and fiscal shock. However, we need to ensure that this increase is eventually reversed and that we return to a level of debt that can act as a buffer against future shocks. We will do this by ensuring that net debt remains consistently below 35% of GDP, and is then brought back to a level no higher than 20% of GDP by the early 2020s. We will work towards achieving this earlier as conditions permit.
Operating balance Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective.	**Operating balance** Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective.
Operating expenses Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective.	**Operating expenses** To meet the operating balance objective, the Government will control the growth in government spending so that over time, core Crown expenses are reduced to around 30% of GDP.
Operating revenues Ensure sufficient operating revenue to meet the operating balance objective.	**Operating revenues** Ensure sufficient operating revenue to meet the operating balance objective.
Net worth Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Over the medium term, net worth will continue to fall as the impact of the global financial crisis unfolds. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the demographic change expected in the mid-2020s.	**Net worth** Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Over the medium term, net worth will continue to fall as the impact of the global financial crisis unfolds. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the demographic change expected in the mid-2020s.

Note 29: Capital Objectives and Fiscal Policy (continued)

Short Term Fiscal Intentions		
Fiscal Strategy Report 2010	**Fiscal Strategy Report 2011**	**Fiscal Position 2011**[1]
Debt Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 35.3% of GDP in 2013/14. Core Crown net debt (excluding NZS Fund and advances) is forecast to be 26.5% in 2013/14.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 37.2% of GDP in 2014/15. Core Crown net debt (excluding NZS Fund and advances) is forecast to be 29.6% in 2014/15.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2011 was 38.6% of GDP (2010: 31.1%). Core Crown net debt (excluding NZS Fund and advances) at 30 June 2011 was 20.0% of GDP (2010: 14.1%).
Operating balance Based on the operating allowance for the 2010 Budget, the operating deficit is forecast to be 3.5% of GDP in 2010/11. The operating deficit is forecast to be 0.3% of GDP in 2013/14. This decrease is consistent with the long-term objective for the operating balance.	**Operating balance** Based on the operating allowance for the 2011 Budget, the operating deficit is forecast to be 3.5% of GDP in 2011/12. The operating balance is forecast to be 1.9% of GDP in 2014/15. This is consistent with the long-term objective for the operating balance. The operating deficit (before gains and losses) is expected to be 4.7% in 2011/12.	**Operating balance** The operating deficit was 6.7% of GDP for the year ended 30 June 2011 (2010: 2.4%).
Expenses Total Crown expenses are forecast to be 42.4% of GDP in 2013/14. Core Crown expenses are forecast to be 32.4% of GDP in 2013/14. This assumes a new operating allowance of $1.1 billion per annum for the 2010 Budget growing at 2% for Budgets thereafter (GST exclusive).	**Expenses** Total Crown expenses are forecast to be 40.5% of GDP in 2014/15. Core Crown expenses are forecast to be 31.3% of GDP in 2014/15. This assumes a new operating allowance of $0.8 billion per annum for Budgets 2012 and 2013, then returning to $1.19 billion, growing at 2% for Budgets thereafter (GST exclusive).	**Expenses** Total Crown expenses were 49.9% of GDP for the year ended 30 June 2011 (2010: 42.8%). Core Crown expenses were 35.2% GDP for the year ended 30 June 2011 (2010: 33.8%).
Revenues Total Crown revenues are forecast to be 41.1% of GDP in 2013/14. Core Crown revenues are forecast to be 30.7% of GDP in 2013/14. Core Crown tax revenues are forecast to be 27.5% of GDP in 2013/14.	**Revenues** Total Crown revenues are forecast to be 41.0% of GDP in 2014/15. Core Crown revenues are forecast to be 31.0% of GDP in 2014/15. Core Crown tax revenues are forecast to be 27.8% of GDP in 2014/15.	**Revenues** Total Crown revenues were 40.7% of GDP for the year ended 30 June 2011 (2010: 39.5%). Core Crown revenues were 28.7% of GDP for the year ended 30 June 2011 (2010: 29.7%). Core Crown tax revenues were 25.7% of GDP for the year ended 30 June 2011 (2010: 26.8%).
Net worth Total Crown net worth is forecast to be 34.8% of GDP in 2013/14. Core Crown net worth is forecast to be 10.7% of GDP in 2013/14.	**Net worth** Total Crown net worth is forecast to be 34.1% of GDP in 2014/15. Core Crown net worth is forecast to be 7.9% of GDP in 2014/15.	**Net worth** Total Crown net worth was 40.4% of GDP as at 30 June 2011 (2010: 50.2%). Core Crown net worth was 17.4% of GDP as at 30 June 2011 (2010: 23.6%).

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

Note 30: Canterbury Earthquakes

The Canterbury region experienced two major earthquakes during the reporting period, on 4 September 2010 and 22 February 2011 (of magnitudes 7.1 and 6.3 respectively) in addition to a number of aftershocks (including two significant earthquakes on 13 June 2011).

These consolidated financial statements report both revenue and expenses in relation to these earthquakes. These fiscal impacts have been estimated based on the information available at the time these financial statements were produced. The largest and most complex valuations have been carried out by independent professional actuaries and represent a best estimate of the costs to date. However the final costs of the Canterbury earthquakes will not be certain for some time and these estimates may differ from those final costs. As a result, information on key assumptions (along with the sensitivity of those assumptions) has been included in the relevant notes to these financial statements (eg, insurance liabilities).

Amounts recognised in the statement of financial performance in respect of the earthquakes are:

	Note	Actual 30 June 2011 $m
Statement of Financial Performance		
Revenue		
Other revenue - EQC insurance claim on reinsurers	a	4,185
Other earthquake related revenue		329
Total earthquake related revenue (excluding gains)		**4,514**
Expenses		
Insurance expenses - EQC insurance expenses	a	11,656
Other operating expenses - Canterbury Red Zone support package	b	653
Other operating expenses - AMI support package	c	335
Insurance expenses - AMI insurance expenses	c	95
Other operating expenses - Share of local authorities' expenses	d	133
Other earthquake related expenses		729
Total earthquake related expenses (excluding losses)		**13,601**
Operating balance before gains/(losses)		**(9,087)**

These results do not represent the total expense to the Government of the earthquakes. There are still a number of costs that are to be determined (eg, the Government's share of repairs to essential infrastructure). In addition, there are still a number of significant policy decisions to be made regarding the earthquakes. These decisions will likely have fiscal costs in a future period (eg, offers in respect to the purchase of residential properties currently classified in the Orange and White Zones).

Note 30: Canterbury Earthquakes (continued)

The costs outlined in this note do not include the impact on tax or other revenues as a result of the earthquakes. The estimates are based on current government policy and do not include costs that the Government has not yet committed to, whether or not they are under active consideration, but which may yet arise in association with the earthquakes.

Details of the significant costs are included below. In addition, the Government has also announced or incurred other expenses such as wage subsidies, temporary accommodation, community and trauma support, and other support assistance. There has also been some damage to central government assets such as hospitals, schools, state housing and state highways.

The Government's contribution to repairing local roads damaged by the earthquakes is expected to be funded from the National Land Transport Fund (the "NLTF"). As a result, the costs associated with the repair of local roads will be recognised when claims are made to the fund and accepted by the New Zealand Transport Agency. The NLTF is funded primarily by the collection of road user charges, fuel excise duties, and registration fees.

The most significant "other" expense is in relation to welfare support packages which totalled $363 million for the year.

Note a - Earthquake Commission (EQC) Costs

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.

Residential property generally consists of dwellings (up to $100,000 + GST), contents (up to $20,000 + GST), and the land under and immediately around the dwelling, main access ways, and retaining walls (within certain limits).

EQC's obligation (and reinsurance recoveries) in relation to the earthquakes has been valued by an independent actuary (Melville Jessup Weaver). The Canterbury earthquakes have resulted in a higher than usual level of uncertainty in determining EQC's obligation in respect of past events. The key sources of this uncertainty are:

- the impact of multiple events on EQC coverage and reinsurance coverage
- severe land damage and a complex land claims environment from both an engineering and legal perspective
- the relatively early stage of claims development, including the most recent large earthquake event on 13 June 2011, and
- the potential for building cost inflation ("demand surge inflation") to exceed expectations.

Consequently, at this stage of claims development, there is a high degree of unavoidable uncertainty regarding future claims costs and related reinsurance recoveries. Over time, as assessments are completed and claims settled, the reasonableness of the valuation and its assumptions can be tested against the emerging claims experience and the level of uncertainty will reduce.

The key areas of estimation risk relates to claims that have been incurred but not reported or claims where the estimates are considered insufficient. The volatility of these claims is partially mitigated by the maximum settlement amounts for dwellings and contents. However, claims in relation to residential land are not subject to a monetary limit and are therefore subject to greater volatility.

On 2 September the High Court issued a declaratory judgement regarding the application of the Earthquake Commission Act (1993) in situations where full cover has been reinstated after an earthquake. The estimated financial impact of this judgement has been reflected in these financial statements.

These financial statements include insurance costs (net of recoveries) of $7.5 billion for the likely costs to be incurred by EQC in settling claims for damage to residential property arising from the Canterbury earthquakes. For the year ended 30 June 2011 EQC had made cash payments of approximately $1.2 billion against this obligation.

Note 30: Canterbury Earthquakes (continued)

Details of the calculation of EQC's claims obligation (including discussion on the sensitivity of assumptions) are provided in note 25 of these financial statements.

Note b – Canterbury Red Zone Support Package

On 23 June 2011 the Government announced zones of land damage in Christchurch and parts of the Waimakariri district. This land has been mapped into four zones:

- Red (land repair would be prolonged and uneconomic at present)
- Orange (further assessment required)
- Green (repair/rebuild process can begin), and
- White (not yet mapped or not residential).

Land in the red zone is unlikely to be suitable for continued residential occupation for a prolonged period of time. For this reason, the Government has also announced that it is prepared to purchase insured residential land in the red zone on a voluntary basis. There are two options for purchase:

1 the Crown will offer to purchase the entire property at the 2007 capital value rating valuation (less any insurance payments already made on the land and/or dwelling), and will assume all open insurance claims relating to the property other than contents, or

2 the Crown will offer to purchase the land at the greater of the following (less any land payments already made), allowing the previous property owner to pursue any open insurance claims relating to the dwelling:

  - 2007 land value rating valuation, or
  - EQC's actual land settlement under the Earthquake Commission Act 1993.

These financial statements include expenses of $653 million (net of insurance proceeds) for the cost of the red zone support package at 30 June 2011. Given the two options available to homeowners, there is an element of uncertainty and therefore the actual amount may differ to the estimate. Details of this provision (including discussion on the sensitivity of assumptions) are provided in note 27 of these financial statements.

This provision excludes any costs associated with the demolition and removal of red zone houses, salvage income, and any future sale or use of land that will be purchased. The impact of these exclusions will depend on future decisions regarding the use of any land acquired.

Any future costs associated with the orange and white zones have not been included in these financial statements as no obligation existed at 30 June 2011. As a result, the fiscal impact of any offers to residents in these zones will be recorded in future periods.

On 18 August 2011 the Government announced it would be making offers to purchase a further 940 properties in Kaiapoi and Pines Beach north of Christchurch (previously designated in the Orange Zone). The cost of this announcement has not been included in the provision at 30 June 2011. The net cost to the Crown of this decision is estimated to be between $50 million and $75 million.

Note 30: Canterbury Earthquakes (continued)

Note c – AMI Support Package

On 7 April 2011 the Government agreed to provide a back-up financial support package for AMI Insurance to give policyholders certainty and to ensure an orderly rebuild of Christchurch after the earthquakes. The expense of $335 million recognised in the consolidated financial statements represents an estimate of portion of the support package that will not be recovered by the Crown.

The ultimate level of Crown support is dependent on the financial performance of the company, particularly in relation to the liability (and resulting reinsurance recoveries) arising from the Canterbury earthquakes. The liability in relation to the earthquakes has been valued by an independent actuary (Finity Consulting Pty Limited). Key assumptions around the valuation of the liability include the number of properties damaged, the mix and cost of rebuilds versus repairs versus cash settlements, where damage will exceed the EQC limits, future claims inflation, and the timing of claims payments.

The uncertainties regarding AMI's outstanding claims liability and related reinsurance recoveries are similar to those of EQC (with the exception of risks associated with land claims). The details of this arrangement and the insurance liability at 30 June 2011 (including discussion on the sensitivity of assumptions) are outlined in note 34 and note 25 respectively.

Note d – Share of Local Authorities' Expenses

Under the current government policy setting, outlined in the National Civil Defence Emergency Management Plan ('the Plan') and Guide to the National Civil Defence Emergency Management Plan ('the Guide'), the Government is committed to a standard financial support package for the four local authorities in Canterbury (Christchurch City Council, Waimakariri District Council, Selwyn District Council and Environment Canterbury) as a result of the earthquakes. This support package will consist of both response and recovery costs.

Response costs

The Government has recorded an expense of $133 million in the current financial year for its share of response costs under the Guide. The majority of these costs relate to Christchurch City Council's response costs associated with caring for displaced people, temporary repairs to essential infrastructure and other precautionary measures to reduce immediate danger following the earthquakes.

Recovery costs

The Government's standard financial support under the Plan and Guide is to reimburse local authorities 60% of recovery repairs to essential infrastructure (waste water, storm water and fresh water) and river management systems. Recovery repairs are permanent repairs to restore the essential infrastructure to pre-emergency condition.

An estimate of these recovery costs in relation to the Government's obligation to fund their share of the Canterbury recovery costs has not been included in these financial statements. The earthquakes have resulted in an extremely rare situation where the current recovery estimate is not sufficiently reliable to be recorded as a liability at this point. The unreliability of the estimate is mainly due to the lack of reliable information in respect to:

- the amount of damage to infrastructure under the ground, and
- the basis for restoring the infrastructure, be it like-for-like, or some other method or configuration.

The current estimate from local authorities is that the Government's 60% share of permanent recovery costs may be in the range of between $348 million and $610 million. This estimate is extremely uncertain and is based on a number of local authorities' working assumptions to determine a repair bill to restore the essential infrastructure on a like-for-like basis. The majority of the recovery estimates provided relate to Christchurch City Council's and Waimakariri District Council's essential infrastructure.

A contingent liability has been included in note 32 in relation to these unquantifiable recovery costs.

Note 31: Commitments

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Capital Commitments		
Specialist military equipment	369	422
Land and buildings	701	849
Other property, plant and equipment	7,032	6,370
Other capital commitments	408	224
Tertiary Education Institutions	413	302
Total capital commitments	**8,923**	**8,167**
Operating Commitments		
Non-cancellable accommodation leases	2,909	2,862
Other non-cancellable leases	3,171	3,230
Non-cancellable contracts for the supply of goods and services[1]	5,520	6,254
Other operating commitments[2]	7,415	7,634
Tertiary Education Institutions	366	304
Total operating commitments	**19,381**	**20,284**
Total commitments	**28,304**	**28,451**
Total Commitments by Segment		
Core Crown	22,129	20,983
Crown entities	12,925	13,811
State-owned enterprises	10,410	11,238
Inter-segment eliminations	(17,160)	(17,581)
Total commitments	**28,304**	**28,451**
By Term		
Capital Commitments		
One year or less	4,659	4,238
From one year to two years	1,297	1,479
From two to five years	2,687	1,883
Over five years	280	567
Capital Commitments	**8,923**	**8,167**
Operating Commitments		
One year or less	6,868	6,246
From one year to two years	3,127	4,180
From two to five years	5,100	4,788
Over five years	4,286	5,070
Operating Commitments	**19,381**	**20,284**
Total Commitments	**28,304**	**28,451**

1. The comparative figures for 2010 include an adjustment of $3,996 million for contracts which were excluded last year.
2. The comparative figures for 2010 include a reclassification of $1,742 million between third party and inter-segment eliminations.

Note 32: Contingent Liabilities and Contingent Assets

	Actual 30 June 2011 $m	Actual 30 June 2010 $m
Quantifiable Contingent Liabilities		
Guarantees and indemnities	78	106
Uncalled capital	4,033	2,310
Legal proceedings and disputes	331	414
Other contingent liabilities	2,699	3,535
Total quantifiable contingent liabilities	**7,141**	**6,365**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	6,884	6,050
Crown entities	173	171
State-owned enterprises	84	144
Inter-segment eliminations	-	-
Total quantifiable contingent liabilities	**7,141**	**6,365**

Contingent liabilities are:

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

Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation. In general, if a contingent liability was realised, or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth and increase gross sovereign-issued debt. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to gross sovereign-issued debt.

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

Quantifiable Contingent Liabilities

This part of the Statement provides details of those contingent liabilities of the Crown which can be quantified (remote contingent liabilities are excluded).

Note 32: Contingent Liabilities and Contingent Assets (continued)

	Actual 30 June 2011 $m	30 June 2010 $m
Guarantees and indemnities		
Air New Zealand - letters of credit and performance bonds	34	49
Cook Islands - Asian Development Bank loans	12	14
Indemnification of receivers and managers - Terralink Limited	10	10
Ministry of Transport - funding guarantee	10	10
Other guarantees and indemnities	12	23
Total guarantees and indemnities	**78**	**106**

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

Air New Zealand – Letters of credit and performance bonds

The letters of credit are primarily given in relation to passenger charges, and airport landing charges. The performance bonds are primarily given in respect to engineering contracts.

Cook Islands – Asian Development Bank (ADB) loans

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

Indemnification of receivers and managers – Terralink Limited

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

Ministry of Transport – funding guarantee

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

	Actual	
	30 June 2011 $m	30 June 2010 $m
Uncalled capital		
International Bank for Reconstruction and Development	991	1,185
Asian Development Bank	2,995	1,079
Bank for International Settlements	23	26
European Bank for Reconstruction and Development	12	12
Other uncalled capital	12	8
Total uncalled capital	**4,033**	**2,310**

	Actual	
	30 June 2011 $m	30 June 2010 $m
Legal proceedings and disputes		
Accident Compensation Corporation	-	45
Tax disputes	281	295
Kapiti West Link Road	-	14
Health - legal claims	18	25
Other legal proceedings and disputes	32	35
Total legal proceedings and disputes	**331**	**414**

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases were decided against the Crown.

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

Tax in dispute

Tax in dispute represents the outstanding debt of those tax assessments raised, against which an objection has been lodged and legal action is proceeding. When a taxpayer disagrees with an assessment issued following the dispute process, the taxpayer may challenge that decision by filing proceedings with the Taxation Review Authority or the High Court.

Health – legal claims

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

	Actual 30 June 2011 $m	30 June 2010 $m
Other contingent liabilities		
International finance organisations	1,254	1,529
Kyoto protocol units	997	1,590
New Zealand Export Credit Office	132	133
Air New Zealand partnership	77	70
Inland Revenue Department - unclaimed monies	55	50
Crown Health Financing Agency	24	26
Reserve Bank - demonetised currency	23	23
State highway extension	-	41
NZTA - Auckland City Council	10	-
Other contingent liabilities	127	73
Total other contingent liabilities	**2,699**	**3,535**

International finance organisations

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

Kyoto protocol units

The Government has a contingent liability relating to 74.9 million forestry credits. During the first commitment period, the Net Kyoto Position of the Crown estimates that 89.3 million tonnes of carbon credits will be generated by carbon removals via forests (2010: 89.1 million tonnes). To the extent that these forests are harvested (in subsequent commitment periods there will be an associated liability generated that will need to be repaid. The New Zealand Emission Trading Scheme transfers a portion of the potential future liability to forest owners. As at 30 June 2011, approximately 14.4 million tonnes has been transferred to forest owners in the form of New Zealand Units. The Crown's contingent liability is calculated as the remaining credits the Crown is potentially liable for (74.9 million tonnes). Using the carbon price as at 30 June 2011, this contingent liability can be measured at $997 million.

New Zealand Export Credit Office – export guarantees

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

Air New Zealand partnership

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

Inland Revenue – unclaimed monies

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

Crown Health Financing Agency

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

Reserve Bank – demonetised currency

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

Auckland City Council

The New Zealand Transport Agency has received a claim from the Auckland council relating to the contamination of Stokes Point as a result of work on the Auckland Harbour Bridge.

Unquantifiable Contingent Liabilities

This part of the Statement provides details of those contingent liabilities of the Crown which cannot be quantified (remote contingent liabilities are excluded).

Guarantees and Indemnities

Air New Zealand

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. Air New Zealand treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company guarantees the aircraft end of lease obligations of Air New Zealand Aircraft Holdings Limited and New Zealand International Airlines Limited.

Airways Corporation of New Zealand

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

AsureQuality Limited

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

At Work Insurance Limited

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

Bona vacantia property

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

Building Industry Authority

The Building Industry Authority (BIA) is a joint defendant in a number of claims before the courts and the Weathertight Homes Resolution Service relating to the BIA's previous role as regulator of the building industry. The BIA has been disestablished and absorbed into the Department of Building and Housing. To prevent conflicts of interest, the Treasury was given responsibility for managing weathertight claims against the BIA on behalf of the Crown from 1 July 2005. In May 2010, the Crown announced its intention to assist homeowners in getting their leaky homes repaired by contributing 25% of agreed repair costs (with affected local authorities also contributing the same amount). The Crown has also proposed that it would provide assistance to homeowners to access bank finance for the remaining agreed repair costs by way of loss share agreements to banks. Affected home owners that take up this assistance, agree to forego legal actions against the Crown.

For details relating to the provision for the Government's share of the Weathertight homes services financial assistance package refer to note 27: Provisions.

Civil Defence Emergency Management – New Zealand Local Authorities

The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that the government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is issued by the Director of Civil Defence Emergency Management (CDEM) under Section 9 of the Civil Defence Emergency Management Act 2002.

Examples of emergencies covered by the Guide include:

a natural disasters, such as flood, storm, cyclone, snowstorm, earthquake, volcanic, geothermal incident, tsunami, landslide, and lahar, and

b non-natural events, such as certain lifeline utility failure.

Under current policy as set out in the Guide, local authorities will be eligible for reimbursement of cost categories as follows:

- 100% of "direct response" costs (these are costs associated with caring for displaced people)
- 60% of "other response" costs (temporary repairs to essential infrastructure and precautionary measures to reduce immediate damage), and
- 60% of "recovery" costs (these relate to restoration of local authority essential infrastructure (fresh water, storm water and waste water) and river management systems, where there is major community disruption or continuing risk to life).

For the second and third categories above, reimbursement is above an individualised threshold based on the capital value of the affected district or region (ie, an excess applies).

For details relating to reimbursements under the Guide as result of the Canterbury earthquakes refer to note 30: Canterbury Earthquakes and the earthquake section in contingent liabilities (page 143).

Contact Energy Limited

The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei. Those documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Deposit Guarantee Schemes

The Government operates an opt-in Retail Deposit Guarantee Scheme for financial institution deposits. On 12 October 2010 the original retail deposit guarantee scheme expired. The Extended Retail Deposit Guarantee Scheme commenced on 12 October 2010, immediately upon expiry of the previous scheme and will expire on 31 December 2011. The extended scheme has tightened eligibility criteria and additional limitations on coverage of the scheme. The Crown guarantee is limited to those entities participating in the extended scheme and excludes deposits accepted by participating entities without the benefit of the guarantee.

As at 30 June 2011 four financial institutions were actively participating in the extended scheme with deposits totalling $1.5 billion covered by the guarantee. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of these financial institutions in the event the guarantee is called upon. The Crown assesses the risk of default by the entities participating in the extended scheme to be unlikely and therefore as at 30 June 2011 no provision is considered necessary in relation to the amount guaranteed by the Crown under the extended guarantee.

As at 30 June 2011, nine entities guaranteed under the deposit guarantee scheme had been placed into receivership; eight of these entities were guaranteed under the original deposit guarantee scheme and one under the extended guarantee scheme. The Crown has met its obligations to depositors under the original scheme, the residual obligations under the extended scheme are recognised as liabilities, and its rights of recovery from the receivers are recognised as assets (see note 14: Receivables).

In addition to the retail deposit guarantee scheme, the Government operated an opt-in wholesale funding guarantee facility from November 2008 to April 2010. As at 30 June 2011, 24 guarantee certificates remain in place, and the value of wholesale securities guaranteed was $9.0 billion. No provision is made for losses under this scheme as the probability of loss is considered remote.

Electricity Corporation of New Zealand Limited (ECNZ)

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

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

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

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

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

Genesis Energy – financial guarantees

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

Genesis issued a financial guarantee to NZX Limited for the full and faithful performance of its subsidiary Energy Online Limited, to the extent of its liabilities for its retail electricity purchases. This guarantee may give rise to liabilities in the Company if Energy Online Limited does not meet their obligations under the terms of the respective arrangements.

Genesis Energy – letters of credit and performance bonds

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

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

Housing New Zealand Corporation (HNZC)

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

The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL) (HNZL was incorporated into the HNZC group as a subsidiary in 2001 as part of a legislated consolidation of government housing functions) and has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against any third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of HNZL against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Indemnities against acts of war and terrorism

The Crown has indemnified Air New Zealand against claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US$1 billion in respect of any one claim.

Justices of the Peace, Community Magistrates and Disputes Tribunal Referees

Section 197 of the Summary Proceedings Act 1957, requires the Crown to indemnify Justices of the Peace and Community Magistrates against damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.

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

Landcorp Farming Limited

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

Maui Partners

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

Meridian Energy – letters of credit and performance bonds

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements which provide credit support of $89.4 million to support the collateral requirements of Meridian's trading business. Of the $89.4 million, $2.0 million expires in the 2012 financial year with the balance having no expiry date. Meridian indemnifies the obligations of the bank in respect of the letters of credit and performance guarantees issued by the bank to counterparties of Meridian.

National Provident Fund

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

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

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

New Zealand Railways Corporation

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

The Crown has further indemnified the directors of NZ Railways Corporation against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities on 1 September 2004.

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

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the Financial Markets Authority (formerly Securities Commission), the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.

Public Trust

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

Reserve Bank of New Zealand

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

Synfuels-Waitara Outfall Indemnity

As part of the 1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI), the Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site.

The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.

Tainui Corporation

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

Canterbury Earthquakes

Earthquake Commission (EQC)

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

The estimate of EQC's liability at 30 June 2011, including the impact of Canterbury earthquakes are consolidated in these financial statements. EQC's estimates indicate that claims payments, net of reinsurance, may exceed its current level of assets by $1.157 billion. As EQC does not expect to immediately liquidate all its assets it will likely be able to meet its liabilities as they fall due over the next twelve months. In the event that EQC require additional funding from the Government, the Crown's net debt position would increase.

Land zones

On 23 June 2011 the Government announced zones of land damage in Christchurch and parts of the Waimakariri district. The land has been mapped into four zones:

- red (land repair would be prolonged and uneconomic at present)
- orange (further assessment required)
- green (repair/rebuild process can begin), and
- white (not yet mapped or not residential).

The Government also announced on the same day plans to purchase insured residential land in the red zone on a voluntary basis. A liability for the purchase of red zone properties has been recognised in these financial statements along with a receivable for the assignment of insurance rights in the property. Refer to note 27 for details.

No provision has been made in these financial statements for costs associated with the orange and white zones as no decision had been made at 30 June 2011 regarding any offer of purchase. Any offers made after 30 June but before these financial statements were published have been detailed in note 27.

Any offer to residents in the orange and white zones to purchase property will result in increase costs to the Crown. The extent of these costs will be dependent on the details of each offer.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Civil Defence Emergency Management – Canterbury Local Authorities

The Government has recorded a $133 million expense in these financial statements for reimbursements to Canterbury local authorities for response costs as a result of the Canterbury earthquakes.

No expense for the Government's obligation to reimburse local authorities for 60% of permanent repairs to essential infrastructure has been recorded in these financial statements. This is because the estimate is not sufficiently reliable to be recorded as a liability at this point. This unquantifiable liability relates to the restoration of essential infrastructure (fresh water, storm water and waste water) and river management systems in Canterbury and is referred to as 'recovery costs' under Guide to the National Civil Defence Emergency Management and Plan ('the Guide').

The Government has provided an indemnity under section 65ZG of the Public Finance Act 1989 which enables this reimbursement expense for permanent repairs to be incurred without further appropriation. The indemnity, in favour of the four affected Canterbury authorities (Christchurch City Council, Waimakariri District Council, Selwyn District Council and Environment Canterbury), formalises the explicit guarantee under the Guide.

For further details of this obligation, along with a possible range of the estimate refer to Note 30: Canterbury Earthquakes.

Properties acquired under the Canterbury Red Zone Support Package

As reported in Note 27, a provision has been made for the costs associated with Red Zone Support Package. As a consequence of this package, the Crown will acquire residential properties that are unlikely to be suitable for continued residential occupation for a prolonged period of time (red zone properties). As no determination has been made of the possible use of the properties the Crown will acquire, any value for the asset is contingent as at 30 June 2011.

Other Unquantifiable Contingent Liabilities

Abuse claims

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

Accident Compensation Corporation (ACC) litigations

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

Air New Zealand litigation

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

The allegations made in relation to the air cargo business are also the subject of investigations or proceedings by regulators in New Zealand, Australia, the United States and the European Union. A formal Statement of Objections was issued by the European Commission in 2007 to 25 airlines including Air New Zealand. Air New Zealand has responded to this Statement of Objections. On 15 December 2008 the New Zealand Commerce Commission filed proceedings against 13 airlines including Air New Zealand alleging breaches of the Commerce Act 1986. On 17 May 2011 the Australian Competition and Consumer Commission filed proceedings alleging breaches of the (Australian) Trade Practices Act 1974.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Air New Zealand litigation (continued)

A formal Statement of Objection relating to alleged conduct in the air cargo business was issued by the European Commission in 2007 to 25 airlines including Air New Zealand. Air New Zealand responded to this Statement of Objection and on 9 November 2010 the European Commission advised that it had closed its file in relation to Air New Zealand, following consideration of the responses. The Company has not paid a fine nor incurred any penalty in relation to the European Commission investigation.

On July 2011 Air New Zealand received a letter from the US Department of Justice confirming, in relation to the Air Cargo Investigation, that "Air New Zealand is no longer a subject or target of the ongoing grand jury investigation". Air New Zealand has paid no fine nor incurred any penalty in relation to the US Department of Justice Air Cargo Investigation.

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

Environmental liabilities

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

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

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

Family caregivers

The Human Rights Tribunal has declared that the Ministry of Health's policy of not employing family members to provide care to disabled relatives is in breach of section 19 of the New Zealand Bill of Rights Act 1990. The High Court has found in favour of the family caregivers. Leave has been granted to appeal to the Court of Appeal.

Kordia Group Limited

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

The Company makes advances to its subsidiary companies. The Company's loan facility comprises a syndicated revolving cash advance facility between three banks, committed to a maximum amount of $110 million (2010: $120 million). The facility is supported by a negative pledge by the Company and its guaranteeing subsidiaries over their assets and undertakings. Under the negative pledge, each guaranteeing subsidiary may be liable for indebtedness incurred by the Company and other guaranteeing subsidiaries. The Company considers the negative pledge to be an insurance contract. Such contracts and cross guarantees are treated as a contingent liability and only recognised as a liability if a payment is probable.

Maui Contracts

Contracts in respect of which the Crown purchases gas from Maui Mining companies and sells gas downstream to Contact Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Rugby World Cup 2011

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

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

Television New Zealand

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

The Government has announced that analogue television transmission will cease by November 2013. The Company has an obligation to decommission its analogue transmitters which are located on Kordia Limited's transmission sites. The decommissioning of analogue transmitters will be undertaken as a broadcasting industry initiative and the Company's share of the cost of decommissioning, net of any amounts recovered from disposal, cannot be reliably estimated.

Treaty of Waitangi claims

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

On occasion Māori claimants pursue the resolution of particular claims against the Crown through higher courts. There is currently one such action against the Crown being heard at the High Court. Failure to successfully defend such actions may result in liability for historical Treaty grievances in excess of that currently anticipated.

Treaty of Waitangi claims – settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngai Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds $1 billion in 1994 present-value terms, the Crown is liable to make payments to maintain the real value of Ngai Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngai Tahu.

In future years, additional costs may be incurred in accordance with the relativity mechanism as Treaty Settlements are reached; however no value can be placed on these at this point in time as there is uncertainty as to when each negotiation will settle, and the value of any settlement when reached.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Westpac New Zealand Limited

Under the Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2011, the Crown indemnified Westpac New Zealand Limited against certain costs, damages and losses to third parties resulting from unauthorised, forged or fraudulent payment instructions (excluding costs, damages and losses arising from Westpac's wilful default, negligence or breach of the agreement or other applicable legal obligation).

Under the Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004, the Crown has indemnified Westpac:

- In relation to letters of credit issued on behalf of the Crown.
- For costs and expenses incurred by reason of third party claims against Westpac relating to indirect instructions, direct debits, third party cheques, departmental credit card merchant agreements, use of online banking products and IRD processing arrangements.

	Actual	
	30 June 2011 $m	**30 June 2010 $m**
Quantifiable Contingent Assets		
Suspensory loans to integrated schools	53	61
Legal proceedings and disputes	636	504
Other contingent assets	15	7
Total quantifiable contingent assets	**704**	**572**
Quantifiable Contingent Assets		
Core Crown	702	570
Crown entities	2	2
State-owned enterprises	-	-
Inter-segment eliminations	-	-
Total quantifiable contingent assets	**704**	**572**

Ministry of Education – suspensory loans

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

$53 million at 30 June 2011 (2010: $61 million)

Legal proceedings and tax disputes

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

$636 million at 30 June 2011 (2010: $504 million)

Note 33: Financial Instruments

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

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

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

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

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

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments

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

Financial Assets

Financial assets as at 30 June 2011	Note	Designation				
		Amortised cost	Available for sale	Held for trading	Fair value through P&L	Total
		$m	$m	$m	$m	$m
Cash and cash equivalents		9,801	-	-	-	**9,801**
Trade and other receivables	14	9,927	-	-	-	**9,927**
Long-term deposits	15	2,099	-	-	160	**2,259**
Derivatives in gain	15	-	-	5,415	-	**5,415**
Marketable securities	15	-	547	328	38,339	**39,214**
IMF financial assets	15	2,168	-	-	-	**2,168**
Share investments	16	30	73	-	14,145	**14,248**
Student loans	17	7,460	-	-	-	**7,460**
Kiwibank mortgages	17	11,047	-	-	448	**11,495**
Other advances	17	1,367	46	-	199	**1,612**
Total financial assets		**43,899**	**666**	**5,743**	**53,291**	**103,599**

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

As at 30 June 2011, the carrying value of financial assets that had been pledged as collateral was $1,100 million (2010: $1,073 million). These transactions are conducted under terms that are usual and customary to standard securities borrowing.

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Financial Liabilities

Financial liabilities as at 30 June 2011	Note	**Amortised cost**	**Designation** Held for trading	Fair value through P&L	**Total**
		$m	**$m**	**$m**	**$m**
Issued currency		4,254	-	-	**4,254**
Accounts payable	23	7,337	-	-	**7,337**
Borrowings:	24				
Government stock		42,971	-	3,047	**46,018**
Treasury bills		6,605	-	423	**7,028**
Government retail stock		261	-	-	**261**
Settlement deposits with Reserve Bank		-	-	6,276	**6,276**
Derivatives in loss		-	2,767	-	**2,767**
Finance lease liabilities		1,176	-	-	**1,176**
Other borrowings		20,999	209	5,511	**26,719**
Total borrowings		**72,012**	**2,976**	**15,257**	**90,245**
Total financial liabilities		**83,603**	**2,976**	**15,257**	**101,836**

Financial liabilities as at 30 June 2010	Note	**Amortised cost**	**Designation** Held for trading	Fair value through P&L	**Total**
		$m	**$m**	**$m**	**$m**
Issued currency		4,020	-	-	4,020
Accounts payable	23	6,703	-	-	6,703
Borrowings:	24				
Government stock		26,814	-	1,112	27,926
Treasury bills		6,821	-	804	7,625
Government retail stock		309	-	-	309
Settlement deposits with Reserve Bank		-	-	6,679	6,679
Derivatives in loss		-	2,376	-	2,376
Finance lease liabilities		920	-	-	920
Other borrowings		18,587	208	5,103	23,898
Total borrowings		53,451	2,584	13,698	69,733
Total financial liabilities		64,174	2,584	13,698	80,456

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Hierarchy

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

As at 30 June 2011	**Quoted market price $m**	**Observable markets $m**	**Significant non-observable inputs $m**	**Total $m**
Financial assets				
Long-term deposits	-	160	-	**160**
Derivatives in gain	1	5,213	201	**5,415**
Marketable securities	10,693	27,351	1,170	**39,214**
Share investments	13,701	38	479	**14,218**
Kiwibank mortgages	-	-	448	**448**
Other advances	-	200	45	**245**
Total financial assets at fair value	**24,395**	**32,962**	**2,343**	**59,700**
Financial liabilities				
Government stock	3,047	-	-	**3,047**
Treasury bills	-	423	-	**423**
Government retail stock	-	-	-	**-**
Settlement deposits with Reserve Bank	6,276	-	-	**6,276**
Derivatives in loss	1	2,478	288	**2,767**
Other borrowings	622	5,098	-	**5,720**
Total financial liabilities at fair value	**9,946**	**7,999**	**288**	**18,233**

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

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Movements

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

As at 30 June 2011	Marketable securities $m	Share investments $m	Kiwibank mortgages $m	Other advances $m	Derivatives in gain/(loss) $m	Total $m
Opening balance	1,154	112	1,236	40	(31)	**2,511**
Total gains/(losses) recognised in the statement of financial performance	14	349	(13)	-	(14)	**336**
Total gains/(losses) recognised in the statement of comprehensive income	(1)	-	-	2	(19)	**(18)**
Purchases	344	44	-	-	-	**388**
Sales	(130)	(10)	-	-	(13)	**(153)**
Issues	-	-	-	4	-	**4**
Settlements	(211)	(6)	(775)	(1)	(10)	**(1,003)**
Transfers	-	(10)	-	-	-	**(10)**
Closing balance	**1,170**	**479**	**448**	**45**	**(87)**	**2,055**

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

Total gains/(losses) included in the statement of financial performance in relation to financial assets held at 30 June 2011:

	Marketable securities $m	Share investments $m	Kiwibank mortgages $m	Other advances $m	Derivatives in gain/(loss) $m	Total $m
Gains/(losses)	5	340	-	-	(9)	**336**

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

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

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Derivatives

Derivatives as at 30 June 2011	**Carrying value in gain $m**	**Notional value in gain $m**	**Carrying value in loss $m**	**Notional value in loss $m**	**Net carrying value $m**
Foreign exchange contracts	1,268	23,658	475	12,766	**793**
Foreign exchange options	28	206	-	125	**28**
Cross currency swaps	2,831	19,272	705	6,481	**2,126**
Interest rate swaps	775	11,563	809	15,784	**(34)**
Interest rate options	1	85	9	190	**(8)**
Futures	4	1,632	1	1,227	**3**
Other derivatives	508	10,902	768	16,775	**(260)**
Total derivatives	**5,415**	**67,318**	**2,767**	**53,348**	**2,648**

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

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Hedge Derivatives

Some derivatives are reported using the hedge accounting approaches available under financial reporting standards. Changes in the fair value of hedging instruments designated as cash flow hedges are accumulated within equity and to the extent that the hedges are deemed effective. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in the statement of financial performance. A fair value hedge enables the hedged item to be adjusted by the effective portion of the fair value hedge and for this adjustment to be reported in the statement of financial performance.
The carrying values of hedge accounted derivatives were:

	Carrying value in gain $m	Carrying value in loss $m	Net carrying value $m
Hedge accounted derivatives as at 30 June 2011			
Derivatives hedging fair value	16	89	(73)
Derivatives hedging cash flows	162	556	(394)
Hedge accounted derivatives as at 30 June 2010			
Derivatives hedging fair value	81	43	38
Derivatives hedging cash flows	182	259	(77)

As a result of fair value hedge accounting, the hedged items were adjusted by a gain of $81 million (2010: loss of $35 million), which is included in the statement of financial performance along with the change in fair value of the hedging derivative.

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

	<1 year $m	1-2 years $m	2-5 years $m	>5 years $m	Total $m
As at 30 June 2011					
Timing of cash flows	(43)	(4)	(1)	4	(44)
Effect on operating balance	(12)	(8)	(19)	(138)	(177)
As at 30 June 2010					
Timing of cash flows	(18)	10	11	1	4
Effect on operating balance	19	15	15	(122)	(73)

Note 33: Financial Instruments (continued)

(b) Risk management policies

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

	30 June 2011		30 June 2010	
	Unconsolidated financial assets	Unconsolidated financial liabilities	Unconsolidated financial assets	Unconsolidated financial liabilities
	$m	$m	$m	$m
New Zealand Debt Management Office (NZDMO)	26,104	72,331	19,634	52,292
Reserve Bank	17,909	15,267	19,265	16,482
Inland Revenue Department	7,791	234	7,086	213
NZ Superannuation Fund	18,687	855	15,552	1,022
ACC	18,396	1,490	13,676	376
NZ Post (including Kiwibank)	14,089	13,910	12,451	12,283
Air New Zealand	1,520	1,828	1,613	1,533
EQC	9,286	85	5,985	4
Transpower	460	2,415	395	1,891
Ministry of Social Development	991	451	860	403
Mighty River Power	474	1,544	467	1,392
Meridian Energy	672	2,050	445	2,028
Genesis Energy	286	1,523	270	804
Public Trust	895	879	910	895
AMI Insurance	2,199	33	n/a	n/a

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

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

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
Inland Revenue Department	Student Loans	Risk is minimised by the collection of compulsory repayments from NZ-based borrowers through the tax system. In addition, advances are widely dispersed, reducing the concentration of credit risk.
The New Zealand Superannuation Fund (NZS Fund)	Investment Fund assets	The Guardians manage the NZS Fund's risks by adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the Fund. The objective is to: • avoid concentration of risk by ensuring there is adequate diversification between and within asset classes and geographically • carefully select and monitor managers to ensure the Guardians have sufficient conviction that each manager will maximise the probability that return expectations will be met • ensure that there are no unintended biases away from the intended investment strategy, and • perform rigorous measurement and management of market and manager risk.
Accident Compensation Corporation	ACC Reserves	The investment committee sets investment guidelines by requiring investment portfolio managers to manage their portfolios within defined market exposure limits. These limits include limits on percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment companies not represented in the benchmark; limits on the maximum investment in any individual company; duration limits relative to the duration of the benchmark; and maximum credit exposure to single entities. Compliance with the investment guidelines is reviewed by the internal auditors on a half-yearly basis.
New Zealand Post (including Kiwibank)	Financial instruments from its debt portfolio and investment activity. This includes activities as a financial intermediary and financial market participant.	The Board is responsible for risk management policies and procedures. This includes appointing a finance risk and investment committee to monitor risk management. In addition, the Asset-Liability Committee, the Credit Committee and Project Governance Board have been formed to ensure bank-wide input and appropriate focus on specific risk matters.

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
Air New Zealand	Financial instruments arising from its business activity.	The Board of directors approve risk management policies. Compliance with these policies is reviewed and reported monthly to the Board and is included as part of the internal audit programme. Group policy is not to enter, issue, or hold financial instruments for speculative purposes.
Earthquake Commission	Assets in National Disaster Fund	The Commission applies best-practice portfolio management that maximises return without undue risk to the Fund as a whole while avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
Transpower	Financial instruments arising from its business activity	The Board has approved policy and guidelines and authorised the use of various financial instruments. The policy adopted by the Board prohibits the use of financial instruments for speculative purposes. All derivatives must be directly related to underlying physical debt or firm capital commitments on Board approved projects.
Ministry of Social Development	Student loans	The Ministry has a series of policies to manage the risks associated with financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.
Mighty River Power	Financial instruments arising from its business activity	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to proactively manage these risks with the aim of protecting shareholder wealth. The Group uses financial instruments to hedge these risk exposures.
Meridian Energy	Financial instruments arising from its business activity	Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the Group. The Group uses financial instruments to hedge these risk exposures.
Genesis Energy	Financial instruments arising from its business activity including: • Interest rate swaps • Foreign currency swaps and options • Electricity swaps and options • Oil price swaps and options.	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise financial risk to the Group. Trading in financial instruments, including derivatives, for speculative purposes is not permitted by the Board.

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
Public Trust	Financial assets and liabilities	A Risk Assurance and Audit Committee is responsible for ensuring that adequate internal and risk management controls are in place. In addition an Investment Committee reviews the investment policies, procedures, practices and investment performance.
AMI Insurance	Financial assets	The company's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. The key objective of the company's financial risk management activities is to ensure sufficient liquidity is maintained at all times to meet obligations, particularly insurance liabilities and also to optimise investment returns for members.

Note 33: Financial Instruments (continued)

(c) Market risk

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

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

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

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

- foreign exchange contracts and options to hedge exchange rate risk arising from foreign investments and liabilities as well as budgeted overseas purchases. Under foreign exchange contracts the Government agrees to exchange one currency for another at a future date using an exchange rate determined when the contract is entered into
- interest rate swaps and options to manage interest rate risk. Under interest rate swap contracts, the Government agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Government to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt
- cross currency swaps combine an interest rate swap and a currency swap whereby the interest rate in one currency is fixed, and the interest rate in the other is floating. In doing so, they manage both interest rate and currency risk, and
- electricity derivatives are typically "contracts for differences" entered into by the electricity generation State-owned enterprises to hedge against volatility in electricity prices.

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Interest rate risk management

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

Interest rate sensitivity analysis

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

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

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

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

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

Change in New Zealand Interest Rates	**Impact on operating balance**		**Impact on net worth**	
	2011 $m	**2010 $m**	**2011 $m**	**2010 $m**
Increase 1% (100 basis points)	(716)	(471)	(623)	(453)
Decrease 1% (100 basis points)	768	515	682	487

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

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Foreign currency risk management

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

Foreign currency risk management

As at 30 June 2011	Note	**NZD NZ$m**	**USD NZ$m**	**Yen NZ$m**	**Euro NZ$m**	**Other NZ$m**	**Total NZ$m**
Cash and cash equivalents		5,636	3,460	61	262	382	**9,801**
Trade and other receivables	14	8,518	1,220	6	24	159	**9,927**
Long-term deposits	15	2,082	39	2	14	122	**2,259**
Derivatives in gain	15	37,208	(25,075)	(692)	(2,808)	(3,218)	**5,415**
Marketable securities	15	9,526	20,696	1,174	4,671	3,147	**39,214**
IMF financial assets	15	-	-	-	-	2,168	**2,168**
Share investments	16	3,604	2,836	560	1,024	6,224	**14,248**
Student loans	17	7,460	-	-	-	-	**7,460**
Kiwibank mortgages	17	11,495	-	-	-	-	**11,495**
Other advances	17	1,249	238	-	-	125	**1,612**
Total financial assets		**86,778**	**3,414**	**1,111**	**3,187**	**9,109**	**103,599**
Issued currency		4,254	-	-	-	-	**4,254**
Accounts payable	23	6,841	297	12	11	176	**7,337**
Borrowings:	24						
Government stock		46,018	-	-	-	-	**46,018**
Treasury bills		7,028	-	-	-	-	**7,028**
Government retail stock		261	-	-	-	-	**261**
Settlement deposits with Reserve Bank		6,276	-	-	-	-	**6,276**
Derivatives in loss		2,713	(5,481)	800	2,320	2,415	**2,767**
Finance lease liabilities		708	468	-	-	-	**1,176**
Other borrowings		18,103	5,048	554	69	2,945	**26,719**
Total financial liabilities		**92,202**	**332**	**1,366**	**2,400**	**5,536**	**101,836**
Net financial currency holdings		**(5,424)**	**3,082**	**(255)**	**787**	**3,573**	**1,763**

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Foreign currency risk management (continued)

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

Foreign currency sensitivity analysis

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

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

Change in New Zealand exchange rate

	Impact on operating balance		Impact on net worth	
	2011 $m	2010 $m	2011 $m	2010 $m
Strengthen by 10%	(176)	35	(99)	183
Weaken by 10%	147	(57)	64	(263)

The Government’s sensitivity to foreign currency has increased during the current period mainly in relation to financial instrument portfolios held by the NZS Fund, Reserve Bank and ACC.

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Equity market risk management

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

Equity market sensitivity analysis

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

The sensitivity analysis below has been determined based on the exposure of the NZS Fund, ACC and EQC to share price risks at the reporting date. These three portfolios combined make up 98% of the Government's total share investments (2010: 98%).

Change in share prices	**Impact on operating balance**		**Impact on net worth**	
	2011 $m	**2010 $m**	**2011 $m**	**2010 $m**
Strengthen/weaken by 10%	1,390	1,198	1,390	1,198

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

Note 33: Financial Instruments (continued)

(d) Credit risk management

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

Of the financial assets held by the Government at 30 June 2011, the fair value of collateral held that could be sold or repurchased was $8,997 million (2010: $3,281 million).

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

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

As at 30 June 2011	Note	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**	**Total $m**
Cash and cash equivalents		3,621	6,114	34	23	9	**9,801**
Trade and other receivables	14	-	-	-	-	9,927	**9,927**
Long-term deposits	15	43	1,913	282	21	-	**2,259**
Derivatives in gain	15	24	4,132	1,110	2	147	**5,415**
Marketable securities	15	25,803	6,426	1,297	1,191	4,497	**39,214**
IMF financial assets	15	-	-	-	2,168	-	**2,168**
Share investments	16	58	324	1,265	6,595	6,006	**14,248**
Student loans	17	-	-	-	-	7,460	**7,460**
Kiwibank mortgages[1]	17	-	-	-	-	11,495	**11,495**
Other advances	17	33	369	121	31	1,058	**1,612**
Total credit exposure by credit rating		**29,582**	**19,278**	**4,109**	**10,031**	**40,599**	**103,599**

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

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

Note 33: Financial Instruments (continued)

(d) Credit risk management (continued)

Concentration of credit exposure by geographical area:

As at 30 June 2011	Note	**USA** $m	**Europe** $m	**Japan** $m	**Australia** $m	**New Zealand** $m	**Other** $m	**Total** $m
Cash and cash equivalents		3,434	311	42	160	5,720	134	**9,801**
Trade and other receivables	14	-	-	-	-	9,927	-	**9,927**
Long-term deposits	15	39	7	2	111	2,092	8	**2,259**
Derivatives in gain	15	633	1,101	-	785	2,816	80	**5,415**
Marketable securities	15	5,755	14,496	1,173	3,096	9,262	5,432	**39,214**
IMF financial assets	15	-	-	-	-	-	2,168	**2,168**
Share investments	16	3,252	2,791	657	2,118	3,539	1,891	**14,248**
Student loans[1]	17	-	-	-	-	7,460	-	**7,460**
Kiwibank mortgages	17	-	-	-	-	11,495	-	**11,495**
Other advances	17	77	101	-	120	1,314	-	**1,612**
Total credit exposure by geography		**13,190**	**18,807**	**1,874**	**6,390**	**53,625**	**9,713**	**103,599**

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

1. At 30 June 2011, 15% (2010: 14%) 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 33: Financial Instruments (continued)

(d) Credit risk management (continued)

Concentration of credit exposure by industry:

As at 30 June 2011	Note	Sovereign issuers $m	Supra-national $m	NZ banking sector $m	Foreign banking sector $m	Individuals $m	Other $m	Total $m
Cash and cash equivalents		3,310	4	5,687	638	1	161	**9,801**
Trade and other receivables	14	-	-	-	-	-	9,927	**9,927**
Long-term deposits	15	-	-	2,084	167	-	8	**2,259**
Derivatives in gain	15	-	-	2,597	2,375	-	443	**5,415**
Marketable securities	15	10,220	3,414	2,839	12,786	-	9,955	**39,214**
IMF financial assets	15	-	2,168	-	-	-	-	**2,168**
Share investments	16	-	6	42	647	96	13,457	**14,248**
Student loans	17	-	-	-	-	7,460	-	**7,460**
Kiwibank mortgages[1]	17	-	-	-	-	11,495	-	**11,495**
Other advances	17	33	-	319	182	300	778	**1,612**
Total credit exposure by industry		**13,563**	**5,592**	**13,568**	**16,795**	**19,352**	**34,729**	**103,599**

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

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

Note 33: Financial Instruments (continued)

(e) Liquidity risk management

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

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

The following table details the Government's remaining contractual maturity for its financial liabilities. The table 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.

As at 30 June 2011	Note	Carrying value $m	Contractual cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Issued currency		4,254	4,254	4,254	-	-	-	-
Accounts payable	23	7,337	7,345	7,160	54	34	57	40
Borrowings:	24							
Government stock		46,018	59,839	10,323	11,825	13,019	24,224	448
Treasury bills		7,028	7,095	7,095	-	-	-	-
Government retail stock		261	267	204	61	2	-	-
Settlement deposits with Reserve Bank		6,276	6,276	6,276	-	-	-	-
Finance lease liabilities		1,176	1,313	136	151	430	596	-
Other borrowings		26,719	28,485	19,173	1,177	4,792	2,449	894
Total non-derivative liabilities		**99,069**	**114,874**	**54,621**	**13,268**	**18,277**	**27,326**	**1,382**
Derivatives in loss settled net			3,444	646	219	680	1,001	898
Derivatives in loss settled gross								
- inflow			52,297	33,262	4,620	8,988	5,214	213
- outflow			47,625	31,652	3,859	7,325	4,581	208

Note 33: Financial Instruments (continued)

(e) Liquidity risk management (continued)

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

The Government has access to financing facilities, of which the total unused amount at 30 June 2011 was $1,441 million (2010: $1,420 million). The Government expects to meet its obligations from operating cash flows from the results of bond tenders and proceeds of maturing financial assets.

Note 34: AMI Insurance

On 7 April 2011 the Government provided a financial support package for AMI Insurance Limited ("AMI") to give policyholders certainty and to ensure an orderly rebuild of Christchurch after the earthquakes.

The Government has entered into a five-year arrangement to subscribe for $500 million in convertible called, but unpaid preference shares in AMI. On the fifth anniversary of the agreement date (7 April 2016) the Government has committed to make the payment of $500 million, if the amount is not paid earlier or if AMI has not terminated the arrangement by that date.

Payment of up to $500 million for the convertible preference shares may happen at any time prior to the fifth anniversary, either on request from the company or at the option of the Crown. The Crown can require paid-up preference shares to be converted to ordinary shares if a "trigger event" occurs, or if the Crown decides that it is necessary or expedient in the public interest to convert the shares. The Crown obtains the power to determine the Board of Directors either if a "trigger event" occurs, or if a payment is made on the convertible preference shares. "Trigger events" include non-compliance with the Crown support arrangement, an insolvency event, and a material adverse event.

For the purposes of financial reporting AMI have been consolidated into the financial statements of the Government on the basis that the Government has the capacity to direct the operating and governing policies of AMI (through its option to make a partial payment and take control of the Board) and is directly impacted by the risks, or benefits from, AMI's operations.

The fair value of AMI on acquisition was $159 million. This estimate makes use of a valuation of the AMI business performed by Deutsche Bank Limited completed in August 2011, and also takes into account the costs associated with the Canterbury earthquakes.

The effect of this acquisition on the Government's assets and liabilities on acquisition date was:

	AMI prior to support package $m	Support package $m	Discount adjust-ments $m	AMI after support package $m
Financial assets	1,666	-	-	1,666
Property, plant and equipment	36	-	-	36
Receivable from the Crown	-	500	(6)	494
Other assets	26	-	-	26
Total assets	**1,728**	**500**	**(6)**	**2,222**
Outstanding claims liability	1,928	-	-	1,928
Unearned premium liability	96	-	-	96
Other liabilities	39	-	-	39
Total liabilities	**2,063**	**-**	**-**	**2,063**
Net assets and liabilities acquired	**(335)**	**500**	**(6)**	**159**
Goodwill on acquisition[2]				-
Fair value of AMI Insurance Limited				**159**
Consideration:				
Deferred cost of convertible shares				494
Loss incurred on acquisition				(335)
Net consideration				159

For the year ended 30 June 2011 revenue earned by AMI of $157 million and an operating deficit of $20 million has been included in these financial statements.

1 As the Crown's support package of $500 million, is not expected to be paid immediately a discount is made to adjust for the time value of money.

2 Goodwill represents the difference between the fair value consideration for the acquisition of AMI and the fair value of the identifiable assets acquired and liabilities assumed.

Note 35: Related Parties

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

Related parties of the Government include:

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

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

Other transactions with these related parties can include the employment of Ministers' spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and State-owned enterprises, receipt of grants from, or the purchase or sale of goods and services to, a Government entity by Ministers, their spouses, children and dependants, or private-sector entities they own or jointly control. These transactions have not been separately disclosed in this note, unless they have taken place within a Minister's portfolio.

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

Statement of Unappropriated Expenditure

for the year ended 30 June 2011

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

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

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

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

Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2011

Department Vote	*Nature of expense or capital expenditure*	**Amount without Appropriation $000**
Expenses and capital expenditure incurred without appropriation and without authority of an Imprest Supply Act		
Ministry of Economic Development		
Economic Development	*Non-Departmental Capital Expenditure*	
	Venture Investment Fund	3,420
Ministry of Health		
Health	*Non-Departmental Capital Expenditure*	
	Refinancing of DHB Private Debt	70,000
Inland Revenue Department		
Revenue	*Benefits and Other Unrequited Expenses*	
	KiwiSaver: Employer Tax Credit	197
Land Information New Zealand		
Lands	*Non-Departmental Other Expenses*	
	Crown Obligations - Loss on Disposal	246
Department of Labour		
ACC	*Non-Departmental Capital Expenditure*	
	Dispute Resolution Services Limited equity transfer	1,335
Treasury		
Finance	*Non-Departmental Capital Expenditure*	
	Dispute Resolution Services Limited equity transfer	1,335
Expenses and capital expenditure incurred without appropriation but with authority of an Imprest Supply Act		
Canterbury Earthquake Recovery Authority		
Canterbury Earthquake Recovery	*Non-Departmental Other Expenses*	
	Acquisition of Canterbury Red Zone Properties	1,038,958

Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2011

Department Vote	*Appropriation*	**Authority at Time of Breach $000**	**Amount in Excess of Appropriation $000**
Expenses and capital expenditure incurred outside scope of appropriation and without authority of an Imprest Supply Act			
Ministry of Education			
Education	*Benefits and Other Unrequited Expenses*		
	Mapihi Pounamu	3,250	156
Parliamentary Service			
Parliamentary Service	*Non-Departmental Other Expenses*		
	Members' Communications	2,546	120
Expenses and capital expenditure incurred in excess of appropriation and without authority of an Imprest Supply Act			
Department of Building and Housing			
Housing	*Benefits and Other Unrequited Expenses*		
	KiwiSaver Deposit Subsidy	2,100	691
	Non-Departmental Capital Expenditure		
	Canterbury Earthquake: Acquisition of Emergency and Temporary Accommodation	1,622	1,366
Crown Law Office			
Attorney-General	*Departmental Output Expenses*		
	Conduct of Criminal Appeal	3,329	220
Ministry of Economic Development			
Commerce	*Non-Departmental Capital Expenditure*		
	Investment in the Financial Markets Authority	3,400	1,450
Economic Development	*Non-Departmental Other Expenses*		
	Major Events Development Fund	5,821	740
Ministry for the Environment			
Environment	*Non-Departmental Other Expenses*		
	Waikato River Co-Management	20,000	1,219
	Waikato River Clean-up Fund	800	3,084
Climate Change	Impairment of Debt Relating to the New Zealand Emissions Trading Scheme	1,000	2,484

Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2011

Department Vote	*Appropriation*	**Authority at Time of Breach $000**	**Amount in Excess of Appropriation $000**
Expenses and capital expenditure incurred in excess of appropriation and without authority of an Imprest Supply Act (continued)			
Ministry of Foreign Affairs and Trade			
Official Development Assistance	*Non-Departmental Other Expenses*		
	International Agency Funding	98,413	25,354
Ministry of Health			
Health	*Non-Departmental Capital Expenditure*		
	Residential Care Loans	15,000	344
Inland Revenue Department			
Revenue	*Benefits and Other Unrequited Expenses*		
	KiwiSaver Kickstart Payment	302,000	10,797
Department of Internal Affairs			
Ministerial Services	*Non-Departmental Other Expenses*		
	Travel for Former Governors-General and Prime Ministers	100	105
New Zealand Police			
Police	*Departmental Output Expenses*		
	Police Primary Response Management	457,370	2,306
New Zealand Security Intelligence Service			
Security Intelligence	*Intelligence and Security Department Expenses and Capital Expenditure*		
	Security Intelligence	37,081	433
Parliamentary Services			
Parliamentary Service	*Non-Departmental Other Expenses*		
	Party and Member Support - ACT	631	10
Ministry of Social Development			
Social Development	*Benefits and Other Unrequited Expenses*		
	Redundancy Assistance	428	75
	Special Circumstances Assistance	15,371	7,562

Statement of Unappropriated Expenditure (continued)

for the year ended 30 June 2011

Department Vote	*Appropriation*	**Authority at Time of Breach** **$000**	**Amount in Excess of Appropriation** **$000**
Expenses and capital expenditure incurred in excess of appropriation but with authority of an Imprest Supply Act			
Ministry of Justice			
Justice	*Non-Departmental Output Expenses*		
	Producing and Maintaining Electoral Rolls	19,635	185
	Provision of Services from the Electoral Commission	14,008	550
Expenses and capital expenditure incurred in excess of existing appropriations and approved by Minister of Finance under Section 26B of the Public Finance Act 1989			
New Zealand Defence Force			
Defence Force	*Departmental Output Expenses*		
	Naval Helicopter Forces	90,145	990

Net Assets

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

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

Department	**Net Asset Authority at Time of Breach** **$000**	**Amount in Excess of Net Asset Balance Limit** **$000**
New Zealand Customs Service	55,728	751
New Zealand Police	891,275	10
State Services Commission	7,225	1,270

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2011

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

During the year, the following amounts of expenses were incurred without appropriation as a result of the 22 February 2011 earthquake and subsequent declaration of a state of emergency.

Department Vote	*Appropriation*	**Amount** **$000**
Department of Internal Affairs		
Emergency Management	*Non-Departmental Other Expenses*	
	February 2011 Christchurch Earthquake National Controller Costs	19,281
	Emergency Expenses	8,695
Treasury		
Finance	*Non-Departmental Other Expenses*	
	EQC Emergency Repairs and Inspections of Uninsured Properties	86

Statement of Trust Money

for the year ended 30 June 2011

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.

Amounts in this statement are expressed in thousands of dollars.

Statement of Trust Money (continued)

for the year ended 30 June 2011

Department Trust Account	**As at 30 June 2010 $000**	Contributions $000	Distributions $000	Revenue $000	Expenses $000	**As at 30 June 2011 $000**
Ministry of Agriculture and Forestry						
Meat Board Levies Trust	-	59,402	(59,398)	3	-	7
Seized Timber Trust	1	-	-	-	-	1
Office of the Auditor-General						
South Pacific Association of Supreme Audit Institutions Trust	10	-	(10)	-	-	-
Department of Building and Housing						
Certifiers Bond Trust	192	-	(5)	5	-	192
Licensed Building Practitioners Trust [1]	-	-	-	-	-	-
Residential Tenancies Bond Trust	314,475	170,469	(142,935)	18,866	(18,866)	342,009
Residential Tenancies Bond Trust No.2 Account [1]	-	-	-	-	-	-
Department of Conservation						
Bonds/Deposits Trust	6,973	860	(297)	194	-	7,730
Conservation Project Trust	901	624	(539)	140	(125)	1,001
National Parks Trust	50	62	(75)	2	-	39
Walkways Trust	10	-	-	-	-	10
Wildlife and Reserves Trusts [1]	-	-	-	-	-	-
Department of Corrections						
Prisons Trust	1,275	16,341	(16,417)	-	-	1,199
Crown Law Office						
Legal Claims Trust	67	1,298	(1,058)	3	-	310
Ministry of Culture and Heritage						
New Zealand Oral History Awards Trust [2]	1,503	-	(162)	32	-	1,373
Dictionary of New Zealand Biography Trust	143	-	-	2	(71)	74
New Zealand Historical Atlas Trust	122	-	-	5	-	127
New Zealand History Research Trust	1,689	-	(150)	75	(1)	1,613
War History Trust	1,025	-	-	51	(28)	1,048
New Zeland Customs Services						
Alcohol Liquor Advisory Council Trust	1,267	14,407	(14,245)	-	-	1,429
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	3,835	6,965	(5,582)	-	-	5,218
Heavy Engineering Research Association Trust	55	688	(687)	-	-	56
Maritime Safety Authority Trust [1]	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	75	5,686	(5,698)	-	-	63
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	76	7,023	(7,045)	-	-	54
Balance carried forward	333,744	283,825	(254,303)	19,378	(19,091)	363,553

Statement of Trust Money (continued)

for the year ended 30 June 2011

Department Trust Account	As at 30 June 2010 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2011 $000
Balance brought forward	333,744	283,825	(254,303)	19,378	(19,091)	363,553
Ministry of Economic Development						
Coal and Minerals Deposits Trust	165	-	(32)	17	-	150
Criminal Assets Management and Enforcement Regulators Association Trust	7	-	-	-	-	7
Official Assignee's Office Trust	14,359	20,477	(6,148)	627	(8,924)	20,391
Patent Co-operation Treaty Fees Trust	214	1,130	(1,228)	19	(12)	123
Petroleum Deposits Trust	88	-	-	1	-	89
Proceeds of Crime Trust	15,821	8,211	(2,121)	569	(2,232)	20,248
Radio Frequencies Tender Trust	226	-	-	-	-	226
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	2,484	-	-	4,791	(5,351)	1,924
Conferences Trust	2	-	-	-	-	2
Ministry of Fisheries						
MAF Overfishing Account Trust	1,213	3,197	(3,332)	37	-	1,115
MAF Fish Forfeit Property Trust	1,112	798	(1,789)	20	(57)	84
Ministry of Foreign Affairs and Trade						
Cook Island Trust	10	2,281	(2,281)	10	-	20
Fred Hollows Foundation New Zealand - Pacific Regional Blindness Prevention Programme Trust	132	6,038	(5,645)	49	-	574
Government Administration Building, Niue Trust	272	-	-	4	-	276
Judicial Development Trust	929	-	(945)	16	-	-
Kiribati Sustainable Towns Programme Trust	279	-	(279)	4	-	4
New Zealand/France Friendship Trust	25	487	(283)	1	-	230
Pacific Islands Chief of Police Women's Advisory Network Trust	42	-	(43)	1	-	-
Ministry of Health						
Health Benefits Offices Trust	1,375	4,521,633	(4,521,579)	(621)	-	808
Medicines Review Objectors Deposit Trust [1]	-	-	-	-	-	-
Balance carried forward	372,499	4,848,077	(4,800,008)	24,923	(35,667)	409,824

Statement of Trust Money (continued)

for the year ended 30 June 2011

Department Trust Account	As at 30 June 2010 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2011 $000
Balance brought forward	372,499	4,848,077	(4,800,008)	24,923	(35,667)	409,824
Inland Revenue Department						
Child Support Agency Trust	15,526	203,628	(207,227)	-	-	11,927
KiwiSaver Employer Trust [1]	-	-	-	-	-	-
KiwiSaver Returned Transactions Trust	27,962	-	(27,825)	-	-	137
Reciprocal Child Support Agreement Trust	267	16,912	(16,860)	-	-	319
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust [3]	-	45,383	-	-	-	45,383
Interloan Billing System Trust [1]	-	240	(237)	393	(396)	-
Macklin Bequest Fund Trust [4]	242	-	-	7	-	249
New Zealand 1990 Scholarship Trust	687	-	-	20	-	707
Vogel House Trust [1]	-	-	-	-	-	-
Ministry of Justice						
Courts Law Trust	8,752	15,515	(11,199)	-	-	13,068
Election Candidates Deposit Trust [1]	-	-	-	-	-	-
Employment Court Trust	150	325	(307)	-	-	168
Fines Trust	26,078	255,270	(249,141)	-	-	32,207
Foreign Currency United States Dollar Trust [1]	-	-	-	-	-	-
Legal Complaints Review Officer Trust	425	245	(71)	-	-	599
Maori Land Court Trust	35	41	(19)	-	-	57
Supreme Court Trust	54	72	(60)	-	-	66
Victims' Claims Trust	26	34	(32)	-	-	28
Department of Labour						
Employment Relations Service Trust	27	256	(254)	-	(6)	23
Employment Relations Act Security of Costs Trust	88	14	(88)	-	-	14
New Zealand Immigration Service Trust	3,666	867	(1,764)	64	-	2,833
Land Information New Zealand						
Crown Forestry Licences Trust	410	15,005	(15,207)	-	-	208
Deposits Trust	5	-	(5)	-	-	-
Endowment Rentals Trust	1	-	-	171	(171)	1
Hunter Gift for the Settlement of Discharged Soldiers Trust	55	-	-	-	-	55
Balance carried forward	456,955	5,401,884	(5,330,304)	25,578	(36,240)	517,873

Statement of Trust Money (continued)

for the year ended 30 June 2011

Department Trust Account	**As at 30 June 2010 $000**	Contributions $000	Distributions $000	Revenue $000	Expenses $000	**As at 30 June 2011 $000**
Balance brought forward	456,955	5,401,884	(5,330,304)	25,578	(36,240)	517,873
New Zealand Defence Force						
New Zealand Defence Force - Veterans' Affairs Trust	12	-	-	-	(12)	-
New Zealand Police						
Bequests, Donations and Appeals Trust	162	520	(601)	-	-	81
Found Money Trust	56	90	(97)	-	-	49
Money in Custody Trust	9,476	4,417	(3,902)	-	-	9,991
Reparation Trust	8	34	(33)	-	-	9
Rewards Monies Trust [1]	-	-	-	-	-	-
Ministry of Social Development						
Australian Recovery Debt Trust	4	87	(88)	-	-	3
Australian Dollar Embargoed Arrears Trust	491	4,342	(4,325)	-	-	508
Maintenance Trust	41	644	(614)	4	-	75
Netherlands Recovery Debt Trust	2	27	(27)	-	-	2
Overseas Debt Recovery Trust [1]	-	-	-	-	-	-
WR Wallace Trust	405	-	(20)	19	-	404
Treasury						
Trustee Act 1956 Trust	1,768	354	(85)	-	-	2,037
Total	**469,380**	**5,412,399**	**(5,340,096)**	**25,601**	**(36,252)**	**531,032**

1 Inoperative trust account
2 Trust title amended
3 New trust account
4 Trust account previously administered by National Library Services now administered by the Department of Internal Affairs

ADDITIONAL FINANCIAL INFORMATION

Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 30 to 180) and the fiscal indicators used to measure the Government's performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

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

Core Crown Residual Cash

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

Debt

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

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

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

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Forecast 30 June 2011 Budget 11 $m		Actual 30 June 2011 $m	Actual 30 June 2010 $m
		Core Crown Cash Flows from Operations		
53,348	51,076	Total tax receipts	51,454	50,631
582	645	Total other sovereign receipts	646	566
1,572	1,810	Interest, profits and dividends	1,817	1,897
2,214	2,141	Sale of goods & services and other receipts	2,094	2,658
(22,726)	(22,480)	Subsidies and transfer payments	(22,226)	(21,605)
(40,498)	(41,435)	Personnel and operating costs	(40,433)	(37,157)
(2,847)	(2,558)	Finance costs	(2,637)	(1,981)
(394)	-	Forecast for future new operating spending	-	-
410	250	Top-down expense adjustment	-	-
(8,339)	**(10,551)**	**Net cash flows from core Crown operations**	**(9,285)**	**(4,991)**
(2,258)	(1,886)	Net purchase of physical assets	(1,524)	(1,778)
(905)	(1,334)	Net increase in advances	(1,242)	(926)
(1,843)	(1,280)	Net purchase of investments	(1,292)	(1,055)
-	-	Contribution to NZ Superannuation Fund	-	(250)
(282)	-	Forecast for future new capital spending	-	-
300	100	Top-down capital adjustment	-	-
(13,327)	**(14,951)**	**Residual cash**	**(13,343)**	**(9,000)**
		Financed by:		
(286)	(5,883)	Other net sale/(purchase) of marketable securities and deposits	(4,791)	2,002
(13,613)	**(20,834)**	**Total operating and investing activities**	**(18,134)**	**(6,998)**
		Used in:		
5,815	1,679	Net (repayment)/issue of other New Zealand dollar borrowing	(1,835)	(3,938)
(5,320)	(1,734)	Net (repayment)/issue of foreign currency borrowing	1,661	3,368
104	359	Issues of circulating currency	234	15
14	551	Decrease/(increase) in cash	(861)	(817)
613	**855**		**(801)**	**(1,372)**
(13,000)	**(19,979)**	**Net cash inflow/(outflow) to be offset by domestic bonds**	**(18,935)**	**(8,370)**
		Gross Cash Proceeds from Domestic Bonds		
12,776	20,760	Domestic bonds (market)	19,468	12,424
224	372	Domestic bonds (non-market)	270	799
13,000	**21,132**	**Total gross cash proceeds from domestic bonds**	**19,738**	**13,223**
-	-	Repayment of domestic bonds (market)	-	(4,197)
-	(1,153)	Repayment of domestic bonds (non-market)	(803)	(656)
-	**(1,153)**	**Total repayments of domestic bonds**	**(803)**	**(4,853)**
13,000	**19,979**	**Net (repayments of)/cash proceeds from domestic bonds**	**18,935**	**8,370**

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

Fiscal Indicator Analysis – Debt

as at 30 June 2011

Forecast 30 June 2011 Budget 10 $m	Budget 11 $m		Actual 30 June 2011 $m	30 June 2010 $m
		Gross and net debt analysis:		
89,416	**91,003**	Total borrowings	**90,245**	**69,733**
		Net debt:		
73,196	76,945	Core Crown borrowings[1]	76,885	58,583
(31)	(167)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	405	308
73,165	**76,778**	**Gross sovereign-issued debt[2]**	**77,290**	**58,891**
61,317	65,089	Less core Crown financial assets[3]	65,400	57,209
11,848	**11,689**	**Net core Crown debt (including NZS Fund)[4]**	**11,890**	**1,682**
16,575	17,854	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	16,159	14,189
28,423	**29,543**	**Net core Crown debt (excluding NZS Fund)[4]**	**28,049**	**15,871**
11,542	11,959	Advances	12,079	10,867
39,965	**41,502**	**Net core Crown debt (excluding NZS Fund and advances)[6]**	**40,128**	**26,738**
		Gross debt:		
73,165	76,778	Gross sovereign-issued debt[2]	77,290	58,891
(7,796)	(6,800)	Less Reserve Bank settlement cash and bank bills	(6,470)	(6,900)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash[7]	1,600	1,600
66,969	**71,578**	**Gross sovereign-issued debt excluding settlement cash and bank bills**	**72,420**	**53,591**

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

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

3 Core Crown financial assets exclude receivables.

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

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

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

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

Information on State-owned Enterprises and Crown Entities

Accounting Policies

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

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

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

Minority Interests

The ownership interest in Air New Zealand Limited is 73.72% (2010: 74.69%). The interest in Air New Zealand Limited is included in the SOE segment.

Balance Dates

Except for those entities listed below, all SOEs and significant CE's have a balance date of 30 June, and the information reported in these financial statements is for the period ended 30 June 2011:

SOE's	Balance date	Information reported to
AsureQuality Limited	30 September	30 June 2011
Crown entities:		
School boards of trustees	31 December	31 December 2010
TEI's	31 December	30 June 2011

Annual Reports

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

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

	30 June 2011				30 June 2010			
	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions to Crown $m	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions to Crown $m
State-owned enterprises								
Airways Corporation of New Zealand Limited	152	147	5	6	145	146	(1)	5
AsureQuality Limited	148	141	8	5	136	133	4	5
Electricity Corporation of New Zealand Limited	-	-	-	-	-	-	-	-
Genesis Power Limited	1,777	1,742	53	-	1,875	1,834	69	39
Landcorp Farming Limited	3	189	117	18	7	163	(6)	10
Meridian Energy Limited	2,056	1,805	303	684	2,064	1,787	184	353
Meteorological Service of New Zealand Limited	38	35	3	2	37	34	2	1
Mighty River Power Limited	1,153	1,002	128	95	1,097	1,003	80	286
New Zealand Post Limited	1,824	1,860	(36)	11	1,639	1,662	1	6
New Zealand Railways Corporation	1,016	845	34	-	1,106	914	173	-
Solid Energy New Zealand Limited	833	776	87	20	690	646	68	54
Timberlands West Coast Limited	-	-	-	-	-	-	-	-
Transpower New Zealand Limited	737	568	78	-	735	541	65	-
Kordia Group Limited	294	308	(15)	-	258	257	(1)	-
Animal Control Products Limited	7	6	2	1	6	6	1	1
Learning Media Limited	23	23	1	-	24	22	2	-
Quotable Value New Zealand	46	50	(3)	-	46	47	1	1
AMI Insurance Limited	157	177	(20)	-	-	-	-	-
Total State-owned enterprises	**10,264**	**9,674**	**746**	**842**	**9,865**	**9,195**	**642**	**761**
Air New Zealand Limited	4,374	4,132	31	76	4,083	3,991	96	70
Total State-owned enterprises and Air New Zealand Limited	**14,638**	**13,806**	**777**	**918**	**13,948**	**13,186**	**738**	**831**
Intra-segmental eliminations	(392)	(357)	(450)	-	(369)	(374)	(103)	-
Total per statement of segments	**14,246**	**13,449**	**327**	**918**	**13,579**	**12,812**	**635**	**831**
Crown Entities								
Accident Compensation Corporation	5,643	4,047	3,548	-	5,281	3,931	2,500	-
Crown Research Institutes	684	667	18	1	688	693	(12)	1
District Health Boards (including the Crown Health Funding Agency)	11,717	11,727	(8)	-	11,255	11,359	(91)	-
Earthquake Commission	4,624	11,817	(7,083)	-	434	107	363	-
Housing New Zealand Corporation	1,283	948	275	71	998	1,670	(691)	132
Museum of New Zealand Te Papa	45	59	(12)	-	47	60	(12)	-
New Zealand Fire Service Commission	330	324	2	-	313	303	9	-
New Zealand Transport Agency	1,918	1,965	(46)	-	1,995	1,980	15	-
Public Trust	88	95	1	-	91	96	5	-
Schools	6,334	6,309	20	-	6,190	6,166	19	-
Tertiary Education Commission	2,799	2,792	7	10	2,858	2,842	16	14
TEIs	-	-	168	-	-	-	208	-
Television New Zealand	377	366	-	5	357	385	(26)	1
Other Crown entities	2,997	2,850	136	7	3,081	2,919	173	9
Total Crown entities	**38,839**	**43,966**	**(2,974)**	**94**	**33,588**	**32,511**	**2,476**	**157**
Intra-segmental eliminations	(803)	(638)	(169)	-	(942)	(844)	(103)	-
Total per statement of segments	**38,036**	**43,328**	**(3,143)**	**94**	**32,646**	**31,667**	**2,373**	**157**
Total financial interest in SOEs, Crown entities and Air New Zealand Limited	**52,282**	**56,777**	**(2,816)**	**1,012**	**46,225**	**44,479**	**3,008**	**988**

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

	30 June 2011						30 June
	Purchase of PPE	Total PPE	Total assets	Borrow-ings	Total liabilities	Equity	2010 Equity
	$m	$m	$m	$m	$m	$m	$m
State-owned enterprises							
Airways Corporation of New Zealand Limited	11	106	137	32	93	44	45
AsureQuality Limited	5	30	67	7	32	35	32
Electricity Corporation of New Zealand Limited	-	-	1	-	-	1	2
Genesis Power Limited	876	3,090	3,677	1,288	1,965	1,712	1,446
Landcorp Farming Limited	59	1,217	1,661	283	306	1,355	1,237
Meridian Energy Limited	252	7,721	8,452	1,879	3,521	4,931	5,070
Meteorological Service of New Zealand Limited	8	25	37	15	23	14	13
Mighty River Power Limited	174	4,750	5,350	1,383	2,443	2,907	2,680
New Zealand Post Limited	47	348	14,661	13,734	14,014	647	685
New Zealand Railways Corporation	653	13,284	13,570	621	932	12,638	12,393
Solid Energy New Zealand Limited	116	649	1,127	235	608	519	444
Timberlands West Coast Limited	-	-	-	-	-	-	6
Transpower New Zealand Limited	471	3,376	4,198	2,259	2,637	1,561	1,482
Kordia Group Limited	15	109	234	84	153	81	96
Animal Control Products Limited	-	3	8	-	2	6	5
Learning Media Limited	-	1	15	-	9	6	6
Quotable Value New Zealand	-	1	28	1	8	20	22
AMI Insurance Limited	2	36	2,256	-	2,040	216	-
Total State-owned enterprises	**2,689**	**34,746**	**55,479**	**21,821**	**28,786**	**26,693**	**25,664**
Air New Zealand Limited	723	2,540	4,458	1,428	3,431	1,027	1,473
Total State-owned enterprises and Air New Zealand Limited	**3,412**	**37,286**	**59,937**	**23,249**	**32,217**	**27,720**	**27,137**
Intra-segmental eliminations	(822)	(461)	(577)	(150)	(97)	(480)	(257)
Total per statement of segments	**2,590**	**36,825**	**59,360**	**23,099**	**32,120**	**27,240**	**26,880**
Crown Entities							
Accident Compensation Corporation	28	63	21,804	9	28,511	(6,707)	(10,252)
Crown Research Institutes	54	510	737	34	235	502	485
District Health Boards (including the Crown Health Funding Agency)	614	4,645	7,717	3,568	5,584	2,133	2,115
Earthquake Commission	11	22	9,453	-	10,610	(1,157)	5,935
Housing New Zealand Corporation	271	15,018	15,568	1,990	3,957	11,611	11,516
Museum of New Zealand Te Papa	9	1,140	1,168	-	10	1,158	1,122
New Zealand Fire Service Commission	47	546	595	10	98	497	494
New Zealand Transport Agency	1,348	25,146	25,516	110	489	25,027	24,954
Public Trust	4	9	908	874	886	22	20
Schools	51	1,305	2,551	126	810	1,741	1,728
Tertiary Education Commission	-	3	75	20	55	20	24
TEIs	-	-	7,968	-	-	7,968	7,740
Television New Zealand	7	136	264	11	80	184	190
Other Crown entities	24	322	1,429	41	620	809	657
Total Crown entities	**2,468**	**48,865**	**95,753**	**6,793**	**51,945**	**43,808**	**46,728**
Intra-segmental eliminations	(6)	(385)	(2,095)	(1,670)	(1,717)	(378)	(236)
Total per statement of segments	**2,462**	**48,480**	**93,658**	**5,123**	**50,228**	**43,430**	**46,492**
Total financial interest in SOEs, Crown entities and Air New Zealand Limited	**5,052**	**85,305**	**153,018**	**28,222**	**82,348**	**70,670**	**73,372**

Government Reporting Entity as at 30 June 2011

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

Core Crown

Departments

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

Offices of Parliament

Controller and Auditor General
The Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises

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

Subsidiaries of state-owned enterprises are consolidated by their parents and not listed separately in this table.

**included for disclosure purposes as if they were an SOE.*

Crown entities

Accident Compensation Corporation
Accounting Standards Review Board
Alcohol Advisory Council of New Zealand
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Career Services
Charities Commission
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commisson
Crown Health Financing Agency
Crown Research Institutes (8)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Electricity Authority
Electoral Commission
Energy Efficiency and Conservation Authority
Environmental Risk Management Authority
Families Commission
Financial Markets Authority
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Quality and Safety Commission
Health Research Council of New Zealand
Health Sponsorship Council
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Legal Services Agency
Maritime Safety Authority of New Zealand
Mental Health Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Board
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Historic Places Trust (Pouhere Taonga)
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,481)
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Te Māngai Pāho)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary education institutions (29)
Testing Laboratory Registration Council
Transport Accident Investigation Commission

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

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

Agriculture and Marketing Research and Development Trust
Asia New Zealand Foundation
Crown Fibre Holdings Limited
Fish and Game Councils (12)
Health Benefits Limited
Leadership Development Centre Trust
Learning State Limited
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngāi Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Research and Education Advanced Network New Zealand Limited
Reserves Boards (23)
Road Safety Trust
Sentencing Council
Te Ariki Trust
The Māori Trustee