

# Financial Statements of the Government of New Zealand

for the year ended 30 June 2017

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## Ministerial Statement

The 2016/17 Crown accounts are a direct demonstration of the benefits of a steadily growing New Zealand economy. Sensible fiscal and monetary policies combined with microeconomic settings that encourage business confidence and investment have meant New Zealand continues to achieve solid economic growth, rising employment and rising real wages, against a backdrop of low inflation. This performance is more impressive in the context of a still volatile global outlook.

As a result of our country's economic performance, in 2016/17 the New Zealand Government has achieved its third fiscal surplus in a row.

Core Crown tax revenue was \$75.6 billion for the 2016/17 year, up 7.4 percent from the previous year with all major tax types increasing, reflecting the growth in the economy. Increases in the number of people in employment and profitability of businesses are key drivers to this growth in revenue. As a percentage of nominal GDP core Crown tax revenue increased to 28.2 percent, up from 27.8 percent.

Core Crown expenses continued to fall as a percentage of GDP from 29.2 percent in 2015/16 to 28.5 percent in 2016/17. In nominal terms increases in social assistance expenses and the incremental spending announced in Budget 2016 contributed core Crown expenses of \$76.3 billion (up \$2.4 billion from 2015/16).

Costs associated with the Kaikōura earthquakes added to expenses in 2016/17, with EQC estimating claims will cost nearly \$0.6 billion and another \$0.2 billion recognised so far on the rail and road transport links. Additional expenditure is expected in 2017/18 as work on the transport infrastructure continues.


With revenue growing at a faster rate than expenses, the operating balance before gains and expenses (OBEGAL) in 2016/17 reached \$4.1 billion, an increase of \$2.2 billion since 2015/16 and ahead of expectations.

The New Zealand Superannuation Fund recorded investment gains of \$5.5 billion reflecting rising global markets which, along with the OBEGAL result, contributed to a total Crown operating balance (including gains and losses) of \$12.3 billion (compared to an operating loss of \$5.4 billion in 2015/16). Volatility in this measure reflects similar volatility in equity markets as well as some of the Government's long-term liabilities (ACC claims liability and Government Superannuation Fund retirement plan) whose value can move substantially over a year.

Following on from the positive core Crown operating result, the Crown recorded a residual cash surplus, leading to a decline in nominal net core Crown debt for the first time since 2008 to \$59.5 billion (22.2 percent of GDP). This is a decline of \$2.4 billion from 2015/16.

The Crown's assets increased by \$20.9 billion to \$313.6 billion at 30 June, while total Crown liabilities were relatively static at \$197.1 billion. Net worth attributable to the Crown increased by \$21.2 billion to \$110.5 billion, reflecting the operating result for the year and an upward valuation of the Crown's property assets of \$8.7 billion.

The New Zealand Government will continue to focus on economic growth and fiscal consolidation combined with further investments in public services and public infrastructure in the years ahead.



**Hon Steven Joyce**  
**Minister of Finance**  
29 September 2017

## Statement of Responsibility

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

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

A handwritten signature in black ink, appearing to read 'G. Makhlouf', with a horizontal line underneath.

**Gabriel Makhlouf**  
**Secretary to the Treasury**  
29 September 2017

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 2017 and its operations for the year ended on that date.

A handwritten signature in black ink, appearing to read 'S. Joyce', with a horizontal line underneath.

**Hon Steven Joyce**  
**Minister of Finance**  
29 September 2017





# Commentary on the Financial Statements

## Fiscal Overview

FISCAL STRATEGY

### Operating revenue

Ensure sufficient operating revenue to meet 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 below 30% of GDP

### Operating balance

Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the NZS Fund, and ensure consistency with the debt objective

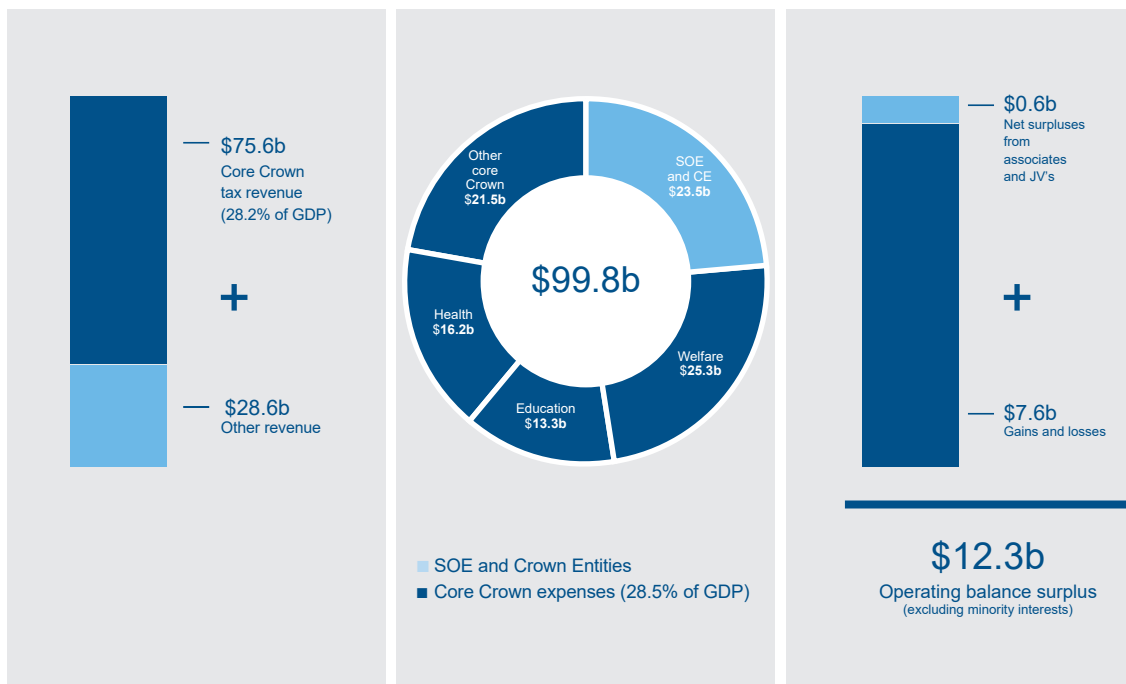
## Total Crown

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

$$\begin{array}{rcl}
 \$104.2\text{b} & - & \$99.8\text{b} \\
 \text{TOTAL CROWN REVENUE} & & \text{TOTAL EXPENSES} \\
 & = & \$4.1\text{b} \\
 & & \text{OBEGAL (excluding minority interests)}
 \end{array}$$

- minority interests \$0.3b

FINANCIAL RESULTS



WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

### Fiscal strategy

- Capital objectives and fiscal policy ([p90](#))

### Revenue

- Tax revenue ([p10](#))
- Other revenue ([p11](#))

### Expenses

- Functional classification tables ([p29](#))
- Detailed expense notes ([p51–53](#))
- SOE and Crown entities results ([p131–133](#))
- Unappropriated expenditure ([p117–121](#))

### Net result

- Operating statement ([p28](#))
- Gains and losses notes ([p53](#))
- ACC insurance liability ([p53–59](#))
- GSF note ([p84–87](#))

Debt

Manage total debt at prudent levels.

Reduce net debt to within a range of 10% to 15% of GDP

Core Crown

Moving from total Crown accrual measure to core Crown cash measure

Movement in net debt

\$4.1b OBEGAL +

\$2.2b

NON-RESIDUAL CASH ITEMS

—

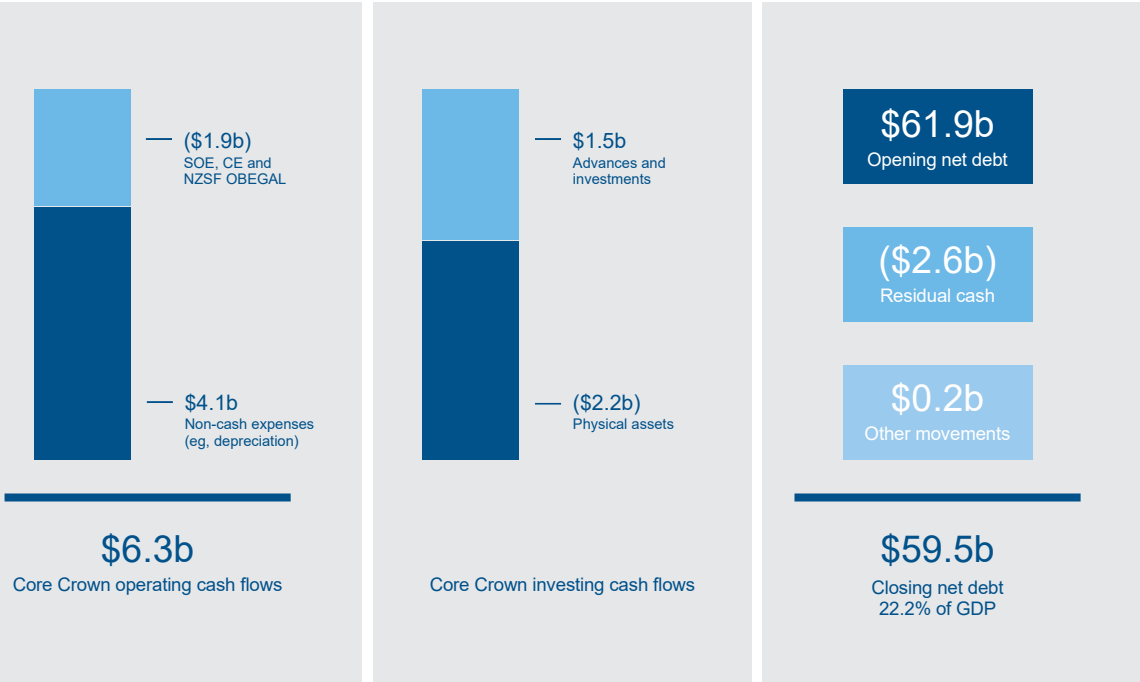
\$3.7b

CAPITAL ITEMS

=

\$2.6b

RESIDUAL CASH SURPLUS



## Headlines

Core Crown tax revenue was \$5.2 billion more than last year and is higher than the Budget 2017 forecast by \$1.0 billion (page 10).

Core Crown expenses were \$2.4 billion higher than last year, but \$1.1 billion less than *Budget 2017* forecast (page 12).

The OBEGAL surplus of \$4.1 billion, is \$2.2 billion higher than last year, reflecting a 7.4% growth in core Crown tax revenue higher than a 3.3% increase in core Crown expenses (page 15).

The total Crown operating balance (excluding minority interests) was \$12.3 billion, as a result of the OBEGAL surplus and total Crown net gains of \$8.2 billion (page 16).

Net worth attributable to the Crown increased \$21.2 billion due to the operating balance, combined with the uplifts on the Crown's property plant and equipment (page 20).

Core Crown net debt decreased in nominal terms by \$2.4 billion, while also continuing to decrease as a percentage of GDP (to 22.2%) (page 17).

A residual cash surplus of \$2.6 billion, up \$3.9 billion from last year's residual cash deficit of \$1.3 billion (page 17).

## At a Glance

**Table 1** – Financial results

Year ended 30 June

| \$ million                                       | Actual<br>2013 | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actual<br>2017 | Forecast<br>30 June 2017 |                |
|--|----------------|----------------|----------------|----------------|----------------|--------------------------|----------------|
|  |                |                |                |                |                | Budget<br>2016           | Budget<br>2017 |
| Core Crown tax revenue                           | 58,651         | 61,563         | 66,636         | 70,445         | 75,644         | 71,971                   | 74,598         |
| Core Crown expenses                              | 69,962         | 71,174         | 72,363         | 73,929         | 76,339         | 77,388                   | 77,464         |
| OBEGAL (excluding minority interests)            | (4,414)        | (2,802)        | 414            | 1,831          | 4,069          | 719                      | 1,621          |
| Operating balance (excluding minority interests) | 6,925          | 2,939          | 5,771          | (5,369)        | 12,317         | 3,058                    | 9,438          |
| Residual cash                                    | (5,742)        | (4,109)        | (1,827)        | (1,322)        | 2,574          | (4,162)                  | 71             |
| Gross debt <sup>1</sup>                          | 77,984         | 81,956         | 86,125         | 86,928         | 87,141         | 93,880                   | 88,645         |
| as a percentage of GDP                           | 35.7%          | 34.7%          | 35.4%          | 34.3%          | 32.5%          | 36.2%                    | 33.0%          |
| Net debt <sup>2</sup>                            | 55,835         | 59,931         | 60,631         | 61,880         | 59,480         | 66,334                   | 62,277         |
| as a percentage of GDP                           | 25.5%          | 25.4%          | 24.9%          | 24.4%          | 22.2%          | 25.6%                    | 23.2%          |
| Total assets                                     | 244,416        | 256,824        | 279,214        | 292,679        | 313,609        | 291,588                  | 301,282        |
| Total liabilities                                | (174,405)      | (176,127)      | (186,978)      | (197,158)      | (197,137)      | (199,163)                | (195,359)      |
| Net worth attributable to the Crown              | 68,071         | 75,486         | 86,454         | 89,366         | 110,532        | 86,641                   | 100,044        |
| as a percentage of GDP                           | 31.1%          | 32.0%          | 35.6%          | 35.3%          | 41.2%          | 33.4%                    | 37.2%          |

<sup>1</sup> Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills.

<sup>2</sup> Net core Crown debt excluding the New Zealand Superannuation Fund (NZS Fund) and advances.

A comparison of the year end results to *Budget 2017* is included on page 23.

These financial statements<sup>1</sup> contain the audited results for the financial year ended 30 June 2017. The results are compared against previous years and against two sets of forecasts<sup>2</sup> for the 2016/17 year:

- Budget 2016 refers to the 2016 Budget Economic and Fiscal Update, and
- Budget 2017 refers to the 2017 Budget Economic and Fiscal Update.

This commentary should be read in conjunction with the financial statements on pages 27 to 116.

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

<sup>2</sup> Comparisons against the *Pre-election Economic and Fiscal Update (Pre-election Update)* are available on page 9.

## Summary

### Core Crown tax revenue increased...

Core Crown tax revenue of \$75.6 billion was up from last year by \$5.2 billion (7.4%) with all tax revenue types increasing. Source deduction revenue, corporate tax revenue and goods and services tax were particularly strong making up 84.2% of the year on year change.

### ... reflecting growth in the economy...

As a share of the economy, core Crown tax revenue was 28.2% of GDP, up 0.4% from last year. Nominal GDP grew by 5.9% in the year to June 2017 to \$268.1 billion, mainly as a result of 5.7% growth in private consumption and a 12.7% increase in residential investment.

The total population grew by just over 2%, while total wage and salary income grew by more than 5% during the year, with the number of people in employment up by just over 3%, and an increase in average hourly earnings of 1.6%.

### ... being higher than growth in core Crown expenses resulting in an OBEGAL surplus...

As a share of the economy, core Crown expenses decreased to 28.5% of GDP (29.2% of GDP in 2016); in nominal terms however, core Crown expenses increased \$2.4 billion to \$76.3 billion.

The largest drivers of growth in nominal core Crown expenditure were *Budget 2016* decisions (which came into effect in 2016/17), and an increase in social assistance expenses. However delays around the business transformation project for Inland Revenue, and negotiations of Treaty settlements, has pushed some expenditure out into future years.

Overall the OBEGAL surplus of \$4.1 billion, increased by \$2.2 billion from last year.

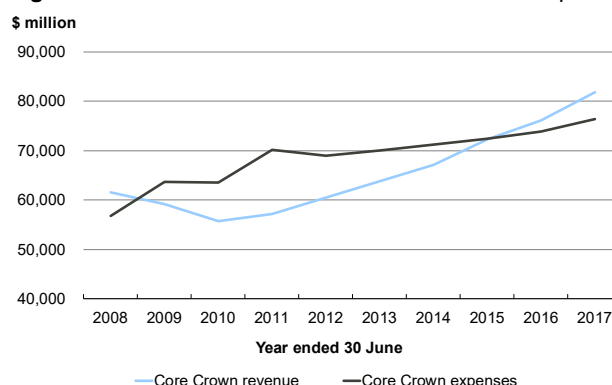
### ... gains in financial markets and liability valuations, resulted in a strong bottom line...

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

Actuarial gains in relation to updated long-term liability valuations for ACC and GSF liabilities resulted in a combined actuarial gain of \$1.4 billion (compared to an actuarial loss of \$7.1 billion last year) (page 53). In addition to these valuation gains, NZS Fund recorded an investment gain of \$5.5 billion in the current year (compared to a loss of \$76 million last year).

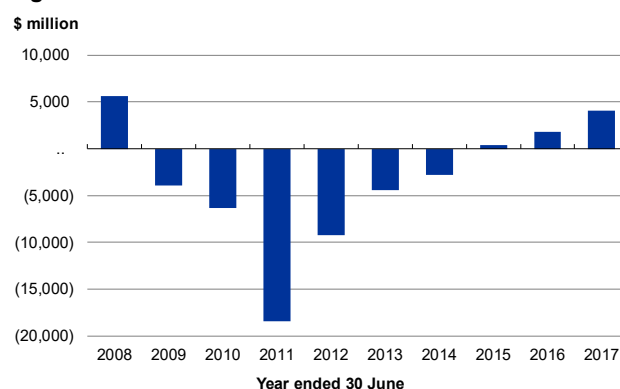
When these results are combined with the OBEGAL surplus, the operating balance (after gains and losses) was an operating surplus of \$12.3 billion (\$17.7 billion higher than the 2016 operating deficit of \$5.4 billion).

Figure 1 – Core Crown revenue and core Crown expenses



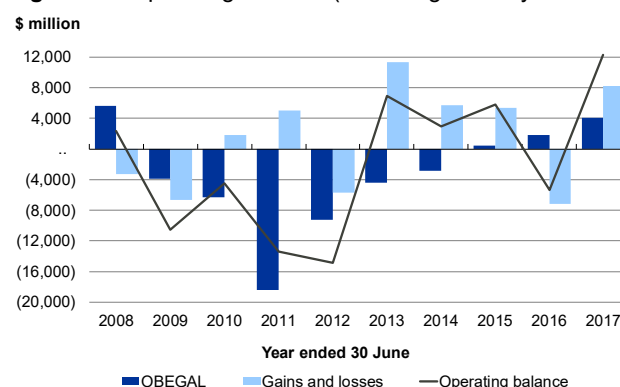
Source: The Treasury

Figure 2 – OBEGAL



Source: The Treasury

Figure 3 – Operating balance (excluding minority interests)



Source: The Treasury

**... contributing to growth on the balance sheet...**

Alongside the operating surplus of \$12.3 billion, revaluation uplifts of the Crown's property, plant and equipment assets, an increase of \$8.5 billion, resulted in net worth attributable to the Crown increasing by \$21.2 billion to reach \$110.5 billion.

Total assets increased by \$20.9 billion to \$313.6 billion, while liabilities remained fairly static, at \$197.1 billion.

Increases in property, plant and equipment and financial assets such as NZS Fund investments contributed to the growth in assets while the actuarial valuation decreases to liabilities discussed above (ACC, and GSF) offset growth in borrowings.

**... and resulting in a cash surplus, reducing net debt.**

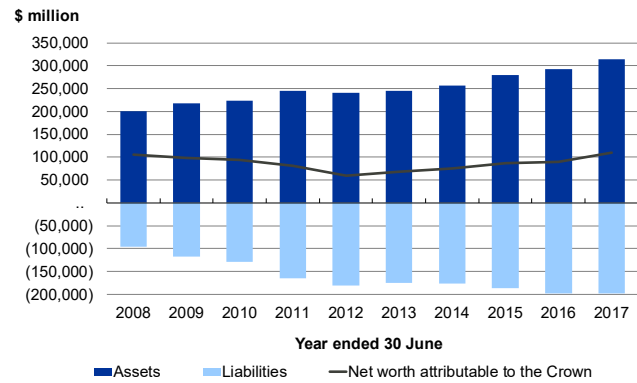
Overall a residual cash surplus of \$2.6 billion was achieved, an increase of \$3.9 billion from last year's residual cash deficit of \$1.3 billion.

The operating cash flow strengthened on last year, increasing by \$3.0 billion, to \$6.3 billion. This is in line with the OBEGAL result, reflecting increased core Crown tax receipts more than offsetting the growth in core Crown operating payments. Capital spending of \$3.7 billion was lower than last year by \$0.9 billion, due to delays in projects.

The capital spend consisted of net purchases of physical assets (\$2.2 billion) and new capital investment in Crown entities (\$1.7 billion), offset by net repayment, of advances (\$0.1 billion).

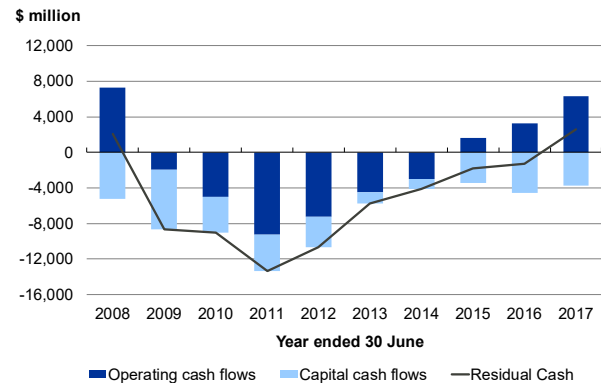
Core Crown net debt decreased nominally by \$2.4 billion from last year to be \$59.5 billion, largely a result of the residual cash surplus. As a percentage of GDP, net debt has continued to fall, from 24.4% to 22.2%.

**Figure 4 – Net worth attributable to the Crown**



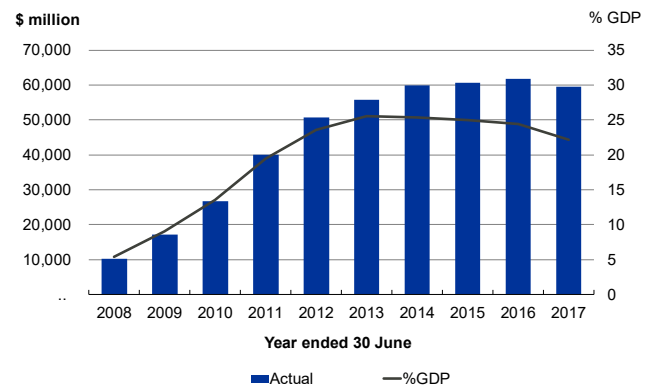
Source: The Treasury

**Figure 5 – Core Crown residual cash**



Source: The Treasury

**Figure 6 – Net core Crown debt<sup>1</sup>**



Source: The Treasury

<sup>1</sup> Net core Crown debt excluding the NZS Fund and advances.

### Year end results compared to *Pre-election Update*

The *Pre-election Update* was published on 23 August 2017. While the financial statements focus on results compared to *Budget 2017* forecasts, this section compares results against the recent *Pre-election Update*. Overall, the results are better than the *Pre-election Update*. However a large portion of these variances reflect delays in spending that is now expected to occur at a later date. Therefore, while individual years may differ, the June 2017 results do not indicate a substantial departure from the *Pre-election Update*.

**Table 2** – 2017 results compared to the *Pre-election Update*

| Year ended 30 June                               | Actual<br>2017 | Pre-election<br>Update<br>2017 | Variance to<br>Pre-election<br>Update 2017 |
|--|----------------|--------------------------------|--|
| \$ million                                       |                |                                |  |
| Core Crown tax revenue                           | 75,644         | 75,625                         | 19   |
| Core Crown expenses                              | 76,339         | 76,841                         | 502  |
| OBEGAL (excluding minority interests)            | 4,069          | 3,706                          | 363  |
| Operating balance (excluding minority interests) | 12,317         | 11,478                         | 839  |
| Residual cash                                    | 2,574          | 1,497                          | 1,077                                      |
| Gross debt <sup>1</sup>                          | 87,141         | 87,721                         | 580  |
| <i>as a percentage of GDP</i>                    | 32.5%          | 32.6%                          |  |
| Net debt <sup>2</sup>                            | 59,480         | 60,560                         | 1,080                                      |
| <i>as a percentage of GDP</i>                    | 22.2%          | 22.5%                          |  |
| Net worth attributable to the Crown              | 110,532        | 108,879                        | 1,653                                      |
| <i>as a percentage of GDP</i>                    | 41.2%          | 40.5%                          |  |

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

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

While **core Crown tax revenue** was close to the *Pre-election Update* **core Crown expenses** were \$502 million lower than expected. Final valuations were received after the *Pre-election Update* and this has reduced impairment expenditure by around \$100 million. In addition KiwiSaver tax credits were lower than anticipated and education expenses (which are largely volume driven) were also less than expected.

The lower than forecast expenditure was the largest contributor to the **OBEGAL** surplus being \$363 million higher than in the *Pre-election Update* at \$4,069 million.

Valuation movements subsequent to the *Pre-election Update*, coupled with the OBEGAL result, meant that the **operating balance** was \$839 million higher than forecast.

In addition to lower operating cash payments, largely off the back of lower expenses, capital payments were almost \$600 million lower than expected resulting in the **residual cash** surplus being \$1,077 million higher than the *Pre-election Update*. A number of capital projects expected in 2016/17 are now expected to occur later, particularly in relation to the investment in school property assets.

**Gross debt** was \$580 million lower than expected, primarily due to collateral of around \$500 million in relation to lending securities not required to be reported on a gross basis (reducing both assets and borrowings equally).

The higher residual cash result led to **net debt** being \$1,080 million lower than expected.

**Net worth attributable to the Crown** was \$1,653 million higher than forecast in the *Pre-election Update*. In addition to the higher operating balance result discussed above, valuations in relation to the Crown's property assets increased net worth by around \$700 million.

## Revenue

**Table 3** – Breakdown of revenue

Year ended 30 June

| \$ million                            | Actual<br>2013 | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actual<br>2017 | Forecast<br>30 June 2017 |                |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|--------------------------|----------------|
|                                       |                |                |                |                |                | Budget<br>2016           | Budget<br>2017 |
| Core Crown tax revenue                | 58,651         | 61,563         | 66,636         | 70,445         | 75,644         | 71,971                   | 74,598         |
| Core Crown other revenue              | 5,154          | 5,530          | 5,577          | 5,676          | 6,138          | 6,573                    | 6,173          |
| Core Crown revenue                    | 63,805         | 67,093         | 72,213         | 76,121         | 81,782         | 78,544                   | 80,771         |
| Crown entities, SOEs and eliminations | 22,506         | 22,106         | 22,299         | 22,038         | 22,445         | 22,411                   | 22,125         |
| <b>Total Crown revenue</b>            | <b>86,311</b>  | <b>89,199</b>  | <b>94,512</b>  | <b>98,159</b>  | <b>104,227</b> | <b>100,955</b>           | <b>102,896</b> |
| <b>% of GDP</b>                       |                |                |                |                |                |                          |                |
| Core Crown tax revenue                | 26.8%          | 26.1%          | 27.4%          | 27.8%          | 28.2%          | 27.8%                    | 27.7%          |
| Core Crown other revenue              | 2.4%           | 2.3%           | 2.3%           | 2.2%           | 2.3%           | 2.5%                     | 2.3%           |
| Core Crown revenue                    | 29.2%          | 28.4%          | 29.7%          | 30.1%          | 30.5%          | 30.3%                    | 30.0%          |
| Crown entities, SOEs and eliminations | 10.3%          | 9.4%           | 9.2%           | 8.7%           | 8.4%           | 8.6%                     | 8.2%           |
| <b>Total Crown revenue</b>            | <b>39.5%</b>   | <b>37.8%</b>   | <b>38.9%</b>   | <b>38.8%</b>   | <b>38.9%</b>   | <b>38.9%</b>             | <b>38.3%</b>   |

Total Crown revenue was \$104.2 billion, an increase of \$6.1 billion from last year mostly due to increased core Crown tax revenue.

### Core Crown Tax Revenue

Core Crown tax revenue was \$75.6 billion, up \$5.2 billion (7.4%) from the year before, with most of that coming from growth in nominal GDP and its components (eg, employees' compensation and domestic consumption).

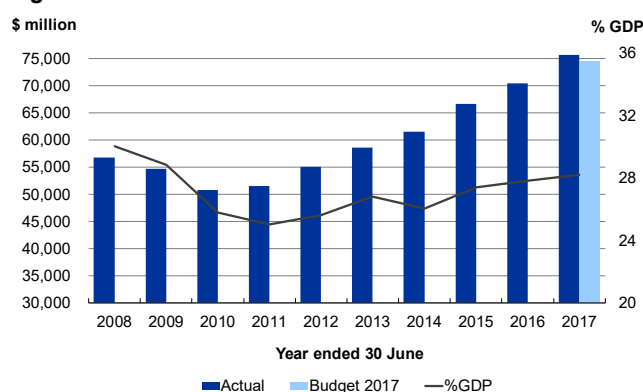
Most major tax types increased over the year, with three tax types making up most of the increase (table 4):

Source deductions increased by \$1.6 billion (6.0%). This growth is mainly a result of growth in the number of people in employment (up 3.1%), with a lesser contribution from increases to salaries and wage rates (up 1.6%).

Corporate tax revenue increased by \$1.4 billion (12.3%), mainly due to profit growth amongst companies both large and small, and across most sectors of the economy (including a substantial contribution from the finance and insurance sectors). This growth was supported by \$0.2 billion (74%) growth in Portfolio Investment Entities (PIE) tax.

Goods and Services Tax (GST) was \$1.3 billion (7.1%) higher than last year, with most of the growth coming via domestic consumption reflecting more people in employment, and those in employment, earning more. There was a notable contribution from residential investment activity, such as building new houses and adding to and renovating existing houses.

**Figure 7** – Core Crown tax revenue



Source: The Treasury

**Table 4** – Increase in core Crown tax revenue in nominal terms

| Year ended 30 June (\$ billion)    |             |
|------------------------------------|-------------|
| <b>2016 core Crown tax revenue</b> | <b>70.4</b> |
| Source deductions                  | 1.6         |
| Corporate tax                      | 1.4         |
| GST                                | 1.3         |
| Other movements                    | 0.9         |
| <b>2016 core Crown tax revenue</b> | <b>75.6</b> |

Source: The Treasury



## Revenue (continued)

Total nominal GDP grew by 5.9% in the year to June 2017 while growth in core Crown tax revenue was 7.4%. Therefore as a share of the economy, core Crown tax revenue increased to 28.2% of GDP, compared to 27.8% last year (table 5).

The majority of the increase came from tax on corporate profits that are not captured in the nominal GDP measure, such as the profits of the finance and insurance sectors, and PIE tax mentioned above.

Offsetting some of this growth, some of the major components of nominal GDP that are principal drivers of tax revenue (total employees' compensation and domestic consumption) are estimated to have grown at a slower rate than total GDP, thereby lowering the tax-to-GDP ratio. As a result, the composition of nominal GDP growth was slightly negative for tax revenue.

### Other Revenue

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

Core Crown other revenue, at \$6.1 billion increased by \$0.5 billion since last year. This increase was mostly attributable to revenue from the New Zealand Emissions Trading Scheme (NZ ETS) (the NZ ETS is explained further on page 14).

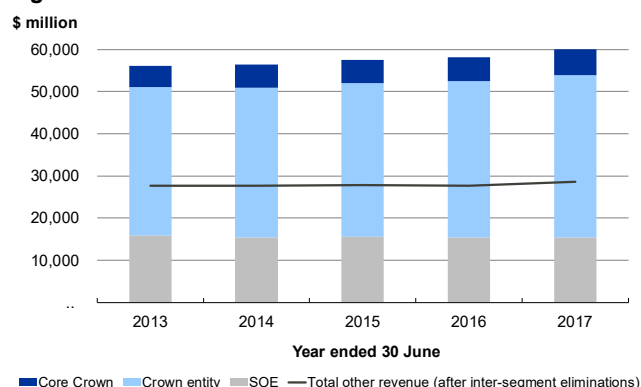
The SOE and CE sectors (including inter-segment eliminations) recorded revenue of \$22.4 billion, similar to the prior year (table 3).

**Table 5** – Increase in core Crown tax revenue as a percentage of GDP

| Year ended 30 June (% of GDP)      |             |
|------------------------------------|-------------|
| <b>2016 core Crown tax revenue</b> | <b>27.8</b> |
| Composition of GDP                 | (0.1)       |
| Timing                             | 0.1         |
| Interest rates                     | (0.1)       |
| PIE tax                            | 0.1         |
| Other corporate profits            | 0.2         |
| Other                              | 0.2         |
| <b>2017 core Crown tax revenue</b> | <b>28.2</b> |

Source: The Treasury

**Figure 8** – Other revenue



Source: The Treasury

## Expenses

**Table 6** – Breakdown of expenses

Year ended 30 June

| \$ million                            | Actual<br>2013 | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actual<br>2017 | Forecast<br>30 June 2017 |                |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|--------------------------|----------------|
|                                       |                |                |                |                |                | Budget<br>2016           | Budget<br>2017 |
| Social security and welfare           | 22,459         | 23,026         | 23,523         | 24,081         | 25,294         | 25,224                   | 25,412         |
| Health                                | 14,498         | 14,898         | 15,058         | 15,626         | 16,223         | 16,214                   | 16,202         |
| Education                             | 12,504         | 12,300         | 12,879         | 13,158         | 13,281         | 13,478                   | 13,441         |
| Core government services              | 4,294          | 4,502          | 4,134          | 4,102          | 3,957          | 4,943                    | 4,135          |
| Law and order                         | 3,394          | 3,463          | 3,515          | 3,648          | 3,882          | 3,811                    | 3,985          |
| Other core Crown expenses             | 12,813         | 12,985         | 13,254         | 13,314         | 13,702         | 13,718                   | 14,289         |
| <b>Core Crown expenses</b>            | <b>69,962</b>  | <b>71,174</b>  | <b>72,363</b>  | <b>73,929</b>  | <b>76,339</b>  | <b>77,388</b>            | <b>77,464</b>  |
| Crown entities, SOEs and eliminations | 20,701         | 20,668         | 21,408         | 21,951         | 23,473         | 22,331                   | 23,380         |
| <b>Total Crown expenses</b>           | <b>90,663</b>  | <b>91,842</b>  | <b>93,771</b>  | <b>95,880</b>  | <b>99,812</b>  | <b>99,719</b>            | <b>100,844</b> |
| <b>% of GDP</b>                       |                |                |                |                |                |                          |                |
| Social security and welfare           | 10.3%          | 9.7%           | 9.7%           | 9.5%           | 9.4%           | 9.7%                     | 9.5%           |
| Health                                | 6.6%           | 6.3%           | 6.2%           | 6.2%           | 6.1%           | 6.3%                     | 6.0%           |
| Education                             | 5.7%           | 5.2%           | 5.3%           | 5.2%           | 5.0%           | 5.2%                     | 5.0%           |
| Core government services              | 2.0%           | 1.9%           | 1.7%           | 1.6%           | 1.5%           | 1.9%                     | 1.5%           |
| Law and order                         | 1.6%           | 1.5%           | 1.4%           | 1.4%           | 1.4%           | 1.5%                     | 1.5%           |
| Other core Crown expenses             | 5.9%           | 5.5%           | 5.5%           | 5.3%           | 5.1%           | 5.3%                     | 5.3%           |
| <b>Core Crown expenses</b>            | <b>32.0%</b>   | <b>30.1%</b>   | <b>29.8%</b>   | <b>29.2%</b>   | <b>28.5%</b>   | <b>29.9%</b>             | <b>28.8%</b>   |
| Crown entities, SOEs and eliminations | 9.5%           | 8.8%           | 8.8%           | 8.7%           | 8.8%           | 8.6%                     | 8.7%           |
| <b>Total Crown expenses</b>           | <b>41.5%</b>   | <b>38.9%</b>   | <b>38.6%</b>   | <b>37.9%</b>   | <b>37.2%</b>   | <b>38.5%</b>             | <b>37.5%</b>   |

Total Crown expenses were \$99.8 billion in the current year, \$3.9 billion more than last year.

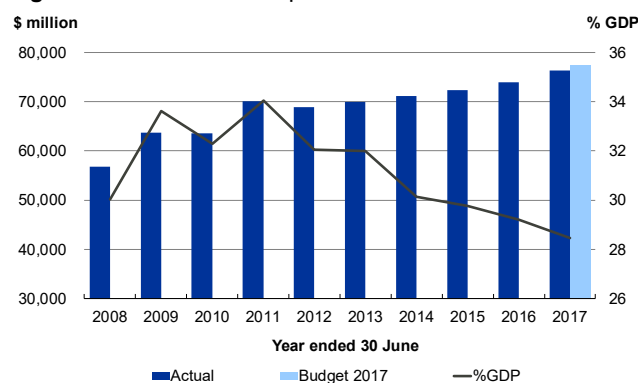
### Core Crown Expenses

While nominal expenditure increased by \$2.4 billion, core Crown expenses fell as a share of the economy to 28.5% of GDP (figure 9) continuing the trend since 2011.

This nominal growth is largely the result of *Budget 2016* decisions which came into effect in 2016/17 as well as increased social assistance. Table 7 shows the largest contributors and offsets to the increase in core Crown expenses over the year:

- Social assistance expenses were greater than last year by \$1.0 billion. This was mainly due to an increase in New Zealand Superannuation benefits of \$0.8 billion. The majority of this relates to growth in the number of NZS recipients. Recipient numbers increased from around 691,000 in 2015/16, to 717,900. The remaining increase is largely owing to increases in the payment rates for NZS (wage/indexation adjustments).
- Environmental protection expenses increased \$0.3 billion on last year, largely reflecting growth in the ETS expenses (\$0.1 billion) primarily due to an increase in the number of carbon credits issued (refer to page 14 for more detail). As well as an increase in mine rehabilitation costs totalling \$0.1 billion.

**Figure 9** – Core Crown expenses



Source: The Treasury

**Table 7** – Movement in core Crown expenses

| Year ended 30 June (\$ billion)   |             |
|-----------------------------------|-------------|
| <b>2016 core Crown expenses</b>   | <b>73.9</b> |
| Budget 2016 initiatives           | 1.9         |
| Social assistance expenses        | 1.0         |
| Environmental protection expenses | 0.3         |
| Treaty settlements                | (0.3)       |
| Other movements                   | (0.5)       |
| <b>2017 core Crown expenses</b>   | <b>76.3</b> |

Source: The Treasury

## Expenses (continued)

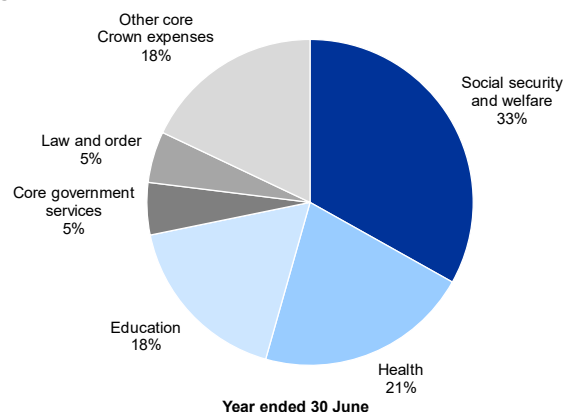
Offsetting these increases:

- Treaty settlements were \$0.3 billion lower than 2015/16. Due to the ongoing nature of Treaty settlements, some negotiations forecast as reaching key milestones during the year had not occurred.
- Other expenses includes costs associated with Inland Revenue's business transformation which have been transferred to 2017/18 to align with updated delivery schedules (\$0.1 billion).

The distribution of core Crown expenditure was relatively stable when compared against the prior year, with over half of expenditure allocated to social security and welfare and health expenses (rising from 53.7% to 54.4%). Although education expenses have decreased as a percentage of total core Crown expenses from 17.8% in 2015/16 to 17.4% in the current year.

Other core Crown expenses are made up of a number of other areas of spending (eg, defence, environmental protection and finance costs) and remained consistent with spending in the prior year.

**Figure 10** – Composition of core Crown expenses



Source: The Treasury

## Other Expenses

The SOE and CE sectors (including inter-segment eliminations) also recorded expenses that were \$1.5 billion (6.9%) higher than 2015/16. This result was mainly attributable to an increase in SOE expenses, and an increase in insurance expenses for ACC and Southern Response.

The Kaikōura earthquakes on 14 November and subsequent aftershocks were destructive, and have resulted in additional costs to the Government. In addition to the cost of claims to EQC, there was extensive damage to the road and rail network in the North-East of the South Island, impacting on the transport of people and freight along the southern corridor. EQC have estimated the cost of claims to be \$0.6 billion while KiwiRail and NZTA have collectively recognised \$0.2 billion in relation to infrastructure repair (\$70 million of which is capital expenditure). Additional expenses are expected to be incurred in the 2017/18 financial year.

### New Zealand Emissions Trading Scheme (NZ ETS)

The New Zealand Emissions Trading Scheme (NZ ETS) was established to encourage reductions in greenhouse gas emissions. The scheme is used to assist New Zealand in meeting its international commitment to reduce New Zealand's net emissions of greenhouse gases to below business-as-usual levels. Forestry was the first sector to join the NZ ETS, on 1 January 2008.

Under the scheme the Government has created a limited number of tradable NZ units (NZUs) which can be allocated to, or surrendered by, emitters.

NZ ETS expenses arise when the Crown allocates NZUs to emitters for free, while revenue is accrued by the Crown as greenhouse gas emissions occur by emitters. The revenue or expense is recognised using the carbon price at the time the units were allocated or accrued. This revenue and expense is included in OBEGAL.

At any point in time the Government will have either a net provision (NZUs given away is greater than NZUs surrendered) or a net receivable (NZUs surrendered is greater than NZUs given away). Revaluation of the stock of units due to carbon price movements is recorded as either a gain or loss (gain when carbon prices decreases, loss when carbon prices increases).

The number of units outstanding at 30 June 2017 was 118.0 million (30 June 2016: 126.8 million). Over the year the carbon price decreased by \$0.55 from NZD\$17.75 at 30 June 2016 to NZD\$17.20 at 30 June 2017, resulting in a \$73 million gain.

**Table 8** – Movement in NZ ETS provision

| Year ended 30 June                       | Actual<br>units<br>million | Price<br>per unit<br>NZD | Actual<br>\$million |
|--|----------------------------|--------------------------|---------------------|
| <b>Opening provision at 30 June 2015</b> | <b>125.8</b>               | <b>6.80</b>              | <b>855</b>          |
| New provision recognised                 | 12.2                       |                          | 163                 |
| Provision used during the period         | (11.2)                     |                          | (271)               |
| Movement in carbon price                 |                            |                          | 1,503               |
| <b>Opening provision at 30 June 2016</b> | <b>126.8</b>               | <b>17.75</b>             | <b>2,250</b>        |
| New provision recognised                 | 17.2                       |                          | 295                 |
| Provision used during the period         | (26.0)                     |                          | (444)               |
| Movement in carbon price                 |                            |                          | (73)                |
| <b>Closing provision at 30 June 2017</b> | <b>118.0</b>               | <b>17.20</b>             | <b>2,028</b>        |

## Operating Balance

**Table 9** – Total Crown operating balance (excluding minority interests)

Year ended 30 June

| \$ million                           | Actual<br>2013 | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actual<br>2017 | Forecast<br>30 June 2017 |                |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|--------------------------|----------------|
|                                      |                |                |                |                |                | Budget<br>2016           | Budget<br>2017 |
| <b>Total Crown OBEGAL</b>            | <b>(4,414)</b> | <b>(2,802)</b> | <b>414</b>     | <b>1,831</b>   | <b>4,069</b>   | <b>719</b>               | <b>1,621</b>   |
| <b>Gains and losses:</b>             |                |                |                |                |                |                          |                |
| ACC actuarial gain/(loss)            | 2,369          | 479            | (1,352)        | (5,099)        | 387            | -                        | 1,276          |
| GSF actuarial gain/(loss)            | 1,251          | 577            | (322)          | (2,028)        | 964            | -                        | 1,486          |
| ETS/Kyoto net position               | 103            | (324)          | (366)          | (1,503)        | 73             | -                        | 63             |
| Investment portfolios:               |                |                |                |                |                |                          |                |
| ZS Fund                              | 4,374          | 3,735          | 3,156          | (76)           | 5,512          | 1,927                    | 4,081          |
| ACC                                  | 1,796          | 730            | 2,397          | 1,420          | 901            | 219                      | 682            |
| Earthquake Commission                | 1              | -              | -              | -              | -              | -                        | -              |
| Other gains/(losses) <sup>1</sup>    | 1,445          | 544            | 1,844          | 86             | 411            | 193                      | 229            |
| <b>Total Crown gains/(losses)</b>    | <b>11,339</b>  | <b>5,741</b>   | <b>5,357</b>   | <b>(7,200)</b> | <b>8,248</b>   | <b>2,339</b>             | <b>7,817</b>   |
| <b>Total Crown operating balance</b> | <b>6,925</b>   | <b>2,939</b>   | <b>5,771</b>   | <b>(5,369)</b> | <b>12,317</b>  | <b>3,058</b>             | <b>9,438</b>   |
| <b>% of GDP</b>                      |                |                |                |                |                |                          |                |
| Total Crown OBEGAL                   | (2.0)%         | (1.2)%         | 0.2%           | 0.7%           | 1.5%           | 0.3%                     | 0.6%           |
| Total Crown gains/(losses)           | 5.2%           | 2.4%           | 2.2%           | (2.8)%         | 3.1%           | 0.9%                     | 2.9%           |
| <b>Total Crown Operating balance</b> | <b>3.2%</b>    | <b>1.2%</b>    | <b>2.4%</b>    | <b>(2.1)%</b>  | <b>4.6%</b>    | <b>1.2%</b>              | <b>3.5%</b>    |

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

## OBEGAL

The OBEGAL surplus of \$4.1 billion is an increase of \$2.2 billion from last year.

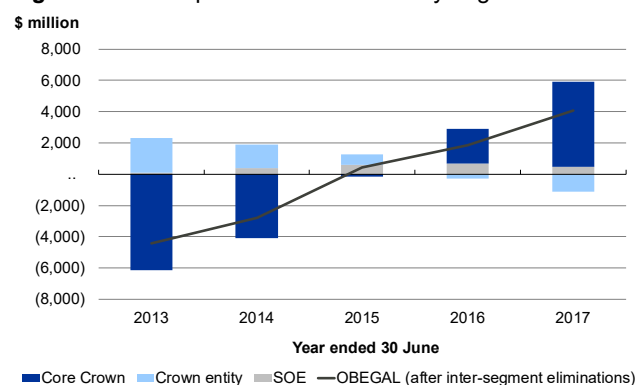
Figure 11 shows the composition of OBEGAL from the different segments of the Government. For the year ended 30 June 2017, the core Crown segment continued its significant upwards trend as a result of the strong tax outturn discussed earlier, outpacing the increase in core Crown expenses.

The SOE segment remained relatively stable, decreasing slightly to a surplus of \$0.5 billion, compared with a surplus of \$0.7 billion last year.

Partially offsetting the core Crown results, the Crown entity segment reported a deficit of \$1.1 billion,

\$0.8 billion higher than the previous year's deficit of \$0.3 billion. This increased deficit partly reflects increased EQC insurance expenses from the Kaikōura earthquakes, while costs from the Canterbury earthquakes remaining relatively stable with reductions in EQC expenses being offset by increased costs in Southern Response. In addition, the OBEGAL deficits in ACC have also increased from the previous year, driven by several factors including a higher number of claims across all accounts, lower average discount rates for the year (used to calculate the of claims in today's dollars), and price increases.

**Figure 11** – Components of OBEGAL by segment



Source: The Treasury

## Operating Balance (continued)

### Operating Balance

Net gains totalled \$8.2 billion for the year. These gains, in addition to the OBEGAL surplus, resulted in the total Crown's operating balance surplus of \$12.3 billion, \$17.7 billion higher than last year's deficit of \$5.4 billion.

Gains on financial instruments were \$6.3 billion (\$5.2 billion more than gain of \$1.1 billion last year). The NZS Fund recorded an investment gain of \$5.5 billion in the current year (compared to a loss of \$76 million in the previous year), reflecting strong investment performance, off the back of rising global equity markets.

In addition to the gains on investments, gains from actuarial valuations on the Crown's significant long-term liabilities such as ACC and Government Superannuation Fund (GSF) were \$1.4 billion (compared to actuarial losses of \$7.1 billion in the prior year).

The gain included an actuarial gain of \$4.5 billion due to the discount rate at 30 June 2017 (used to value all outstanding claims in today's dollars) being higher than the discount rates at 30 June 2016. This gain of \$4.5 billion was partially offset by higher inflation rates, and for ACC the impact of the cost of pay equity and the in between travel settlement with care providers (a net actuarial loss of \$3.4 billion).

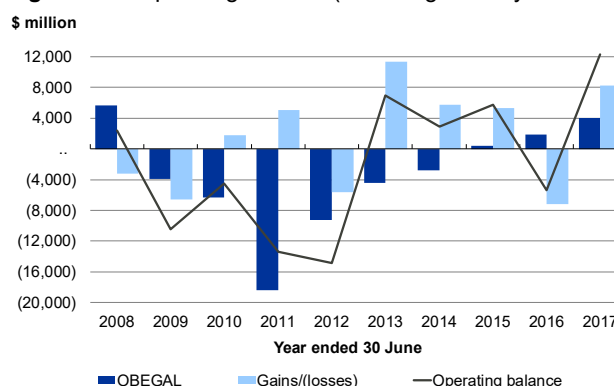
As can be seen from the volatility in figure 12, the operating balance is particularly sensitive to balance sheet movements and actuarial valuations. Note 2 (page 43) of the financial statements discusses the key judgements and assumptions underpinning these financial statements.

**Table 10** – Impact of NZS Fund results on the Financial Statement of the Government

| Year ended 30 June (\$ million) | Actual 2016 | Actual 2017  |
|---------------------------------|-------------|--------------|
| <b>OBEGAL</b>                   | <b>102</b>  | <b>(533)</b> |
| Gains and losses                | (76)        | 5,512        |
| <b>Operating Balance</b>        | <b>26</b>   | <b>4,979</b> |

Source: The Treasury

**Figure 12** – Operating balance (excluding minority interests)



Source: The Treasury

## Debt

**Table 11** – Net debt, gross debt and residual cash

Year ended 30 June

|                               | Actual<br>2013 | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actual<br>2017 | Forecast<br>30 June 2017 |                |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|--------------------------|----------------|
|                               |                |                |                |                |                | Budget<br>2016           | Budget<br>2017 |
| Net debt <sup>1</sup> (\$m)   | 55,835         | 59,931         | 60,631         | 61,880         | 59,480         | 66,334                   | 62,277         |
| Net debt (% GDP)              | 25.5%          | 25.4%          | 24.9%          | 24.4%          | 22.2%          | 25.6%                    | 23.2%          |
| Gross debt <sup>2</sup> (\$m) | 77,984         | 81,956         | 86,125         | 86,928         | 87,141         | 93,880                   | 88,645         |
| Gross debt (% GDP)            | 35.7%          | 34.7%          | 35.4%          | 34.3%          | 32.5%          | 36.2%                    | 33.0%          |
| Residual cash (\$m)           | (5,742)        | (4,109)        | (1,827)        | (1,322)        | 2,574          | (4,162)                  | 71             |
| Residual cash (% GDP)         | (2.6%)         | (1.7%)         | (0.8%)         | (0.5%)         | 1.0%           | (1.6%)                   | 0.0%           |

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

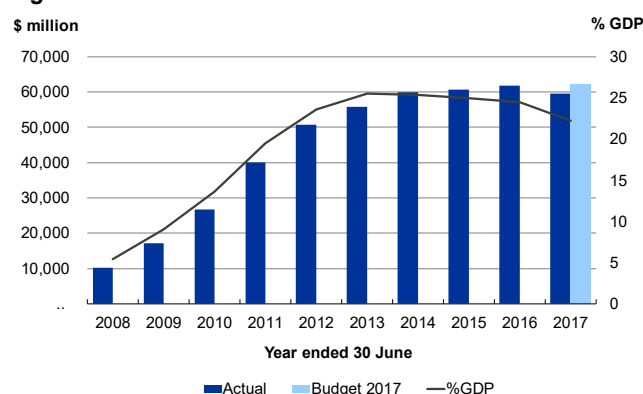
2 Gross debt is defined as gross sovereign-issued debt excluding the Reserve Bank settlement cash and Reserve Bank bills.

## Net Debt

The residual cash surplus has resulted in, in nominal terms, net debt decreasing. At \$59.5 billion, net debt has decreased by \$2.4 billion since 2015/16. As a share of the economy, net debt continued to fall (22.2% of GDP versus 24.4% of GDP a year earlier).

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

**Figure 13** – Net core Crown debt



Source: The Treasury

## Residual Cash

Net operating cash flows of \$6.3 billion for the year exceeded net capital spending of \$3.7 billion, resulting in a residual cash surplus of \$2.6 billion. The surplus compares to a residual cash deficit of \$1.3 billion last year. Table 12 summarises the movements from residual cash deficit last year to surplus in the current year.

The net core Crown operating cash flow was \$6.3 billion, an increase of \$3.0 billion from last year with the increase in tax receipts larger than the increase in operating payments. Tax receipts were \$5.0 billion higher than last year, in line with the increase in core Crown tax revenue as discussed on page 7. Operating payments increased in line with core Crown expenses, resulted in an increase in cash outflows of \$2.4 billion.

**Table 12** – Movement in residual cash

| Year ended 30 June (\$ billion)              |              |
|--|--------------|
| <b>2016 core Crown residual cash deficit</b> | <b>(1.3)</b> |
| Increase in tax receipts                     | 5.0          |
| Increase in operating payments               | (2.4)        |
| Decrease in capital spending                 | 0.9          |
| Other movements                              | 0.4          |
| <b>2017 core Crown residual cash surplus</b> | <b>2.6</b>   |

Source: The Treasury

## Debt (continued)

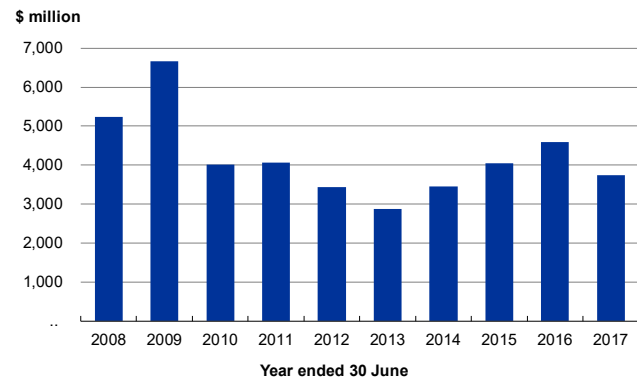
Overall, capital payments were \$0.9 billion less than last year. Net purchase of physical assets increased by \$0.2 billion, however this was offset by a net repayment of advances of \$0.6 billion, and a decrease in purchase of investments of \$0.5 billion.

Capital spending for 2016/17 totalled \$3.7 billion and included:

- Net purchase of physical assets of \$2.2 billion, including \$0.7 billion by the Ministry of Education in relation to school property, \$0.4 billion for defence equipment and \$0.2 billion by the Ministry of Health (mostly related to Canterbury rebuild projects).
- Net investments of \$1.7 billion, the largest of which was the Crown's investment in state highways of \$1.0 billion, with \$0.3 billion paid to Southern Response following a call on the Crown Support Deed.
- Net advances was an inflow of \$0.1 billion, including repayment of loan proceeds of \$0.5 billion, being partially offset by an increase of \$0.2 billion for student loans.

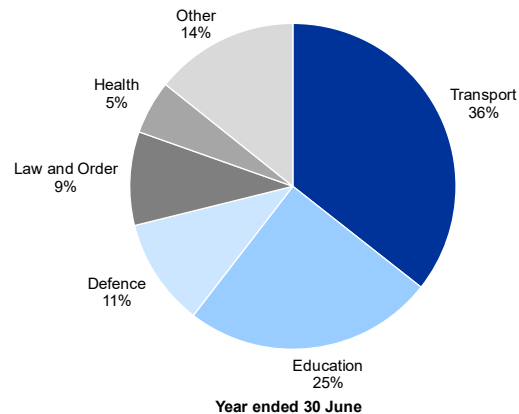
Around 60% of capital spending (\$2.3 billion) has been on the transport and education sectors (figure 15). The total spend in the transport sector was \$1.3 billion (35.6%), with a majority of this being spent on progressing the Roads of National Significance, which included completing the Waterview Tunnel, Kāpiti expressway and Auckland region projects. \$0.9 billion (24.8%) was spent on Education sector, purchasing physical assets (as discussed above), investing in schools and upgrading existing property to maintain the quality of the property portfolio of the State School sector.

**Figure 14 – Net core Crown capital cash flows**



Source: The Treasury

**Figure 15 – Profile of net core Crown capital cash flows**



Source: The Treasury



## Debt (continued)

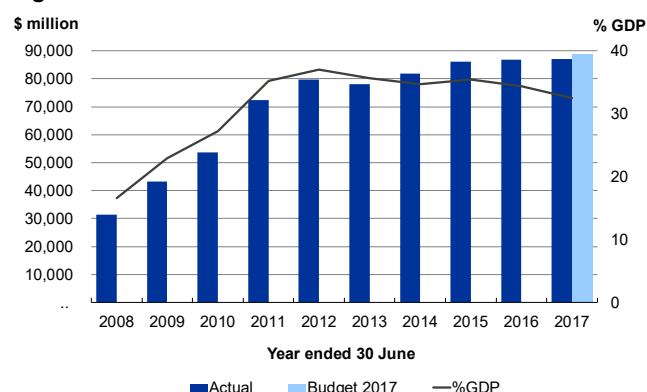
### Gross Debt

Gross debt, which reflects the borrowings of the core Crown, increased nominally by \$0.2 billion compared to last year at \$87.1 billion (figure 16). However, as a percentage of the economy, gross debt dropped 1.8% to 32.5% of GDP (34.3% of GDP a year earlier).

Overall, the Crown's borrowing programme added \$1.1 billion to gross debt (table 13). Partially offsetting the increase was a reduction in other liabilities, including derivative liabilities.

During the current year the debt programme raised cash from the market of \$1.9 billion. The Crown continued to issue bonds (\$8.0 billion face value) while Treasury Bills outstanding were broadly unchanged. The proceeds from bond issuance were largely used to fund repurchases of the December 2017 bond maturity. Repurchasing these securities prior to maturity assists in smoothing the Crown's cash profile, reduces refinancing risk, and minimises any residual market impacts associated with the maturity of this bond.

Figure 16 – Gross debt



Source: The Treasury

Table 13 – Cash proceeds from debt programme

Year ended 30 June

| \$ million   | Actual<br>2013 | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actual<br>2017 | Forecast<br>30 June 2017 |                |
|--|----------------|----------------|----------------|----------------|----------------|--------------------------|----------------|
|  |                |                |                |                |                | Budget<br>2016           | Budget<br>2017 |
| Issue of government bonds                                  | 15,458         | 7,716          | 8,058          | 8,079          | 7,847          | 7,893                    | 8,014          |
| Repayment of government bonds                              | (9,982)        | (2,196)        | (8,684)        | (1,779)        | (6,080)        | -                        | (5,055)        |
| Net issue/(repayment) of short-term borrowing <sup>1</sup> | (5,404)        | (935)          | 4,179          | (3,513)        | 160            | 400                      | 60             |
| <b>Total market debt cash flows</b>                        | <b>72</b>      | <b>4,585</b>   | <b>3,553</b>   | <b>2,787</b>   | <b>1,927</b>   | <b>8,293</b>             | <b>3,019</b>   |
| Issue of government bonds                                  | -              | -              | -              | -              | -              | -                        | -              |
| Repayment of government bonds                              | (499)          | -              | (482)          | (139)          | (830)          | (665)                    | (833)          |
| Net issue/(repayment) of short-term borrowing              | 100            | -              | (480)          | (100)          | -              | -                        | -              |
| <b>Total non-market debt cash flows</b>                    | <b>(399)</b>   | <b>-</b>       | <b>(962)</b>   | <b>(239)</b>   | <b>(830)</b>   | <b>(665)</b>             | <b>(833)</b>   |
| <b>Total debt programme cash flows</b>                     | <b>(327)</b>   | <b>4,585</b>   | <b>2,591</b>   | <b>2,548</b>   | <b>1,097</b>   | <b>7,628</b>             | <b>2,186</b>   |

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

## Net Worth Attributable to the Crown

**Table 14 – Net worth**

Year ended 30 June

| \$ million   | Actual<br>2013 | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actual<br>2017 | Forecast<br>30 June 2017 |                |
|--|----------------|----------------|----------------|----------------|----------------|--------------------------|----------------|
|  |                |                |                |                |                | Budget<br>2016           | Budget<br>2017 |
| Net worth attributable to the Crown                      | 68,071         | 75,486         | 86,454         | 89,366         | 110,532        | 86,641                   | 100,044        |
| Net worth attributable to minority interests             | 1,940          | 5,211          | 5,782          | 6,155          | 5,940          | 5,784                    | 5,879          |
| <b>Total net worth</b>                                   | <b>70,011</b>  | <b>80,697</b>  | <b>92,236</b>  | <b>95,521</b>  | <b>116,472</b> | <b>92,425</b>            | <b>105,923</b> |
| <b>Net worth attributable to the Crown as a % of GDP</b> | <b>31.1</b>    | <b>32.0</b>    | <b>35.6</b>    | <b>35.3</b>    | <b>41.2</b>    | <b>33.4</b>              | <b>37.2</b>    |

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

Along with the Crown's operating balance surplus, revaluation uplifts of the Crown's property, plant and equipment (details on the next page) resulted in an increase in the Crown's net worth.

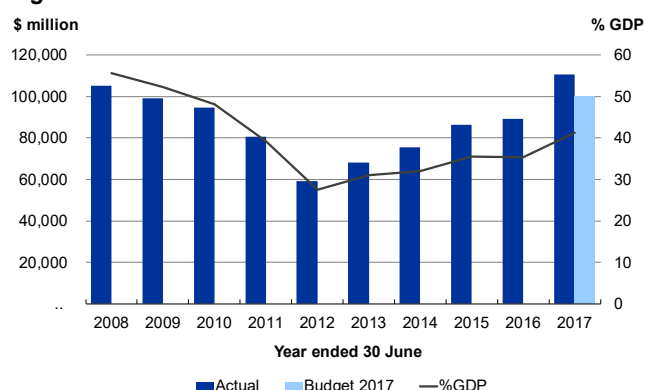
Net worth attributable to the Crown was \$110.5 billion as at 30 June 2017, an increase of \$21.2 billion from a year earlier. As a share of the economy, net worth attributable to the Crown grew 5.9% from 35.3% of GDP in 2015/16 to 41.2% of GDP in the current year.

Figure 18 shows that, while the nominal level of net worth attributable to the Crown has recovered from the decline which began in 2008, the composition of net worth has changed. The main driver of the relatively steady growth in the PPE revaluation reserve over the last few years has been the increases in land and building prices. Although the PPE revaluation reserve grew by 11.3%, as a percentage of net worth attributable to the Crown it has decreased from 84.6% to 76.1% in 2016/17.

Taxpayers' funds however, which is directly affected by the operating balance surplus, increased sharply against the prior year, growing by \$12.5 billion. As a percentage of net worth attributable to the Crown it has increased to 23.9% in the current year.

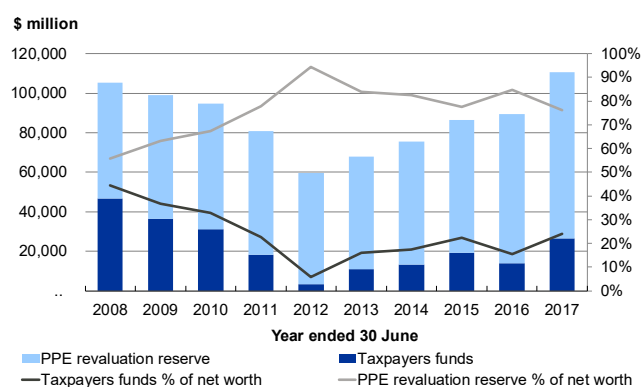
Net worth attributable to minority interests largely represents the share of net assets attributable to the investors in the mixed ownership companies (Air New Zealand, Genesis Energy, Mercury NZ and Meridian Energy). The decrease in 2016/17 is the result of dividend payments being larger than the current years' operating profit.

**Figure 17 – Net worth attributable to the Crown**



Source: The Treasury

**Figure 18 – Composition of net worth attributable to the Crown**



Source: The Treasury

## Net Worth Attributable to the Crown (continued)

### Total Crown Balance Sheet

**Table 15** – Composition of the statement of financial position<sup>3</sup>

Year ended 30 June

| \$ million                                 | Actual<br>2013 | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actual<br>2017 | Forecast<br>30 June 2017 |                |
|--|----------------|----------------|----------------|----------------|----------------|--------------------------|----------------|
|  |                |                |                |                |                | Budget<br>2016           | Budget<br>2017 |
| Social assets                              | 124,348        | 133,158        | 139,706        | 149,419        | 162,649        | 145,480                  | 153,744        |
| Financial assets                           | 72,378         | 74,636         | 87,039         | 87,921         | 94,224         | 91,869                   | 92,191         |
| Commercial assets                          | 47,690         | 49,030         | 52,469         | 55,339         | 56,736         | 54,240                   | 55,347         |
| <b>Total assets</b>                        | <b>244,416</b> | <b>256,824</b> | <b>279,214</b> | <b>292,679</b> | <b>313,609</b> | <b>291,588</b>           | <b>301,282</b> |
| Social liabilities                         | 16,140         | 17,015         | 17,625         | 19,223         | 20,089         | 17,976                   | 19,694         |
| Financial liabilities                      | 130,052        | 129,589        | 137,218        | 144,354        | 143,186        | 146,904                  | 141,759        |
| Commercial liabilities                     | 28,213         | 29,523         | 32,135         | 33,581         | 33,862         | 34,282                   | 33,906         |
| <b>Total liabilities</b>                   | <b>174,405</b> | <b>176,127</b> | <b>186,978</b> | <b>197,158</b> | <b>197,137</b> | <b>199,163</b>           | <b>195,359</b> |
| <b>Net worth</b>                           | <b>70,011</b>  | <b>80,697</b>  | <b>92,236</b>  | <b>95,521</b>  | <b>116,472</b> | <b>92,425</b>            | <b>105,923</b> |
| Minority interests                         | (1,940)        | (5,211)        | (5,782)        | (6,155)        | (5,940)        | (5,784)                  | (5,879)        |
| <b>Net worth attributable to the Crown</b> | <b>68,071</b>  | <b>75,486</b>  | <b>86,454</b>  | <b>89,366</b>  | <b>110,532</b> | <b>86,641</b>            | <b>100,044</b> |

Total Crown assets were \$313.6 billion as at 30 June 2017, a \$20.9 billion increase since last year. This growth was largely in social sector assets (\$13.2 billion), while financial assets grew by \$6.3 billion and commercial assets by \$1.4 billion.

Total Crown liabilities were \$197.1 billion, decreasing by \$21 million from the previous year.

### Social Balance Sheet

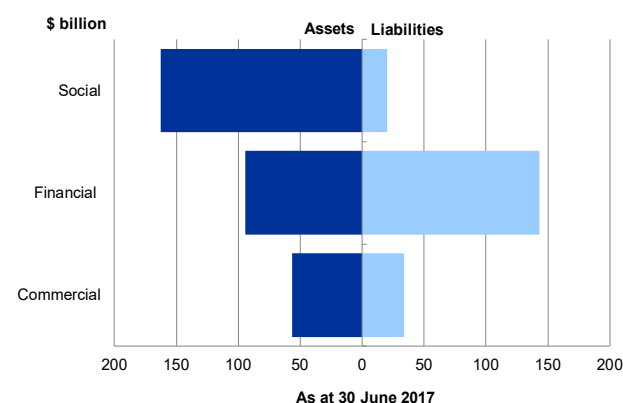
Social sector net worth at \$142.6 billion was \$12.4 billion higher than last year, driven largely by an increase in social assets.

The Crown's social assets were valued at \$162.6 billion, a \$13.2 billion increase since last year, and made up 51.9% of the Crown's total assets. The largest uplifts related to the following:

- The social housing portfolio increased by \$2.6 billion of which \$2.2 billion relates to land. The land increase mostly related to Auckland stock reflecting the strength of this market.
- The value of state highways (including land) increased by \$2.6 billion, mainly reflecting the development of new and improvements to existing state highway assets.

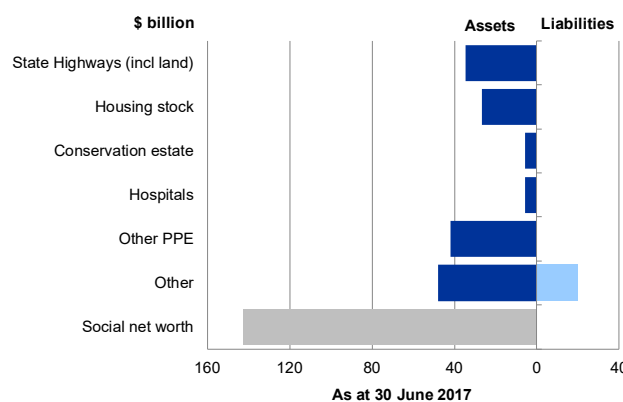
Social liabilities were \$20.1 billion, a \$0.9 billion increase compared to 2015/16. This increase was largely due to increased accounts payable and borrowings, offset by a reduction in provisions.

**Figure 19** – Total Crown balance sheet



Source: The Treasury

**Figure 20** – Social balance sheet



Source: The Treasury

<sup>3</sup> Based on three different sectors as examined in the 2014 Investment Statement. The glossary on page 143 explains the definition of these three sectors.

## Net Worth Attributable to the Crown (continued)

### Financial Balance Sheet

The Crown's bond programme and therefore holds the majority of the Crown's debt (while the assets funded by the debt are largely in the social sector). Financial sector net worth changed by \$7.4 billion, from -\$56.4 billion last year to -\$49.0 billion in the current year.

The value of financial assets and financial liabilities are particularly sensitive to changes in market prices. Note 2, on pages 43 to 47, sets out some of the sensitivities of the key assumptions regarding these assets and liabilities.

The Crown's financial sector assets were valued at \$94.2 billion, a \$6.3 billion increase compared to last year. As mentioned earlier, the NZS Fund recorded net gains with assets growing by \$6.8 billion, which directly impacts the financial balance sheet.

Financial sector liabilities were \$143.2 billion, \$1.2 billion lower than the previous year, mainly as the result of decreases in the value of ACC and GSF liabilities.

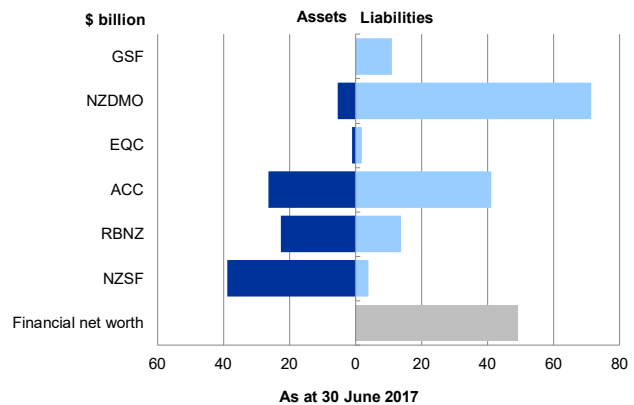
### Commercial Balance Sheet

Commercial sector net worth at \$22.9 billion increased by \$1.1 billion compared to last year.

The Crown's commercial assets were valued at \$56.7 billion, a \$1.4 billion increase over the year. A large component of this increase related to Kiwibank loans (\$1.1 billion increase), along with increases due to property, plant and equipment valuation uplifts and additions across the sector.

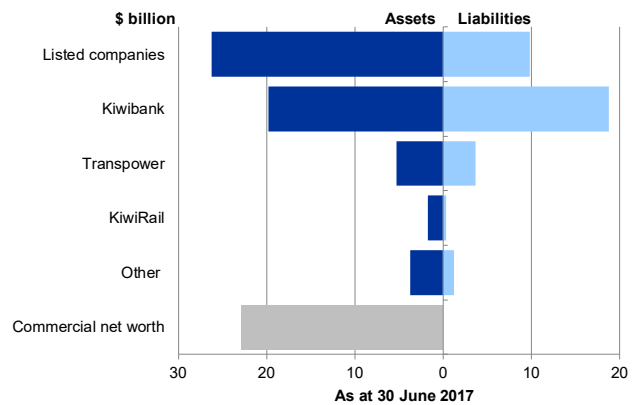
Commercial liabilities at \$33.9 billion were broadly in line with last year's position.

**Figure 21 – Financial balance sheet**



Source: The Treasury

**Figure 22 – Commercial balance sheet**



Source: The Treasury

## Year End Results Compared to Budget 2017

The Budget Economic and Fiscal Update 2017 (Budget 2017) was published on 25 May 2017.

Reference to *estimated actuals* refers to the most recent *Budget and Economic Fiscal Update* for any given year.

**Table 16** – Comparison to Budget 2017

| Year ended 30 June                               | Actual<br>2017 | Budget<br>2017 | Variance to<br>Budget 2017<br>\$m | Variance to<br>Budget 2017<br>% |
|--|----------------|----------------|-----------------------------------|---------------------------------|
| \$ million                                       |                |                |                                   |                                 |
| Core Crown tax revenue                           | 75,644         | 74,598         | 1,046                             | 1.4                             |
| Core Crown expenses                              | 76,339         | 77,464         | 1,125                             | 1.5                             |
| OBEGAL (excluding minority interests)            | 4,069          | 1,621          | 2,448                             |                                 |
| Operating balance (excluding minority interests) | 12,317         | 9,438          | 2,879                             |                                 |
| Residual cash                                    | 2,574          | 71             | 2,503                             |                                 |
| Gross debt                                       | 87,141         | 88,645         | 1,504                             | 1.7                             |
| as a percentage of GDP                           | 32.5%          | 33.0%          |                                   |                                 |
| Net debt   | 59,480         | 62,277         | 2,797                             | 4.5                             |
| as a percentage of GDP                           | 22.2%          | 23.2%          |                                   |                                 |
| Net worth attributable to the Crown              | 110,532        | 100,044        | 10,488                            | 10.5                            |
| as a percentage of GDP                           | 41.2%          | 37.2%          |                                   |                                 |

### Core Crown Tax Revenue

Core Crown tax revenue was \$1.0 billion (1.4%) higher than expected, with the largest differences being:

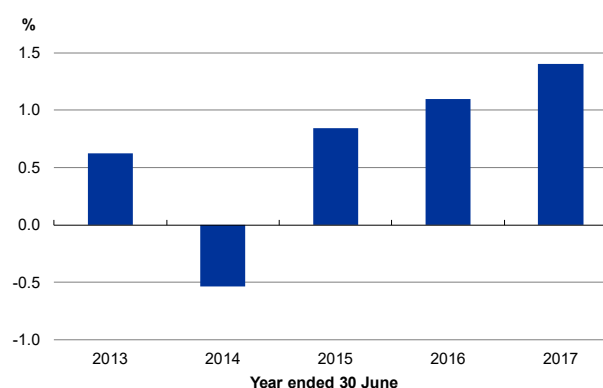
- Corporate tax: \$0.6 billion (4.5%) above forecast. \$0.1 billion of the variance was from higher-than-expected PIE tax revenue. The remainder of the variance was spread across companies both large and small, from both the 2016 (terminal tax) and 2017 (provisional tax) income years, with most sectors of the economy represented, including a significant contribution from companies operating in the finance and insurance sector.
- Source deductions: \$0.2 billion (0.7%) above forecast. At the time the Budget forecast was compiled, the forecasts were based on actual outturn to March which was tracking below labour market data. However, over the past three months, source deduction revenue has moved steadily ahead of the *Budget 2017* forecast, to come back into line with the labour market data.

**Table 17** – Core Crown tax revenue compared to *Estimated Actuals*

| Year ended 30 June (\$ billion)           |             |
|---|-------------|
| <b>Budget 2017 core Crown tax revenue</b> | <b>74.6</b> |
| Source deductions                         | 0.2         |
| Corporate tax                             | 0.6         |
| GST                                       | 0.1         |
| Other movements                           | 0.1         |
| <b>Actual 2017 core Crown tax revenue</b> | <b>75.6</b> |

Source: The Treasury

**Figure 23** – Core Crown tax revenue variance to *Estimated Actuals*



Source: The Treasury

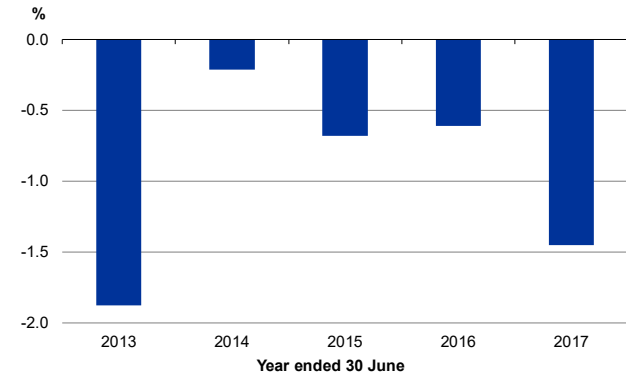
## Year End Results Compared to Budget 2017 (continued)

### Core Crown Expenses

Core Crown expenses were \$1.1 billion (1.5%) lower than expected.

The lower than forecast result was largely due to lower than forecast impairment of tax receivables and although significant progress was made during the 2016/17 year in Treaty Settlement negotiations, several deeds negotiated during this period were not initialled until July - September 2017, falling outside the actual results.

**Figure 24** – Core Crown expenses variance to *Estimated Actuals*



Source: The Treasury

### OBEGAL

The OBEGAL surplus was \$2.4 billion higher than *Budget 2017* forecast. The majority of the variance against *Budget 2017* is reflected in the favourable variances in core Crown revenue and core Crown expenses discussed earlier.

The variance in the operating balance against *Budget 2017* is primarily explained by the OBEGAL movement for the same forecast period.

### Residual Cash and Net Debt

The residual cash surplus was \$2.5 billion higher than *Budget 2017* with operating cash flows \$1.3 billion higher than expected and capital payments \$1.2 billion lower than forecast.

Operating cash flows were favourable to forecast with operating payments making up \$0.6 billion of this and tax receipts increasing by \$0.3 billion.

Capital payments were \$1.2 billion lower than *Budget 2017*, driven by less than forecast purchase of physical assets and investments, due to delays in projects (eg, investment in school property assets).

Net debt at \$59.5 billion (22.2% of GDP) was \$2.8 billion below forecast mainly driven by the residual cash surplus.

### Gross Debt

Gross debt at \$87.1 billion (32.5% of GDP) was \$1.5 billion lower than forecast with the repurchase of Government bonds being higher than forecast.

### Net Worth Attributable to the Crown

The net worth attributable to the Crown was \$10.5 billion stronger than *Budget 2017* forecast mainly due to an upwards revaluation of property, plant and equipment of \$7.5 billion and a favourable operating balance of \$2.9 billion against *Budget 2017*.

## Historical Financial Information

| Year ended 30 June<br>\$ million                        | 2008<br>Actual | 2009<br>Actual  | 2010<br>Actual | 2011<br>Actual  | 2012<br>Actual  | 2013<br>Actual | 2014<br>Actual | 2015<br>Actual | 2016<br>Actual | 2017<br>Actual |
|---|----------------|-----------------|----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Statement of financial performance</b>               |                |                 |                |                 |                 |                |                |                |                |                |
| Core Crown tax revenue                                  | 56,747         | 54,681          | 50,744         | 51,557          | 55,081          | 58,651         | 61,563         | 66,636         | 70,445         | 75,644         |
| Core Crown other revenue                                | 4,828          | 4,510           | 5,013          | 5,642           | 5,347           | 5,154          | 5,530          | 5,577          | 5,676          | 6,138          |
| Core Crown revenue                                      | 61,575         | 59,191          | 55,757         | 57,199          | 60,428          | 63,805         | 67,093         | 72,213         | 76,121         | 81,782         |
| Crown entities, SOE revenue and eliminations            | 19,660         | 20,024          | 18,509         | 24,013          | 22,918          | 22,506         | 22,106         | 22,299         | 22,038         | 22,445         |
| <b>Total Crown revenue</b>                              | <b>81,235</b>  | <b>79,215</b>   | <b>74,266</b>  | <b>81,212</b>   | <b>83,346</b>   | <b>86,311</b>  | <b>89,199</b>  | <b>94,512</b>  | <b>98,159</b>  | <b>104,227</b> |
| Social security and welfare                             | 17,730         | 19,189          | 20,814         | 21,724          | 21,956          | 22,459         | 23,026         | 23,523         | 24,081         | 25,294         |
| Health  | 11,297         | 12,368          | 13,128         | 13,753          | 14,160          | 14,498         | 14,898         | 15,058         | 15,626         | 16,223         |
| Education   | 9,551          | 11,455          | 11,724         | 11,650          | 11,654          | 12,504         | 12,300         | 12,879         | 13,158         | 13,281         |
| Core government services                                | 3,371          | 5,293           | 2,974          | 5,563           | 5,428           | 4,294          | 4,502          | 4,134          | 4,102          | 3,957          |
| Law and order   | 2,797          | 2,992           | 3,103          | 3,312           | 3,338           | 3,394          | 3,463          | 3,515          | 3,648          | 3,882          |
| Other core Crown expenses                               | 12,007         | 12,415          | 11,811         | 14,097          | 12,403          | 12,813         | 12,985         | 13,254         | 13,314         | 13,702         |
| <b>Core Crown expenses</b>                              | <b>56,753</b>  | <b>63,711</b>   | <b>63,554</b>  | <b>70,099</b>   | <b>68,939</b>   | <b>69,962</b>  | <b>71,174</b>  | <b>72,363</b>  | <b>73,929</b>  | <b>76,339</b>  |
| Crown entities, SOE expenses and eliminations           | 18,845         | 19,397          | 17,027         | 29,509          | 23,647          | 20,701         | 20,668         | 21,408         | 21,951         | 23,473         |
| <b>Total Crown expenses</b>                             | <b>75,598</b>  | <b>83,108</b>   | <b>80,581</b>  | <b>99,608</b>   | <b>92,586</b>   | <b>90,663</b>  | <b>91,842</b>  | <b>93,771</b>  | <b>95,880</b>  | <b>99,812</b>  |
| <b>OBEGAL (excluding minority interests)</b>            | <b>5,637</b>   | <b>(3,893)</b>  | <b>(6,315)</b> | <b>(18,396)</b> | <b>(9,240)</b>  | <b>(4,414)</b> | <b>(2,802)</b> | <b>414</b>     | <b>1,831</b>   | <b>4,069</b>   |
| Gains/(losses)  | (3,253)        | (6,612)         | 1,806          | 5,036           | (5,657)         | 11,339         | 5,741          | 5,357          | (7,200)        | 8,248          |
| <b>Operating balance (excluding minority interests)</b> | <b>2,384</b>   | <b>(10,505)</b> | <b>(4,509)</b> | <b>(13,360)</b> | <b>(14,897)</b> | <b>6,925</b>   | <b>2,939</b>   | <b>5,771</b>   | <b>(5,369)</b> | <b>12,317</b>  |
| <b>Statement of financial position</b>                  |                |                 |                |                 |                 |                |                |                |                |                |
| Property, plant and equipment                           | 103,329        | 110,135         | 113,330        | 114,854         | 108,584         | 109,833        | 116,306        | 124,558        | 134,499        | 144,550        |
| Financial assets  | 85,063         | 93,359          | 95,971         | 115,362         | 116,178         | 118,779        | 123,918        | 135,787        | 138,255        | 147,050        |
| Other assets  | 12,443         | 13,657          | 14,054         | 14,999          | 15,556          | 15,804         | 16,600         | 18,869         | 19,925         | 22,009         |
| <b>Total assets</b>                                     | <b>200,835</b> | <b>217,151</b>  | <b>223,355</b> | <b>245,215</b>  | <b>240,318</b>  | <b>244,416</b> | <b>256,824</b> | <b>279,214</b> | <b>292,679</b> | <b>313,609</b> |
| Borrowings  | 46,110         | 61,953          | 69,733         | 90,245          | 100,534         | 100,087        | 103,419        | 112,580        | 113,956        | 111,806        |
| Other liabilities                                       | 49,211         | 55,683          | 58,634         | 74,083          | 80,004          | 74,318         | 72,708         | 74,398         | 83,202         | 85,331         |
| <b>Total liabilities</b>                                | <b>95,321</b>  | <b>117,636</b>  | <b>128,367</b> | <b>164,328</b>  | <b>180,538</b>  | <b>174,405</b> | <b>176,127</b> | <b>186,978</b> | <b>197,158</b> | <b>197,137</b> |
| Minority interests                                      | 382            | 447             | 402            | 308             | 432             | 1,940          | 5,211          | 5,782          | 6,155          | 5,940          |
| <b>Net worth attributable to the Crown</b>              | <b>105,132</b> | <b>99,068</b>   | <b>94,586</b>  | <b>80,579</b>   | <b>59,348</b>   | <b>68,071</b>  | <b>75,486</b>  | <b>86,454</b>  | <b>89,366</b>  | <b>110,532</b> |
| <b>Cash position</b>                                    |                |                 |                |                 |                 |                |                |                |                |                |
| Core Crown residual cash                                | 2,057          | (8,639)         | (9,000)        | (13,343)        | (10,644)        | (5,742)        | (4,109)        | (1,827)        | (1,322)        | 2,574          |
| <b>Debt Indicators</b>                                  |                |                 |                |                 |                 |                |                |                |                |                |
| Net debt  | 10,258         | 17,119          | 26,738         | 40,128          | 50,671          | 55,835         | 59,931         | 60,631         | 61,880         | 59,480         |
| Gross debt  | 31,390         | 43,356          | 53,591         | 72,420          | 79,635          | 77,984         | 81,956         | 86,125         | 86,928         | 87,141         |

## Historical Financial Information (continued)

| Year ended 30 June<br>as % of GDP                       | 2008<br>Actual | 2009<br>Actual | 2010<br>Actual | 2011<br>Actual | 2012<br>Actual | 2013<br>Actual | 2014<br>Actual | 2015<br>Actual | 2016<br>Actual | 2017<br>Actual |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Nominal GDP (revised)</b>                            | 189,041        | 189,550        | 196,743        | 205,850        | 215,109        | 218,720        | 236,245        | 243,096        | 253,211        | 268,101        |
| <b>Statement of financial performance</b>               |                |                |                |                |                |                |                |                |                |                |
| Core Crown tax revenue                                  | 30.0%          | 28.8%          | 25.8%          | 25.0%          | 25.6%          | 26.8%          | 26.1%          | 27.4%          | 27.8%          | 28.2%          |
| Core Crown other revenue                                | 2.6%           | 2.4%           | 2.5%           | 2.7%           | 2.5%           | 2.4%           | 2.3%           | 2.3%           | 2.2%           | 2.3%           |
| Core Crown revenue                                      | 32.6%          | 31.2%          | 28.3%          | 27.8%          | 28.1%          | 29.2%          | 28.4%          | 29.7%          | 30.1%          | 30.5%          |
| Crown entities, SOE and elimination revenue             | 10.4%          | 10.6%          | 9.4%           | 11.7%          | 10.7%          | 10.3%          | 9.4%           | 9.2%           | 8.7%           | 8.4%           |
| <b>Total Crown revenue</b>                              | <b>43.0%</b>   | <b>41.8%</b>   | <b>37.7%</b>   | <b>39.5%</b>   | <b>38.7%</b>   | <b>39.5%</b>   | <b>37.8%</b>   | <b>38.9%</b>   | <b>38.8%</b>   | <b>38.9%</b>   |
| Social security and welfare                             | 9.4%           | 10.1%          | 10.6%          | 10.6%          | 10.2%          | 10.3%          | 9.7%           | 9.7%           | 9.5%           | 9.4%           |
| Health  | 6.0%           | 6.5%           | 6.7%           | 6.7%           | 6.6%           | 6.6%           | 6.3%           | 6.2%           | 6.2%           | 6.1%           |
| Education   | 5.1%           | 6.0%           | 6.0%           | 5.7%           | 5.4%           | 5.7%           | 5.2%           | 5.3%           | 5.2%           | 5.0%           |
| Core government services                                | 1.8%           | 2.8%           | 1.5%           | 2.7%           | 2.5%           | 2.0%           | 1.9%           | 1.7%           | 1.6%           | 1.5%           |
| Law and order   | 1.5%           | 1.6%           | 1.6%           | 1.6%           | 1.6%           | 1.6%           | 1.5%           | 1.4%           | 1.4%           | 1.4%           |
| Other core Crown expenses                               | 6.4%           | 6.5%           | 6.0%           | 6.8%           | 5.8%           | 5.9%           | 5.5%           | 5.5%           | 5.3%           | 5.1%           |
| <b>Core Crown expenses</b>                              | <b>30.0%</b>   | <b>33.6%</b>   | <b>32.3%</b>   | <b>34.1%</b>   | <b>32.0%</b>   | <b>32.0%</b>   | <b>30.1%</b>   | <b>29.8%</b>   | <b>29.2%</b>   | <b>28.5%</b>   |
| Crown entities, SOE and elimination expenses            | 10.0%          | 10.2%          | 8.7%           | 14.3%          | 11.0%          | 9.5%           | 8.7%           | 8.8%           | 8.7%           | 8.8%           |
| <b>Total Crown expenses</b>                             | <b>40.0%</b>   | <b>43.8%</b>   | <b>41.0%</b>   | <b>48.4%</b>   | <b>43.0%</b>   | <b>41.5%</b>   | <b>38.9%</b>   | <b>38.6%</b>   | <b>37.9%</b>   | <b>37.2%</b>   |
| <b>OBEGAL (excluding minority interests)</b>            | <b>3.0%</b>    | <b>-2.1%</b>   | <b>-3.2%</b>   | <b>-8.9%</b>   | <b>-4.3%</b>   | <b>-2.0%</b>   | <b>-1.2%</b>   | <b>0.2%</b>    | <b>0.7%</b>    | <b>1.5%</b>    |
| Gains/(losses)  | -1.7%          | -3.5%          | 0.9%           | 2.4%           | -2.6%          | 5.2%           | 2.4%           | 2.2%           | -2.8%          | 3.1%           |
| <b>Operating balance (excluding minority interests)</b> | <b>1.3%</b>    | <b>-5.5%</b>   | <b>-2.3%</b>   | <b>-6.5%</b>   | <b>-6.9%</b>   | <b>3.2%</b>    | <b>1.2%</b>    | <b>2.4%</b>    | <b>-2.1%</b>   | <b>4.6%</b>    |
| <b>Statement of financial position</b>                  |                |                |                |                |                |                |                |                |                |                |
| Property, plant and equipment                           | 54.7%          | 58.1%          | 57.6%          | 55.8%          | 50.5%          | 50.2%          | 49.2%          | 51.2%          | 53.1%          | 53.9%          |
| Financial assets and sovereign receivables              | 45.0%          | 49.3%          | 48.8%          | 56.0%          | 54.0%          | 54.3%          | 52.5%          | 55.9%          | 54.6%          | 54.8%          |
| Other assets  | 6.6%           | 7.2%           | 7.1%           | 7.3%           | 7.2%           | 7.2%           | 7.0%           | 7.8%           | 7.9%           | 8.2%           |
| <b>Total assets</b>                                     | <b>106.2%</b>  | <b>114.6%</b>  | <b>113.5%</b>  | <b>119.1%</b>  | <b>111.7%</b>  | <b>111.7%</b>  | <b>108.7%</b>  | <b>114.9%</b>  | <b>115.6%</b>  | <b>117.0%</b>  |
| Borrowings  | 24.4%          | 32.7%          | 35.4%          | 43.8%          | 46.7%          | 45.8%          | 43.8%          | 46.3%          | 45.0%          | 41.7%          |
| Other liabilities                                       | 26.0%          | 29.4%          | 29.8%          | 36.0%          | 37.2%          | 34.0%          | 30.8%          | 30.6%          | 32.9%          | 31.8%          |
| <b>Total liabilities</b>                                | <b>50.4%</b>   | <b>62.1%</b>   | <b>65.2%</b>   | <b>79.8%</b>   | <b>83.9%</b>   | <b>79.7%</b>   | <b>74.6%</b>   | <b>76.9%</b>   | <b>77.9%</b>   | <b>73.5%</b>   |
| Minority interests                                      | 0.2%           | 0.2%           | 0.2%           | 0.1%           | 0.2%           | 0.9%           | 2.2%           | 2.4%           | 2.4%           | 2.2%           |
| <b>Net worth attributable to the Crown</b>              | <b>55.6%</b>   | <b>52.3%</b>   | <b>48.1%</b>   | <b>39.1%</b>   | <b>27.6%</b>   | <b>31.1%</b>   | <b>32.0%</b>   | <b>35.6%</b>   | <b>35.3%</b>   | <b>41.2%</b>   |
| <b>Cash position</b>                                    |                |                |                |                |                |                |                |                |                |                |
| Core Crown residual cash                                | 1.1%           | -4.6%          | -4.6%          | -6.5%          | -4.9%          | -2.6%          | -1.7%          | -0.8%          | -0.5%          | 1.0%           |
| <b>Debt Indicators</b>                                  |                |                |                |                |                |                |                |                |                |                |
| Net debt  | 5.4%           | 9.0%           | 13.6%          | 19.5%          | 23.6%          | 25.5%          | 25.4%          | 24.9%          | 24.4%          | 22.2%          |
| Gross debt  | 16.6%          | 22.9%          | 27.2%          | 35.2%          | 37.0%          | 35.7%          | 34.7%          | 35.4%          | 34.3%          | 32.5%          |





# Audited Financial Statements of the Government of New Zealand

## Statement of Financial Performance

for the year ended 30 June 2017

| 2017 Forecast         |                       |   |      | Actual                 |                        |
|-----------------------|-----------------------|---|------|------------------------|------------------------|
| Budget<br>2016<br>\$m | Budget<br>2017<br>\$m |   | Note | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
|                       |                       | <b>Revenue</b>  |      |                        |                        |
| 71,221                | 73,987                | Taxation revenue  | 3    | 74,973                 | 69,668                 |
| 4,593                 | 4,897                 | Other sovereign revenue   | 3    | 5,081                  | 4,643                  |
| <b>75,814</b>         | <b>78,884</b>         | <b>Total sovereign revenue</b>  |      | <b>80,054</b>          | <b>74,311</b>          |
| 17,259                | 16,687                | Sales of goods and services   | 4    | 16,871                 | 16,364                 |
| 3,431                 | 2,797                 | Interest revenue  | 5    | 2,727                  | 2,788                  |
| 4,451                 | 4,528                 | Other revenue   | 6    | 4,575                  | 4,696                  |
| <b>25,141</b>         | <b>24,012</b>         | <b>Total revenue earned through operations</b>                                  |      | <b>24,173</b>          | <b>23,848</b>          |
| <b>100,955</b>        | <b>102,896</b>        | <b>Total revenue (excluding gains)</b>  |      | <b>104,227</b>         | <b>98,159</b>          |
|                       |                       | <b>Expenses</b>   |      |                        |                        |
| 25,395                | 25,504                | Transfer payments and subsidies   | 7    | 25,264                 | 24,312                 |
| 22,144                | 22,349                | Personnel expenses  | 8    | 22,599                 | 21,952                 |
| 4,456                 | 4,444                 | Depreciation  |      | 4,073                  | 3,912                  |
| 39,410                | 39,012                | Other operating expenses  | 9    | 38,296                 | 36,643                 |
| 4,566                 | 4,297                 | Interest expenses   | 5    | 4,162                  | 4,336                  |
| 4,239                 | 5,458                 | Insurance expenses  | 11   | 5,418                  | 4,725                  |
| 534                   | 230                   | Forecast new operating spending   |      | -                      | -                      |
| (1,025)               | (450)                 | Top-down expense adjustment   |      | -                      | -                      |
| <b>99,719</b>         | <b>100,844</b>        | <b>Total expenses (excluding losses)</b>  |      | <b>99,812</b>          | <b>95,880</b>          |
| 517                   | 431                   | Less minority interests share of operating balance before gains and losses      |      | 346                    | 448                    |
| <b>719</b>            | <b>1,621</b>          | <b>Operating balance before gains and losses (excluding minority interests)</b> |      | <b>4,069</b>           | <b>1,831</b>           |
| 2,111                 | 4,850                 | Net gains/(losses) on financial instruments                                     | 5    | 6,330                  | 1,117                  |
| (54)                  | 2,694                 | Net gains/(losses) on non-financial instruments                                 | 10   | 1,321                  | (8,636)                |
| <b>2,057</b>          | <b>7,544</b>          | <b>Total gains/(losses)</b>   |      | <b>7,651</b>           | <b>(7,519)</b>         |
| 4                     | 24                    | Less minority interests share of total gains/(losses)                           |      | (27)                   | (12)                   |
| <b>2,053</b>          | <b>7,520</b>          | <b>Gains/(losses) (excluding minority interests)</b>                            |      | <b>7,678</b>           | <b>(7,507)</b>         |
| 286                   | 297                   | Net surplus from associates and joint ventures                                  |      | 570                    | 307                    |
| <b>3,058</b>          | <b>9,438</b>          | <b>Operating balance (excluding minority interests)</b>                         |      | <b>12,317</b>          | <b>(5,369)</b>         |
|                       |                       | <b>Operating balance consists of:</b>   |      |                        |                        |
| 3,058                 | 9,438                 | Operating balance (excluding minority interests)                                |      | 12,317                 | (5,369)                |
| 521                   | 455                   | Minority interests share of operating balance                                   | 22   | 319                    | 436                    |
| <b>3,579</b>          | <b>9,893</b>          | <b>Operating balance (including minority interests)</b>                         |      | <b>12,636</b>          | <b>(4,933)</b>         |

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 2017

| 2017 Forecast |                |  | Actual        |               |
|---------------|----------------|--|---------------|---------------|
| Budget        | Budget         |  | 30 June       | 30 June       |
| 2016          | 2017           |  | 2017          | 2016          |
| \$m           | \$m            |  | \$m           | \$m           |
|               |                | <b>Total Crown expenses</b>                    |               |               |
| 30,120        | 30,658         | Social security and welfare                    | 30,599        | 28,901        |
| 15,567        | 15,726         | Health   | 15,645        | 15,160        |
| 14,235        | 14,203         | Education                                      | 14,112        | 13,809        |
| 4,874         | 3,957          | Core government services                       | 3,762         | 3,950         |
| 4,062         | 4,255          | Law and order                                  | 4,161         | 3,894         |
| 7,551         | 8,475          | Economic and industrial services               | 8,452         | 7,428         |
| 9,641         | 9,340          | Transport and communications                   | 9,360         | 9,400         |
| 2,149         | 2,137          | Defence  | 2,145         | 2,013         |
| 2,401         | 2,512          | Heritage, culture and recreation               | 2,433         | 2,210         |
| 1,961         | 1,949          | Primary services                               | 1,886         | 1,852         |
| 719           | 891            | Environmental protection                       | 863           | 580           |
| 1,694         | 1,987          | Housing and community development              | 1,820         | 1,600         |
| 231           | 233            | GSF pension expenses                           | 231           | 286           |
| 439           | 444            | Other  | 181           | 461           |
| 4,566         | 4,297          | Finance costs                                  | 4,162         | 4,336         |
| 534           | 230            | Forecast new operating spending                | -             | -             |
| (1,025)       | (450)          | Top-down expense adjustment                    | -             | -             |
| <b>99,719</b> | <b>100,844</b> | <b>Total Crown expenses (excluding losses)</b> | <b>99,812</b> | <b>95,880</b> |

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Office of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and State-owned Enterprises. Details of unappropriated expenditure can be found on pages 117 to 121.

| 2017 Forecast |               |   | Actual        |               |
|---------------|---------------|---|---------------|---------------|
| Budget        | Budget        |   | 30 June       | 30 June       |
| 2016          | 2017          |   | 2017          | 2016          |
| \$m           | \$m           |   | \$m           | \$m           |
|               |               | <b>Core Crown expenses</b>                          |               |               |
| 25,224        | 25,412        | Social security and welfare                         | 25,294        | 24,081        |
| 16,214        | 16,202        | Health  | 16,223        | 15,626        |
| 13,478        | 13,441        | Education   | 13,281        | 13,158        |
| 4,943         | 4,135         | Core government services                            | 3,957         | 4,102         |
| 3,811         | 3,985         | Law and order                                       | 3,882         | 3,648         |
| 2,493         | 2,777         | Economic and industrial services                    | 2,544         | 2,107         |
| 2,358         | 2,233         | Transport and communications                        | 2,176         | 2,178         |
| 2,177         | 2,144         | Defence   | 2,146         | 2,026         |
| 855           | 861           | Heritage, culture and recreation                    | 850           | 787           |
| 709           | 715           | Primary services                                    | 644           | 749           |
| 716           | 893           | Environmental protection                            | 871           | 587           |
| 568           | 640           | Housing and community development                   | 539           | 558           |
| 212           | 214           | GSF pension expenses                                | 217           | 271           |
| 439           | 444           | Other   | 181           | 461           |
| 3,682         | 3,588         | Finance costs                                       | 3,534         | 3,590         |
| 534           | 230           | Forecast new operating spending                     | -             | -             |
| (1,025)       | (450)         | Top-down expense adjustment                         | -             | -             |
| <b>77,388</b> | <b>77,464</b> | <b>Total core Crown expenses (excluding losses)</b> | <b>76,339</b> | <b>73,929</b> |

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

## Statement of Comprehensive Revenue and Expense

for the year ended 30 June 2017

| 2017 Forecast         |                       |   | Actual                 |                        |
|-----------------------|-----------------------|---|------------------------|------------------------|
| Budget<br>2016<br>\$m | Budget<br>2017<br>\$m |   | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| 3,579                 | 9,893                 | Operating balance (including minority interests)                  | 12,636                 | (4,933)                |
|                       |                       | <b>Other comprehensive revenue and expense</b>                    |                        |                        |
| -                     | 1,156                 | Revaluation of physical assets                                    | 7,888                  | 8,585                  |
| -                     | -                     | Share of associates revaluation of physical assets                | 1,035                  | 280                    |
| 40                    | 139                   | Transfers to/(from) reserves<br>(Gains)/losses transferred to the | 47                     | (136)                  |
| 6                     | (11)                  | statement of financial performance                                | 62                     | (56)                   |
| (2)                   | (25)                  | Other movements   | 39                     | (51)                   |
| <b>44</b>             | <b>1,259</b>          | <b>Total other comprehensive revenue and expense</b>              | <b>9,071</b>           | <b>8,622</b>           |
| <b>3,623</b>          | <b>11,152</b>         | <b>Total comprehensive revenue and expense</b>                    | <b>21,707</b>          | <b>3,689</b>           |
|                       |                       | <b>Attributable to:</b>   |                        |                        |
| 529                   | 474                   | - minority interests  | 541                    | 777                    |
| 3,094                 | 10,678                | - the Crown   | 21,166                 | 2,912                  |
| <b>3,623</b>          | <b>11,152</b>         | <b>Total comprehensive revenue and expense</b>                    | <b>21,707</b>          | <b>3,689</b>           |

## Statement of Changes in Net Worth

for the year ended 30 June 2017

| 2017 Forecast         |                       | Note | Actual                   |                 |                              | Total<br>net<br>worth<br>\$m |
|-----------------------|-----------------------|------|--------------------------|-----------------|------------------------------|------------------------------|
| Budget<br>2016<br>\$m | Budget<br>2017<br>\$m |      | Taxpayer<br>funds<br>\$m | Reserves<br>\$m | Minority<br>interests<br>\$m |                              |
| 92,236                | 92,236                |      | 19,354                   | 67,100          | 5,782                        | 92,236                       |
| (2,000)               | (4,933)               |      | (5,369)                  | -               | 436                          | (4,933)                      |
| (259)                 | 8,865                 | 16   | -                        | 8,413           | 452                          | 8,865                        |
| (211)                 | (136)                 |      | (106)                    | 55              | (85)                         | (136)                        |
| 22                    | (56)                  |      | -                        | (56)            | -                            | (56)                         |
| (46)                  | (51)                  |      | 53                       | (78)            | (26)                         | (51)                         |
| <b>(2,494)</b>        | <b>3,689</b>          |      | <b>(5,422)</b>           | <b>8,334</b>    | <b>777</b>                   | <b>3,689</b>                 |
| (440)                 | (404)                 | 22   | -                        | -               | (404)                        | (404)                        |
| <b>89,302</b>         | <b>95,521</b>         |      | <b>13,932</b>            | <b>75,434</b>   | <b>6,155</b>                 | <b>95,521</b>                |
| 3,579                 | 9,893                 |      | 12,317                   | -               | 319                          | 12,636                       |
| -                     | 1,156                 | 16   | -                        | 8,745           | 178                          | 8,923                        |
| 40                    | 139                   |      | 207                      | (209)           | 49                           | 47                           |
| 6                     | (11)                  |      | -                        | 62              | -                            | 62                           |
| (2)                   | (25)                  |      | -                        | 44              | (5)                          | 39                           |
| <b>3,623</b>          | <b>11,152</b>         |      | <b>12,524</b>            | <b>8,642</b>    | <b>541</b>                   | <b>21,707</b>                |
| (500)                 | (750)                 | 22   | -                        | -               | (756)                        | (756)                        |
| <b>92,425</b>         | <b>105,923</b>        |      | <b>26,456</b>            | <b>84,076</b>   | <b>5,940</b>                 | <b>116,472</b>               |

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

# Statement of Cash Flows

for the year ended 30 June 2017

| 2017 Forecast   |                 |   | Actual         |                |
|-----------------|-----------------|---|----------------|----------------|
| Budget          | Budget          |   | 30 June        | 30 June        |
| 2016            | 2017            |   | 2017           | 2016           |
| \$m             | \$m             |   | \$m            | \$m            |
|                 |                 | <b>Cash Flows From Operations</b>                             |                |                |
|                 |                 | <b>Cash was provided from</b>                                 |                |                |
| 70,058          | 72,913          | Taxation receipts   | 73,099         | 69,027         |
| 4,154           | 4,375           | Other sovereign receipts                                      | 4,515          | 4,685          |
| 17,327          | 16,808          | Sales of goods and services                                   | 16,948         | 17,074         |
| 2,686           | 2,481           | Interest receipts   | 2,431          | 2,593          |
| 4,408           | 4,636           | Other operating receipts                                      | 4,882          | 4,968          |
| <b>98,633</b>   | <b>101,213</b>  | <b>Total cash provided from operations</b>                    | <b>101,875</b> | <b>98,347</b>  |
|                 |                 | <b>Cash was disbursed to</b>                                  |                |                |
| 25,384          | 25,492          | Transfer payments and subsidies                               | 25,293         | 24,338         |
| 63,751          | 64,081          | Personnel and operating payments                              | 62,836         | 61,160         |
| 4,682           | 4,884           | Interest payments   | 4,179          | 4,333          |
| 534             | 230             | Forecast new operating spending                               | -              | -              |
| (1,025)         | (450)           | Top-down expense adjustment                                   | -              | -              |
| <b>93,326</b>   | <b>94,237</b>   | <b>Total cash disbursed to operations</b>                     | <b>92,308</b>  | <b>89,831</b>  |
| <b>5,307</b>    | <b>6,976</b>    | <b>Net cash flows from operations</b>                         | <b>9,567</b>   | <b>8,516</b>   |
|                 |                 | <b>Cash Flows From Investing Activities</b>                   |                |                |
|                 |                 | <b>Cash was provided from</b>                                 |                |                |
| 663             | 623             | Sale of physical assets                                       | 619            | 683            |
| 107,199         | 108,473         | Sale of shares and other securities                           | 91,597         | 101,343        |
| 1               | 15              | Sale of intangible assets                                     | 32             | -              |
| 1,437           | 2,201           | Repayment of advances   | 2,088          | 1,278          |
| 57              | 323             | Sale of investments in associates                             | 216            | 167            |
| <b>109,357</b>  | <b>111,635</b>  | <b>Total cash provided from investing activities</b>          | <b>94,552</b>  | <b>103,471</b> |
|                 |                 | <b>Cash was disbursed to</b>                                  |                |                |
| 8,634           | 7,970           | Purchase of physical assets                                   | 6,828          | 6,881          |
| 111,080         | 109,764         | Purchase of shares and other securities                       | 90,708         | 99,933         |
| 838             | 787             | Purchase of intangible assets                                 | 780            | 687            |
| 2,941           | 2,858           | Advances made   | 3,077          | 2,980          |
| -               | 399             | Acquisition of investments in associates                      | 364            | 54             |
| 587             | 170             | Forecast for new capital spending                             | -              | -              |
| (625)           | (125)           | Top-down capital adjustment                                   | -              | -              |
| <b>123,455</b>  | <b>121,823</b>  | <b>Total cash disbursed to investing activities</b>           | <b>101,757</b> | <b>110,535</b> |
| <b>(14,098)</b> | <b>(10,188)</b> | <b>Net cash flows from investing activities</b>               | <b>(7,205)</b> | <b>(7,064)</b> |
| <b>(8,791)</b>  | <b>(3,212)</b>  | <b>Net cash flows from operating and investing activities</b> | <b>2,362</b>   | <b>1,452</b>   |

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

## Statement of Cash Flows (continued)

for the year ended 30 June 2017

| 2017 Forecast                               |                       |  | Actual                 |                        |
|---|-----------------------|--|------------------------|------------------------|
| Budget<br>2016<br>\$m                       | Budget<br>2017<br>\$m |  | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| (8,791)                                     | (3,212)               | Net cash flows from operating and investing activities | 2,362                  | 1,452                  |
| <b>Cash Flows From Financing Activities</b> |                       |  |                        |                        |
| <b>Cash was provided from</b>               |                       |  |                        |                        |
| 175   | 46                    | Issue of circulating currency                          | 265                    | 378                    |
| 7,893                                       | 8,014                 | Issue of Government bonds                              | 7,408                  | 8,029                  |
| 3   | 151                   | Issue of foreign currency borrowings                   | 2,534                  | 2,480                  |
| 8,184                                       | 11,172                | Issue of other New Zealand dollar borrowings           | 15,697                 | 8,708                  |
| <b>16,255</b>                               | <b>19,383</b>         | <b>Total cash provided from financing activities</b>   | <b>25,904</b>          | <b>19,595</b>          |
| <b>Cash was disbursed to</b>                |                       |  |                        |                        |
| -   | 5,055                 | Repayment of Government bonds                          | 6,080                  | 1,779                  |
| 960   | 2,287                 | Repayment of foreign currency borrowings               | 486                    | 270                    |
| 5,824                                       | 6,229                 | Repayment of other New Zealand dollar borrowings       | 17,507                 | 14,669                 |
| 546   | 651                   | Dividends paid to minority interests                   | 656                    | 509                    |
| <b>7,330</b>                                | <b>14,222</b>         | <b>Total cash disbursed to financing activities</b>    | <b>24,729</b>          | <b>17,227</b>          |
| <b>8,925</b>                                | <b>5,161</b>          | <b>Net cash flows from financing activities</b>        | <b>1,175</b>           | <b>2,368</b>           |
| <b>134</b>                                  | <b>1,949</b>          | <b>Net movement in cash</b>                            | <b>3,537</b>           | <b>3,820</b>           |
| 15,036                                      | 15,617                | Opening cash balance                                   | 15,617                 | 11,982                 |
| (2)   | (71)                  | Foreign-exchange gains/(losses) on opening cash        | (422)                  | (185)                  |
| <b>15,168</b>                               | <b>17,495</b>         | <b>Closing cash balance</b>                            | <b>18,732</b>          | <b>15,617</b>          |

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

## Statement of Cash Flows (continued)

for the year ended 30 June 2017

| 2017 Forecast  |                |  | Actual         |                |
|--|----------------|--|----------------|----------------|
| Budget   | Budget         |  | 30 June        | 30 June        |
| 2016   | 2017           |  | 2017           | 2016           |
| \$m  | \$m            |  | \$m            | \$m            |
| <b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b> |                |  |                |                |
| <b>5,307</b>   | <b>6,976</b>   | <b>Net Cash Flows from Operations</b>  | <b>9,567</b>   | <b>8,516</b>   |
|  |                | <i>Items included in the operating balance but not in net cash flows from operations</i> |                |                |
| <b>Gains/(losses)</b>  |                |  |                |                |
| 2,111  | 4,850          | Net gains/(losses) on financial instruments  | 6,330          | 1,117          |
| (54)   | 2,694          | Net gains/(losses) on non-financial instruments  | 1,321          | (8,636)        |
| 4  | 24             | Less minority interests share of net gains/(losses)                                      | (27)           | (12)           |
| <b>2,053</b>   | <b>7,520</b>   | <b>Total gains/(losses)</b>  | <b>7,678</b>   | <b>(7,507)</b> |
| <b>Other Non-cash Items in Operating Balance</b>   |                |  |                |                |
| (5,200)  | (5,096)        | Depreciation and amortisation  | (5,175)        | (4,875)        |
| (842)  | (779)          | Cost of concessionary lending  | (753)          | (747)          |
| (126)  | 33             | Impairment of financial assets (excl receivables)  | 50             | (169)          |
| 505  | 491            | Change in accumulating pension expenses  | 472            | 420            |
| 44   | (513)          | Change in accumulating insurance expenses  | (1,047)        | (597)          |
| (229)  | (139)          | Other non-cash items   | 258            | (85)           |
| <b>(5,848)</b>   | <b>(6,003)</b> | <b>Total other non-cash items in operating balance</b>                                   | <b>(6,195)</b> | <b>(6,053)</b> |
| <b>Movements in Working Capital</b>  |                |  |                |                |
| 188  | 675            | Increase/(decrease) in receivables   | 1,170          | (532)          |
| 879  | 866            | Increase/(decrease) in accrued interest  | 312            | 169            |
| (116)  | (128)          | Increase/(decrease) in inventories   | 57             | 115            |
| (14)   | (30)           | Increase/(decrease) in prepayments   | 151            | 70             |
| 3  | 112            | Decrease/(increase) in deferred revenue  | (46)           | (66)           |
| 606  | (550)          | Decrease/(increase) in payables/provisions   | (377)          | (81)           |
| <b>1,546</b>   | <b>945</b>     | <b>Total movements in working capital</b>  | <b>1,267</b>   | <b>(325)</b>   |
| <b>3,058</b>   | <b>9,438</b>   | <b>Operating balance (excluding minority interests)</b>                                  | <b>12,317</b>  | <b>(5,369)</b> |

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

## Statement of Financial Position

as at 30 June 2017

| 2017 Forecast         |                       |   | Note | Actual                 |                        |
|-----------------------|-----------------------|---|------|------------------------|------------------------|
| Budget<br>2016<br>\$m | Budget<br>2017<br>\$m |   |      | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>Assets</b>         |                       |   |      |                        |                        |
| 15,168                | 17,495                | Cash and cash equivalents                               |      | 18,732                 | 15,617                 |
| 17,484                | 16,640                | Receivables   | 12   | 18,529                 | 16,789                 |
| 53,289                | 50,770                | Marketable securities, deposits and derivatives in gain | 13   | 50,506                 | 53,398                 |
| 26,617                | 28,611                | Share investments                                       | 14   | 30,700                 | 24,217                 |
| 28,779                | 28,393                | Advances  | 15   | 28,583                 | 28,234                 |
| 863                   | 981                   | Inventory   |      | 1,167                  | 1,110                  |
| 2,301                 | 2,390                 | Other assets  |      | 3,079                  | 2,914                  |
| 131,100               | 138,172               | Property, plant & equipment                             | 16   | 144,550                | 134,499                |
| 12,451                | 14,366                | Equity accounted investments                            | 17   | 14,210                 | 12,705                 |
| 3,643                 | 3,419                 | Intangible assets and goodwill                          |      | 3,553                  | 3,196                  |
| 618                   | 170                   | Forecast for new capital spending                       |      | -                      | -                      |
| (725)                 | (125)                 | Top-down capital adjustment                             |      | -                      | -                      |
| <b>291,588</b>        | <b>301,282</b>        | <b>Total assets</b>                                     |      | <b>313,609</b>         | <b>292,679</b>         |
| <b>Liabilities</b>    |                       |   |      |                        |                        |
| 6,074                 | 5,761                 | Issued currency   |      | 5,980                  | 5,715                  |
| 12,282                | 12,735                | Payables  | 18   | 14,794                 | 12,029                 |
| 2,127                 | 2,066                 | Deferred revenue  |      | 2,224                  | 2,178                  |
| 121,698               | 114,592               | Borrowings  | 19   | 111,806                | 113,956                |
| 39,281                | 41,364                | Insurance liabilities                                   | 11   | 42,786                 | 42,126                 |
| 10,782                | 10,465                | Retirement plan liabilities                             | 20   | 11,006                 | 12,442                 |
| 6,919                 | 8,376                 | Provisions  | 21   | 8,541                  | 8,712                  |
| <b>199,163</b>        | <b>195,359</b>        | <b>Total liabilities</b>                                |      | <b>197,137</b>         | <b>197,158</b>         |
| <b>92,425</b>         | <b>105,923</b>        | <b>Total assets less total liabilities</b>              |      | <b>116,472</b>         | <b>95,521</b>          |
| <b>Net Worth</b>      |                       |   |      |                        |                        |
| 20,087                | 23,527                | Taxpayer funds  |      | 26,456                 | 13,932                 |
| 66,623                | 76,627                | Property, plant and equipment revaluation reserve       | 16   | 84,164                 | 75,626                 |
| (69)                  | (110)                 | Other reserves  |      | (88)                   | (192)                  |
| <b>86,641</b>         | <b>100,044</b>        | <b>Total net worth attributable to the Crown</b>        |      | <b>110,532</b>         | <b>89,366</b>          |
| 5,784                 | 5,879                 | Net worth attributable to minority interests            | 22   | 5,940                  | 6,155                  |
| <b>92,425</b>         | <b>105,923</b>        | <b>Total net worth</b>                                  |      | <b>116,472</b>         | <b>95,521</b>          |

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



## Statement of Segments

|   | Current Year Actual vs Estimated Actuals (Budget 2017) |                                   |                       |                                   |                         |                                   |                            |                                   |                       |                                   |
|---|--|-----------------------------------|-----------------------|-----------------------------------|-------------------------|-----------------------------------|----------------------------|-----------------------------------|-----------------------|-----------------------------------|
|   | Core Crown   |                                   | Crown entities        |                                   | State-owned enterprises |                                   | Inter-segment eliminations |                                   | Total Crown           |                                   |
|   | Actual<br>2017<br>\$m                                  | Forecast<br>Budget<br>2017<br>\$m | Actual<br>2017<br>\$m | Forecast<br>Budget<br>2017<br>\$m | Actual<br>2017<br>\$m   | Forecast<br>Budget<br>2017<br>\$m | Actual<br>2017<br>\$m      | Forecast<br>Budget<br>2017<br>\$m | Actual<br>2017<br>\$m | Forecast<br>Budget<br>2017<br>\$m |
| <b>Revenue</b>  |  |                                   |                       |                                   |                         |                                   |                            |                                   |                       |                                   |
| Taxation revenue  | 75,644   | 74,598                            | -                     | -                                 | -                       | -                                 | (671)                      | (611)                             | 74,973                | 73,987                            |
| Other sovereign revenue   | 1,458  | 1,366                             | 4,919                 | 4,844                             | -                       | -                                 | (1,296)                    | (1,313)                           | 5,081                 | 4,897                             |
| Revenue from core Crown funding   | -  | -                                 | 27,252                | 27,156                            | 106                     | 99                                | (27,358)                   | (27,255)                          | -                     | -                                 |
| Sales of goods and services   | 1,607  | 1,613                             | 2,194                 | 2,215                             | 13,675                  | 13,427                            | (605)                      | (568)                             | 16,871                | 16,687                            |
| Interest revenue  | 1,119  | 1,131                             | 998                   | 1,001                             | 918                     | 964                               | (308)                      | (299)                             | 2,727                 | 2,797                             |
| Other revenue   | 1,954  | 2,063                             | 2,980                 | 2,912                             | 772                     | 918                               | (1,131)                    | (1,365)                           | 4,575                 | 4,528                             |
| <b>Total Revenue (excluding gains)</b>  | <b>81,782</b>  | <b>80,771</b>                     | <b>38,343</b>         | <b>38,128</b>                     | <b>15,471</b>           | <b>15,408</b>                     | <b>(31,369)</b>            | <b>(31,411)</b>                   | <b>104,227</b>        | <b>102,896</b>                    |
| <b>Expenses</b>   |  |                                   |                       |                                   |                         |                                   |                            |                                   |                       |                                   |
| Transfer payments and subsidies   | 25,264   | 25,504                            | -                     | -                                 | -                       | -                                 | -                          | -                                 | 25,264                | 25,504                            |
| Personnel expenses  | 6,890  | 6,908                             | 12,878                | 12,606                            | 2,869                   | 2,867                             | (38)                       | (33)                              | 22,599                | 22,349                            |
| Other operating expenses  | 40,651   | 41,684                            | 26,428                | 26,836                            | 10,714                  | 10,370                            | (30,006)                   | (29,976)                          | 47,787                | 48,914                            |
| Interest expenses   | 3,534  | 3,588                             | 158                   | 146                               | 1,060                   | 1,135                             | (590)                      | (571)                             | 4,162                 | 4,297                             |
| Forecast new operating spending and top down adjustment                         | -  | (220)                             | -                     | -                                 | -                       | -                                 | -                          | -                                 | -                     | (220)                             |
| <b>Total Expenses (excluding losses)</b>  | <b>76,339</b>  | <b>77,464</b>                     | <b>39,464</b>         | <b>39,588</b>                     | <b>14,643</b>           | <b>14,372</b>                     | <b>(30,634)</b>            | <b>(30,580)</b>                   | <b>99,812</b>         | <b>100,844</b>                    |
| Minority interest share of operating balance before gains/(losses)              | -  | -                                 | 10                    | (6)                               | (347)                   | (452)                             | (9)                        | 27                                | (346)                 | (431)                             |
| <b>Operating Balance before gains and losses (excluding minority interests)</b> | <b>5,443</b>   | <b>3,307</b>                      | <b>(1,111)</b>        | <b>(1,466)</b>                    | <b>481</b>              | <b>584</b>                        | <b>(744)</b>               | <b>(804)</b>                      | <b>4,069</b>          | <b>1,621</b>                      |
| Gains/(losses) and other items  | 6,621  | 5,612                             | 1,530                 | 1,604                             | 124                     | 70                                | (27)                       | 531                               | 8,248                 | 7,817                             |
| <b>Operating Balance (excluding minority interests)</b>                         | <b>12,064</b>  | <b>8,919</b>                      | <b>419</b>            | <b>138</b>                        | <b>605</b>              | <b>654</b>                        | <b>(771)</b>               | <b>(273)</b>                      | <b>12,317</b>         | <b>9,438</b>                      |
| <b>Assets</b>   |  |                                   |                       |                                   |                         |                                   |                            |                                   |                       |                                   |
| Financial assets  | 94,841   | 91,317                            | 48,175                | 47,255                            | 24,876                  | 24,834                            | (20,842)                   | (21,497)                          | 147,050               | 141,909                           |
| Property, plant and equipment   | 39,221   | 36,729                            | 72,599                | 69,211                            | 32,730                  | 32,232                            | -                          | -                                 | 144,550               | 138,172                           |
| Investments in associates, CEs and SOEs   | 43,001   | 43,051                            | 12,143                | 12,205                            | 219                     | 277                               | (41,153)                   | (41,167)                          | 14,210                | 14,366                            |
| Other assets  | 3,313  | 3,147                             | 1,870                 | 1,299                             | 2,730                   | 2,370                             | (114)                      | (26)                              | 7,799                 | 6,790                             |
| Forecast adjustments  | -  | 45                                | -                     | -                                 | -                       | -                                 | -                          | -                                 | -                     | 45                                |
| <b>Total Assets</b>   | <b>180,376</b>   | <b>174,289</b>                    | <b>134,787</b>        | <b>129,970</b>                    | <b>60,555</b>           | <b>59,713</b>                     | <b>(62,109)</b>            | <b>(62,690)</b>                   | <b>313,609</b>        | <b>301,282</b>                    |
| <b>Liabilities</b>  |  |                                   |                       |                                   |                         |                                   |                            |                                   |                       |                                   |
| Borrowings  | 93,730   | 97,118                            | 4,082                 | 4,279                             | 30,222                  | 30,519                            | (16,228)                   | (17,324)                          | 111,806               | 114,592                           |
| Other liabilities   | 34,898   | 31,634                            | 50,804                | 50,123                            | 8,326                   | 7,725                             | (8,697)                    | (8,715)                           | 85,331                | 80,767                            |
| <b>Total Liabilities</b>  | <b>128,628</b>   | <b>128,752</b>                    | <b>54,886</b>         | <b>54,402</b>                     | <b>38,548</b>           | <b>38,244</b>                     | <b>(24,925)</b>            | <b>(26,039)</b>                   | <b>197,137</b>        | <b>195,359</b>                    |
| <b>Net Worth</b>  | <b>51,748</b>  | <b>45,537</b>                     | <b>79,901</b>         | <b>75,568</b>                     | <b>22,007</b>           | <b>21,469</b>                     | <b>(37,184)</b>            | <b>(36,651)</b>                   | <b>116,472</b>        | <b>105,923</b>                    |
| <b>Cost of Acquisition of Physical Assets (Cash)</b>                            | <b>1,988</b>   | <b>2,572</b>                      | <b>3,129</b>          | <b>3,503</b>                      | <b>1,715</b>            | <b>1,894</b>                      | <b>(4)</b>                 | <b>1</b>                          | <b>6,828</b>          | <b>7,970</b>                      |

## Statement of Segments (continued)

|   | Current Year Actual vs Prior Year Actual |                    |                    |                    |                         |                    |                            |                    |                    |                    |
|---|--|--------------------|--------------------|--------------------|-------------------------|--------------------|----------------------------|--------------------|--------------------|--------------------|
|   | Core Crown                               |                    | Crown entities     |                    | State-owned enterprises |                    | Inter-segment eliminations |                    | Total Crown        |                    |
|   | Actual 2017<br>\$m                       | Actual 2016<br>\$m | Actual 2017<br>\$m | Actual 2016<br>\$m | Actual 2017<br>\$m      | Actual 2016<br>\$m | Actual 2017<br>\$m         | Actual 2016<br>\$m | Actual 2017<br>\$m | Actual 2016<br>\$m |
| <b>Revenue</b>  |  |                    |                    |                    |                         |                    |                            |                    |                    |                    |
| Taxation revenue  | 75,644                                   | 70,445             | -                  | -                  | -                       | -                  | (671)                      | (777)              | 74,973             | 69,668             |
| Other sovereign revenue   | 1,458                                    | 1,116              | 4,919              | 4,712              | -                       | -                  | (1,296)                    | (1,185)            | 5,081              | 4,643              |
| Revenue from core Crown funding   | -  | -                  | 27,252             | 26,197             | 106                     | 113                | (27,358)                   | (26,310)           | -                  | -                  |
| Sales of goods and services   | 1,607                                    | 1,453              | 2,194              | 1,938              | 13,675                  | 13,538             | (605)                      | (565)              | 16,871             | 16,364             |
| Interest revenue  | 1,119                                    | 1,100              | 998                | 1,090              | 918                     | 997                | (308)                      | (399)              | 2,727              | 2,788              |
| Other revenue   | 1,954                                    | 2,007              | 2,980              | 3,201              | 772                     | 729                | (1,131)                    | (1,241)            | 4,575              | 4,696              |
| <b>Total Revenue (excluding gains)</b>  | <b>81,782</b>                            | <b>76,121</b>      | <b>38,343</b>      | <b>37,138</b>      | <b>15,471</b>           | <b>15,377</b>      | <b>(31,369)</b>            | <b>(30,477)</b>    | <b>104,227</b>     | <b>98,159</b>      |
| <b>Expenses</b>   |  |                    |                    |                    |                         |                    |                            |                    |                    |                    |
| Transfer payments and subsidies   | 25,264                                   | 24,312             | -                  | -                  | -                       | -                  | -                          | -                  | 25,264             | 24,312             |
| Personnel expenses  | 6,890                                    | 6,666              | 12,878             | 12,393             | 2,869                   | 2,921              | (38)                       | (29)               | 22,599             | 21,952             |
| Other operating expenses  | 40,651                                   | 39,361             | 26,428             | 24,816             | 10,714                  | 10,133             | (30,006)                   | (29,029)           | 47,787             | 45,280             |
| Interest expenses   | 3,534                                    | 3,590              | 158                | 215                | 1,060                   | 1,154              | (590)                      | (623)              | 4,162              | 4,336              |
| <b>Total Expenses (excluding losses)</b>  | <b>76,339</b>                            | <b>73,929</b>      | <b>39,464</b>      | <b>37,424</b>      | <b>14,643</b>           | <b>14,208</b>      | <b>(30,634)</b>            | <b>(29,681)</b>    | <b>99,812</b>      | <b>95,880</b>      |
| Minority interest share of operating balance before gains/(losses)              | -  | -                  | 10                 | 14                 | (347)                   | (474)              | (9)                        | 12                 | (346)              | (448)              |
| <b>Operating Balance before gains and losses (excluding minority interests)</b> | <b>5,443</b>                             | <b>2,192</b>       | <b>(1,111)</b>     | <b>(272)</b>       | <b>481</b>              | <b>695</b>         | <b>(744)</b>               | <b>(784)</b>       | <b>4,069</b>       | <b>1,831</b>       |
| Gains/(losses) and other items  | 6,621                                    | (3,104)            | 1,530              | (3,208)            | 124                     | 25                 | (27)                       | (913)              | 8,248              | (7,200)            |
| <b>Operating Balance (excluding minority interests)</b>                         | <b>12,064</b>                            | <b>(912)</b>       | <b>419</b>         | <b>(3,480)</b>     | <b>605</b>              | <b>720</b>         | <b>(771)</b>               | <b>(1,697)</b>     | <b>12,317</b>      | <b>(5,369)</b>     |
| <b>Assets</b>   |  |                    |                    |                    |                         |                    |                            |                    |                    |                    |
| Financial assets  | 94,841                                   | 88,014             | 48,175             | 47,485             | 24,876                  | 24,237             | (20,842)                   | (21,481)           | 147,050            | 138,255            |
| Property, plant and equipment   | 39,221                                   | 35,697             | 72,599             | 66,770             | 32,730                  | 32,033             | -                          | (1)                | 144,550            | 134,499            |
| Investments in associates, CEs and SOEs   | 43,001                                   | 38,376             | 12,143             | 10,819             | 219                     | 228                | (41,153)                   | (36,718)           | 14,210             | 12,705             |
| Other assets  | 3,313                                    | 3,083              | 1,870              | 1,795              | 2,730                   | 2,421              | (114)                      | (79)               | 7,799              | 7,220              |
| <b>Total Assets</b>   | <b>180,376</b>                           | <b>165,170</b>     | <b>134,787</b>     | <b>126,869</b>     | <b>60,555</b>           | <b>58,919</b>      | <b>(62,109)</b>            | <b>(58,279)</b>    | <b>313,609</b>     | <b>292,679</b>     |
| <b>Liabilities</b>  |  |                    |                    |                    |                         |                    |                            |                    |                    |                    |
| Borrowings  | 93,730                                   | 95,036             | 4,082              | 5,961              | 30,222                  | 29,813             | (16,228)                   | (16,854)           | 111,806            | 113,956            |
| Other liabilities   | 34,898                                   | 33,515             | 50,804             | 50,615             | 8,326                   | 7,848              | (8,697)                    | (8,776)            | 85,331             | 83,202             |
| <b>Total Liabilities</b>  | <b>128,628</b>                           | <b>128,551</b>     | <b>54,886</b>      | <b>56,576</b>      | <b>38,548</b>           | <b>37,661</b>      | <b>(24,925)</b>            | <b>(25,630)</b>    | <b>197,137</b>     | <b>197,158</b>     |
| <b>Net Worth</b>  | <b>51,748</b>                            | <b>36,619</b>      | <b>79,901</b>      | <b>70,293</b>      | <b>22,007</b>           | <b>21,258</b>      | <b>(37,184)</b>            | <b>(32,649)</b>    | <b>116,472</b>     | <b>95,521</b>      |
| <b>Cost of Acquisition of Physical Assets (Cash)</b>                            | <b>1,988</b>                             | <b>1,960</b>       | <b>3,129</b>       | <b>3,240</b>       | <b>1,715</b>            | <b>1,681</b>       | <b>(4)</b>                 | <b>-</b>           | <b>6,828</b>       | <b>6,881</b>       |

## Notes to the Financial Statements

### Note 1: Basis of Reporting

#### Statement of compliance

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

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

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

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

These financial statements were authorised for issue by the Minister of Finance on 29 September 2017.

#### Reporting period

The reporting period for these financial statements is the year ended 30 June 2017.

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

#### Basis of preparation

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

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

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

#### Comparatives

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

Comparatives referred to as Budget 2016 were forecasts published in the *2016 Budget Economic and Fiscal Update*, while Budget 2017 were forecasts published in the *2017 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.

**Note 1: Basis of Reporting (continued)****Segment analysis**

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

- **Core Crown:** This group, which includes Ministers, government departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes. Investments in Crown entities and SOEs are reported at historic cost with no impairment. This ensures losses in those entities are reflected in the appropriate segment.
- **Crown entities:** This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).
- **State-owned Enterprises:** This group includes entities governed by the State-owned Enterprises Act 1986, and (for the purposes of these statements) also includes Air New Zealand, Mercury NZ Limited, Meridian Energy and Genesis Energy. This group represents entities that undertake commercial activity.

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

**Accounting Standards issued and not yet effective and not early adopted**

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

**Financial Instruments**

PBE IFRS 9, *Financial Instruments* issued in January 2017 (replacing the existing guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement*) is effective for annual periods beginning on or after 1 January 2021, but the Crown will adopt this standard early in the 2018/19 Financial Statements of the Government.

The changes in the standard include new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost, a new impairment model for financial assets based on expected losses, and revised hedge accounting requirements to better reflect the management of risk. The impact of these new requirements has not yet been assessed, but they are expected to have an impact on at least two areas - the carrying value of student loans and the overall level of impairment allowances in relation to KiwiBank loans.

When the new classification rules are adopted, student loans are likely to be valued at fair value, rather than at their current measurement basis of amortised cost. The resulting valuation change will likely result in a one-off increase of \$615 million to the value of the student loan asset based on the valuation at 30 June 2017 (Refer to note 15).

As the impact on the impairment allowances depends on the credit environment at the date of adoption, it is not practical to quantify the impact on Kiwibank impairment allowances.

**Consolidated Financial Statements**

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

The new standard still requires that a controlling entity consolidates its controlled entities, but the definition of control has changed and the standard now provides considerably more guidance on assessing control. Although the impact of the updated standard has not been assessed, it is possible the new definition may result in some change to previous assessments of control of some entities.

**Note 1: Basis of Reporting (continued)****Employee Benefits**

PBE IPSAS 39 *Employee Benefits* issued in January 2017 (updating the existing standard PBE IPSAS 25 *Employee Benefits*) is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted, but the Crown has not yet decided whether to early adopt it in the 2018/19 Financial Statements of the Government.

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

**Government Reporting Entity as at 30 June 2017****Reporting entity**

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

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

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

**Basis of combination**

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

**Core Crown entities**

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

**Other entities**

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

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

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

Tertiary education institutions are equity-accounted for the reasons explained in note 17 to the financial statements for the period ended 30 June 2017. This treatment recognises these entities’ net assets, including asset revaluation movements, surpluses and deficits.

**Note 1: Basis of Reporting (continued)**

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

**Core Crown Segment**

**Departments**

|   |   |
|---|---|
| Crown Law Office                                  | Ministry of Foreign Affairs and Trade               |
| Department of Conservation                        | Ministry of Health                                  |
| Department of Corrections                         | Ministry of Justice                                 |
| Department of Internal Affairs                    | Ministry of Māori Development                       |
| Department of the Prime Minister and Cabinet      | Ministry of Social Development                      |
| Education Review Office                           | Ministry of Transport                               |
| Government Communications Security Bureau         | New Zealand Customs Service                         |
| Inland Revenue Department                         | New Zealand Defence Force                           |
| Land Information New Zealand                      | New Zealand Police                                  |
| Ministry for Culture and Heritage                 | New Zealand Security Intelligence Service           |
| Ministry for Pacific Peoples                      | Office of the Clerk of the House of Representatives |
| Ministry for Primary Industries                   | Parliamentary Counsel Office                        |
| Ministry for the Environment                      | Parliamentary Service                               |
| Ministry for Vulnerable Children, Oranga Tamariki | Serious Fraud Office                                |
| Ministry for Women                                | State Services Commission                           |
| Ministry of Business, Innovation, and Employment  | Statistics New Zealand                              |
| Ministry of Defence                               | The Treasury  |
| Ministry of Education                             |   |

**Offices of Parliament**

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

**Others**

|                                 |
|---------------------------------|
| New Zealand Superannuation Fund |
| Reserve Bank of New Zealand     |

**State-owned Enterprises Segment**

**State-owned Enterprises**

|  |   |
|--|---|
| Airways Corporation of New Zealand Limited       | Meteorological Service of New Zealand Limited |
| Animal Control Products Limited                  | New Zealand Post Limited                      |
| AsureQuality Limited                             | New Zealand Railways Corporation              |
| Electricity Corporation of New Zealand Limited   | Quotable Value Limited                        |
| KiwiRail Holdings Limited                        | Solid Energy New Zealand Limited              |
| Kiwi Group Holdings Limited (including Kiwibank) | Transpower New Zealand Limited                |
| Kordia Group Limited                             |   |
| Landcorp Farming Limited                         |   |

**Mixed ownership model companies (Public Finance Act Schedule 5)**

|                         |
|-------------------------|
| Genesis Energy Limited  |
| Mercury NZ Limited      |
| Meridian Energy Limited |

**Other**

|                         |
|-------------------------|
| Air New Zealand Limited |
|-------------------------|

**Note 1: Basis of Reporting (continued)****Crown entities Segment****Crown entities**

|  |  |
|--|--|
| Accident Compensation Corporation            | Maritime New Zealand   |
| Accreditation Council                        | Museum of New Zealand Te Papa Tongarewa Board                  |
| Arts Council of New Zealand Toi Aotearoa     | New Zealand Antarctic Institute                                |
| Broadcasting Commission                      | New Zealand Artificial Limb Service                            |
| Broadcasting Standards Authority             | New Zealand Blood Service                                      |
| Callaghan Innovation                         | New Zealand Film Commission                                    |
| Careers New Zealand                          | New Zealand Fire Service Commission                            |
| Children's Commissioner                      | New Zealand Lotteries Commission                               |
| Civil Aviation Authority of New Zealand      | New Zealand Productivity Commission                            |
| Commerce Commission                          | New Zealand Qualifications Authority                           |
| Crown Irrigation Investments Limited         | New Zealand Symphony Orchestra                                 |
| Crown Research Institutes (7)                | New Zealand Tourism Board                                      |
| District Health Boards (20)                  | New Zealand Trade and Enterprise                               |
| Drug Free Sport New Zealand                  | New Zealand Transport Agency                                   |
| Earthquake Commission                        | New Zealand Venture Investment Fund Limited                    |
| Education New Zealand                        | New Zealand Walking Access Commission                          |
| Electoral Commission                         | Office of Film and Literature Classification                   |
| Electricity Authority                        | Pharmaceutical Management Agency                               |
| Energy Efficiency and Conservation Authority | Privacy Commissioner   |
| Environmental Protection Authority           | Public Trust   |
| External Reporting Board                     | Radio New Zealand Limited                                      |
| Families Commission                          | Real Estate Agents Authority                                   |
| Financial Markets Authority                  | Retirement Commissioner  |
| Government Superannuation Fund Authority     | School Boards of Trustees (2,407)                              |
| Guardians of New Zealand Superannuation      | Social Workers Registration Board                              |
| Health and Disability Commissioner           | Sport and Recreation New Zealand                               |
| Health Promotion Agency                      | Takeovers Panel  |
| Health Quality and Safety Commission         | Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency) |
| Health Research Council of New Zealand       | Te Taura Whiri i te Reo Māori (Māori Language Commission)      |
| Heritage New Zealand Pouhere Taonga          | Television New Zealand Limited                                 |
| Housing New Zealand Corporation              | Tertiary Education Commission                                  |
| Human Rights Commission                      | Transport Accident Investigation Commission                    |
| Independent Police Conduct Authority         | WorkSafe New Zealand   |
| Law Commission                               |  |



**Note 1: Basis of Reporting (continued)**

**Crown entities Segment (continued)**

**Organisations listed in schedule 4 of the Public Finance Act 1989**

Agricultural and Marketing Research and Development Trust  
 Asia New Zealand Foundation  
 Fish and Game Councils (12)  
 Game Animal Council  
 Leadership Development Centre Trust  
 Māori Trustee  
 National Pacific Radio Trust  
 New Zealand Fish and Game Council  
 New Zealand Game Bird Habitat Trust Board  
 New Zealand Government Property Corporation  
 New Zealand Lottery Grants Board  
 Ngāi Tahu Ancillary Claims Trust  
 Pacific Co-operation Foundation  
 Pacific Island Business Development Trust  
 Reserves Boards (22)  
 Te Ariki Trust

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

Crown Asset Management Limited  
 Crown Fibre Holdings Limited  
 Education Payroll Limited  
 Fairway Resolution Limited  
 Health Benefits Limited (ceased operating)  
 Ōtākaro Limited  
 Predator Free 2050 Limited  
 Research and Education Advanced Network New Zealand Limited  
 Southern Response Earthquake Services Limited  
 Tāmaki Redevelopment Company Limited  
 The Network for Learning Limited

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

Te Urewera

**Others**

Education Council of Aotearoa New Zealand  
 Regenerate Christchurch

**Other entities**

**Crown entities**

Tertiary Education Institutions (28)

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

City Rail Link Limited

These entities are not fully consolidated into the financial statements of the government with only the Crown's interest in them being included.

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



## Note 2: Key Assumptions and Judgements

These financial statements reflect the Government's financial position (service potential and financial capacity) as at 30 June 2017, and the financial results of operations and cash flows for the year ended on that date. Underpinning these financial statements are a number of judgements, estimations and assumptions. These include assumptions and judgements about the future, in particular, the service benefits and future cash flows in relation to existing assets and liabilities.

### Key assumptions

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

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

With respect to the asset purpose assumption, the valuation of the Rail Freight Network is particularly uncertain at present. Treated as a for-profit asset since 2012, this asset has a carrying value of \$96 million (2016: \$101 million). The Crown is currently conducting a review to consider KiwiRail's operating structure, capital requirements and funding mechanisms within the context of rail's purpose within New Zealand's broader transport mix. This review may change the assumptions underlying the future valuations of KiwiRail's Rail Freight Network.

A number of outcomes are possible from the review, including the possibility of some assets being determined as surplus to requirements, which could result in a portion of the freight assets being revalued using the optimised depreciated replacement cost methodology that was used prior to 2012. The potential impact of this revaluation could increase the asset value up to \$4.4 billion and result in the reversal of some or all of the \$1.4 billion impairment expense previously recognised. For further information, see note 16.

**Note 2: Key Assumptions and Judgements (continued)**

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

| <b>Economic variable</b>                 | <b>Assumptions and Methodology</b>  |
|--|---|
| Inflation rates                          | Inflation rate assumptions are used to help estimate future cash flows, as prices are expected to increase through time. The consumer price index (CPI) is most commonly used to indicate the inflation rate. However, some costs are assumed to increase faster than the rate of inflation (referred to as superimposed inflation) due to factors such as innovation in medical treatment.   |
| Discount rates (time value of money)     | Discount rates are used to determine the value of future cash flows in today's dollar values. The Treasury sets a risk free discount rate for accounting valuation purposes. In the near term discount rates are based on market data and then smoothed to a single long-term risk-free interest rate of 4.75%. A full description of the evidence and methodology used to determine this rate can be found at: <a href="http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates">http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates</a> |
| Amount and duration of future cash flows | Judgements around the duration of future cash flows are critical for valuations. Some examples of this are: <ul style="list-style-type: none"> <li>• the length of rehabilitation from injuries for the ACC obligation</li> <li>• mortality rates for the GSF obligation</li> <li>• repayment rates of student loans.</li> </ul> <p>These assumptions are largely based on extrapolating historical experience. As time goes on, better information becomes available and estimates are updated to reflect more current information.</p>  |

*Sensitivity of key assumptions*

The tables below outline the sensitivity of the key assumptions discussed above on the significant valuations included in these financial statements.

The value of financial assets and financial liabilities are particularly sensitive to changes in market prices and account for a significant portion of the financial position. At 30 June 2017 financial assets totalled \$133.3 billion (2016: \$125.8 billion) while financial liabilities totalled \$128.4 billion (2016: \$127.2 billion).

|   | <b>Impact on operating balance</b> |             |
|---|------------------------------------|-------------|
|   | <b>2017</b>                        | <b>2016</b> |
|   | <b>\$m</b>                         | <b>\$m</b>  |
| Share prices strengthen by 10%                      | <b>3,044</b>                       | 2,394       |
| Share prices weaken by 10%                          | <b>(3,044)</b>                     | (2,394)     |
| Increase in NZ interest rates 1% (100 basis points) | <b>(946)</b>                       | (896)       |
| Decrease in NZ interest rate 1% (100 basis points)  | <b>1,122</b>                       | 926         |
| NZ dollar exchange rate strengthens by 10%          | <b>(793)</b>                       | (963)       |
| NZ dollar exchange rate weakens by 10%              | <b>922</b>                         | 1,087       |
| NZD carbon price increases by \$1                   | <b>(118)</b>                       | (127)       |
| NZD carbon price decreases by \$1                   | <b>118</b>                         | 127         |

In relation to assumptions concerning property prices, land and buildings account for 58% (2016: 57%) of total property, plant and equipment and 68% (2016: 65%) of the asset revaluation reserve. A significant decline in property prices would not impact the operating balance but would reduce net worth.

**Note 2: Key Assumptions and Judgements (continued)**

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

|   | Change  | Impact on operating balance |         |
|---|---------|-----------------------------|---------|
|   |         | 2017                        | 2016    |
|   |         | \$m                         | \$m     |
| <b>Sensitivity of assumptions</b>   |         |                             |         |
| Risk-free discount rate   | +1%     | <b>6,675</b>                | 6,967   |
|   | -1%     | <b>(8,712)</b>              | (9,139) |
| Inflation rates (including superimposed inflation)  | +1%     | <b>(8,769)</b>              | (9,100) |
|   | -1%     | <b>6,818</b>                | 7,048   |
| Social rehabilitation benefits - superimposed inflation after four years for serious injury claims (ACC only) | +1%     | <b>(3,233)</b>              | (3,336) |
|   | -1%     | <b>2,384</b>                | 2,445   |
| Average weighted term to settlement from reporting date (ACC only)  | +1 year | <b>1,139</b>                | 1,106   |
|   | -1 year | <b>(1,175)</b>              | (1,141) |

**Areas of significant estimation**

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

| Key estimation             | Basis of estimation  |
|----------------------------|--|
| Recognition of tax revenue | <p>The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income.</p> <p><b>Income tax</b></p> <p>These financial statements report income tax revenue of \$75.0 billion (2016: \$69.7 billion) and an income tax receivable of \$ 10.3 billion (2016 \$ 9.2 billion). Income tax revenue is recognised on an accruals basis in the period the taxable event occurs. It is deemed to accrue evenly over the period to which it relates.</p> <p>Where income tax returns have not been filed for the relevant period, accrued income tax revenue receivable or payable has been estimated based on current provisional assessments or prior year terminal assessments. The outcome of income tax revenue and refunds is not known with certainty until income tax returns for the period have been filed. This usually occurs sometime after the publication of these financial statements.</p> <p>The measurement of the tax revenue accruals requires significant estimates where terminal tax assessments are not yet available for the period. Key features of the estimation used are as follows:</p> <ul style="list-style-type: none"> <li>Where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment for the period, revenue is recognised based on provisional tax at balance date plus estimated provisional tax due after the balance date that relates to the current period. The estimation of provisional tax due after balance date uses forecast cash flows from Treasury which are based on assumptions in the Treasury's most recent <i>Budget Economic and Fiscal Update</i>. A key assumption in this estimation is the split of cash receipts between terminal and provisional tax. This split is calculated based on historical information. A change in the assumption may change the amount of revenue recognised.</li> <li>Where taxpayers have made payments to Inland Revenue but have not submitted a provisional tax assessment for the period, their credit balance is accrued as revenue. Payments into the tax pool are not captured by this approach as payments into the tax pool are not limited to provisional tax and information as to their nature is not available. At year-end this is not considered to be material as provisional assessments should have been filed for the year-end.</li> </ul> |

**Note 2: Key Assumptions and Judgements (continued)**

| <b>Key estimation</b>         | <b>Basis of estimation</b>   |
|-------------------------------|--|
| Recognition of tax revenue    | <ul style="list-style-type: none"> <li>For individual taxpayers not subject to provisional tax, an estimate is made of the tax revenues receivable and refundable based on prior year returns adjusted for current year experience.</li> <li>For company taxpayers not subject to provisional tax for the current year, revenue is recognised when terminal tax is assessed, ie, no estimate of tax revenue is accrued in the period of the taxable event. This is because a reliable estimate cannot be made in the period of the taxable event.</li> </ul> <p><b>Business Transformation</b></p> <p>The Inland Revenue (IR) is currently undertaking a major business transformation process which involves implementing a new core IT platform, START (Simplified Tax And Revenue Technology). As with any major transformation, the IR may identify things that they can or should be doing differently. As maintaining the integrity of the tax system is critical, any systematic or procedural issues that are identified are, and will be resolved in a timely and accurate way.</p>   |
| State Highway network         | <p>These financial statements report the value of the state highway network at \$23.8 billion (2016: \$22.3 billion). There are some uncertainties about the values assigned to different components (formation, bridges, etc) of the state highway network. These uncertainties include whether the New Zealand Transport Agency's (NZTA) databases have accurate quantities and lives and whether there is complete capture for some cost components. Some uncertainties are inherent, but those arising from both the quantity and costs of components can be reduced by improvements in the accuracy of the underlying databases.</p> <p>The NZTA has identified a few instances where some of the quantities and costs have not been captured in the underlying databases relied upon by the valuer.</p> <p>Additional 'brownfield' costs associated with road construction (eg, traffic management) in urban areas are assessed as being the most significant part of the potential undervaluation, with the remaining due to incomplete records. An allowance to recognise these costs has been included for the current and some previous years. However, historic 'brownfield' costs cannot be reliably measured and are currently excluded from the valuation.</p> |
| Rail network                  | <p>These financial statements report the value of the rail network at \$0.9 billion (2016: \$1.0 billion). The rail network infrastructure used for freight services (including dual use assets required for freight operations) is measured at fair value, reflecting the amount that could be expected to be received from a third party in an orderly transaction. The portion of dual use assets not required for freight operations and metro only assets are reported in these financial statements at an optimised depreciated replacement cost basis, as the community benefits enabled by this investment do not provide a return at the whole-of-Government level.</p> <p>The valuation of the freight services on a commercial basis reflects the objectives of the Government to achieve a commercial return on those assets. Any change from a commercial valuation to public benefit valuation at optimised depreciated replacement cost would result in a significant increase in the reported value of rail assets.</p>  |
| Electricity generation assets | <p>These financial statements report the value of electricity generation assets at \$15.9 billion (2016: \$15.7 billion). There are a number of key assumptions used to value electricity generation assets. These assumptions relate to future revenue streams and expenses and generation volumes, as well as the discount rate used to calculate the present value of those revenues and expenses.</p>  |

**Other uncertainties**

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

**Note 2: Key Assumptions and Judgements (continued)****Risk management**

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

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

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

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

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

Derivative financial instruments are often used across the portfolios to manage exposure to interest rate, and foreign currency risk. Refer to pages 108 to 111 for further derivative information.

### Note 3: Sovereign Revenue

| 2017 Forecast                      |               | Actual        |               |
|------------------------------------|---------------|---------------|---------------|
| Budget                             | Budget        | 30 June       | 30 June       |
| 2016                               | 2017          | 2017          | 2016          |
| \$m                                | \$m           | \$m           | \$m           |
| <b>Direct Income Tax Revenue</b>   |               |               |               |
| <b>Individuals</b>                 |               |               |               |
| 27,778                             | 28,445        | 28,641        | 27,019        |
| 5,865                              | 6,245         | 6,382         | 5,786         |
| (1,712)                            | (1,598)       | (1,638)       | (1,739)       |
| 547                                | 530           | 525           | 502           |
| <b>32,478</b>                      | <b>33,622</b> | <b>33,910</b> | <b>31,568</b> |
| <b>Corporate Tax</b>               |               |               |               |
| 10,645                             | 11,720        | 12,228        | 10,566        |
| (207)                              | (202)         | (188)         | (238)         |
| 504                                | 593           | 599           | 734           |
| 2                                  | (10)          | (10)          | (8)           |
| <b>10,944</b>                      | <b>12,101</b> | <b>12,629</b> | <b>11,054</b> |
| <b>Other Direct Income Tax</b>     |               |               |               |
| 1,629                              | 1,485         | 1,472         | 1,667         |
| 604                                | 684           | 743           | 626           |
| <b>2,233</b>                       | <b>2,169</b>  | <b>2,215</b>  | <b>2,293</b>  |
| <b>45,655</b>                      | <b>47,892</b> | <b>48,754</b> | <b>44,915</b> |
| <b>Indirect Income Tax Revenue</b> |               |               |               |
| <b>Goods and Services Tax</b>      |               |               |               |
| 29,855                             | 30,812        | 31,259        | 29,366        |
| (10,801)                           | (11,365)      | (11,751)      | (11,158)      |
| <b>19,054</b>                      | <b>19,447</b> | <b>19,508</b> | <b>18,208</b> |
| <b>Other Indirect Taxation</b>     |               |               |               |
| 1,836                              | 1,884         | 1,908         | 1,876         |
| 1,687                              | 1,676         | 1,677         | 1,710         |
| 1,361                              | 1,431         | 1,469         | 1,381         |
| 931                                | 970           | 985           | 947           |
| 175                                | 148           | 152           | 127           |
| 522                                | 539           | 520           | 504           |
| <b>6,512</b>                       | <b>6,648</b>  | <b>6,711</b>  | <b>6,545</b>  |
| <b>25,566</b>                      | <b>26,095</b> | <b>26,219</b> | <b>24,753</b> |
| <b>71,221</b>                      | <b>73,987</b> | <b>74,973</b> | <b>69,668</b> |
| <b>Other Sovereign Revenue</b>     |               |               |               |
| 2,668                              | 2,806         | 2,882         | 2,819         |
| 363                                | 387           | 392           | 372           |
| 290                                | 281           | 283           | 280           |
| 274                                | 260           | 262           | 278           |
| 111                                | 103           | 105           | 100           |
| 887                                | 1,060         | 1,157         | 794           |
| <b>4,593</b>                       | <b>4,897</b>  | <b>5,081</b>  | <b>4,643</b>  |
| <b>75,814</b>                      | <b>78,884</b> | <b>80,054</b> | <b>74,311</b> |

<sup>1</sup> Includes customs excise-equivalent duty.

More detailed unaudited information on tax revenue and receipts can be found at [www.treasury.govt.nz/government/revenue/taxoutturn](http://www.treasury.govt.nz/government/revenue/taxoutturn)

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

**Note 3: Sovereign Revenue (continued)**

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

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

**Note 4: Sales of Goods and Services**

| <b>2017 Forecast</b>                     |               | <b>Actual</b>  |                |
|--|---------------|----------------|----------------|
| <b>Budget</b>                            | <b>Budget</b> | <b>30 June</b> | <b>30 June</b> |
| <b>2016</b>                              | <b>2017</b>   | <b>2017</b>    | <b>2016</b>    |
| <b>\$m</b>                               | <b>\$m</b>    | <b>\$m</b>     | <b>\$m</b>     |
| 8,328                                    | 8,072         | 8,259          | 7,566          |
| 8,931                                    | 8,615         | 8,612          | 8,798          |
| <b>17,259</b>                            | <b>16,687</b> | <b>16,871</b>  | <b>16,364</b>  |
| <b>Total sales of goods and services</b> |               |                |                |

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

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



**Note 5: Investment Income/(Expense)**

| <b>2017 Forecast</b> |                |   | <b>Actual</b>  |                |
|----------------------|----------------|---|----------------|----------------|
| <b>Budget</b>        | <b>Budget</b>  |   | <b>30 June</b> | <b>30 June</b> |
| <b>2016</b>          | <b>2017</b>    |   | <b>2017</b>    | <b>2016</b>    |
| <b>\$m</b>           | <b>\$m</b>     |   | <b>\$m</b>     | <b>\$m</b>     |
|                      |                | <b>Interest Revenue</b>   |                |                |
| 608                  | 590            | Student loans (interest unwind)   | 602            | 603            |
| 1,363                | 1,271          | Other financial assets classified as amortised cost or available for sale   | 1,190          | 1,267          |
| 6                    | 3              | Financial assets classified as held for trading   | 4              | 5              |
| 1,454                | 933            | Financial assets classified as fair value through the operating balance   | 931            | 913            |
| <b>3,431</b>         | <b>2,797</b>   | <b>Total interest revenue</b>   | <b>2,727</b>   | <b>2,788</b>   |
|                      |                | <b>Interest Expense</b>   |                |                |
| 4,332                | 4,151          | Financial liabilities classified as amortised cost  | 3,834          | 4,153          |
| 170                  | 113            | Financial liabilities classified as fair value through the operating balance  | 296            | 144            |
| 64                   | 33             | Interest unwind on provisions   | 32             | 39             |
| <b>4,566</b>         | <b>4,297</b>   | <b>Total interest expenses</b>  | <b>4,162</b>   | <b>4,336</b>   |
| <b>(1,135)</b>       | <b>(1,500)</b> | <b>Net interest income/(expense)</b>  | <b>(1,435)</b> | <b>(1,548)</b> |
|                      |                | <b>Gains and Losses on Financial Instruments</b>  |                |                |
| 3                    | 5              | Foreign exchange gains on financial assets and financial liabilities measured at amortised cost                           | 7              | 348            |
| (16)                 | (744)          | Foreign exchange losses on financial assets and financial liabilities measured at amortised cost                          | (448)          | (60)           |
| 1                    | (2)            | Change in fair value of financial assets and financial liabilities classified as held for trading                         | 3              | (2)            |
| (6)                  | (143)          | Gains/(losses) on disposal of financial assets and financial liabilities measured at amortised cost                       | (214)          | (26)           |
| 1,134                | 1,163          | Change in fair value of financial assets and financial liabilities classified as fair value through the operating balance | 2,071          | (2,501)        |
| <b>1,116</b>         | <b>279</b>     | <b>Net gains/(losses) on financial assets and financial liabilities</b>   | <b>1,419</b>   | <b>(2,241)</b> |
| 995                  | 4,571          | Net gain/(loss) on derivatives  | 4,911          | 3,358          |
| <b>2,111</b>         | <b>4,850</b>   | <b>Net gains/(losses) on financial instruments</b>  | <b>6,330</b>   | <b>1,117</b>   |
|                      |                | <b>Other investment income/(expense)</b>  |                |                |
| 836                  | 841            | Dividend income   | 871            | 815            |
| <b>836</b>           | <b>841</b>     | <b>Total other investment income/(expense)</b>  | <b>871</b>     | <b>815</b>     |
| <b>1,812</b>         | <b>4,191</b>   | <b>Total investment income/(expenditure)</b>  | <b>5,766</b>   | <b>384</b>     |

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

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

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



**Note 6: Other Revenue**

| 2017 Forecast |              |                                   | Actual       |              |
|---------------|--------------|-----------------------------------|--------------|--------------|
| Budget        | Budget       |                                   | 30 June      | 30 June      |
| 2016          | 2017         |                                   | 2017         | 2016         |
| \$m           | \$m          |                                   | \$m          | \$m          |
| 1,396         | 1,319        | Rental revenue                    | 1,380        | 1,314        |
| 836           | 841          | Dividends                         | 871          | 815          |
| 210           | 217          | Sale of royalties                 | 222          | 235          |
| 7             | (55)         | EQC insurance claim on reinsurers | (216)        | 12           |
| 2,002         | 2,206        | Other revenue                     | 2,318        | 2,320        |
| <b>4,451</b>  | <b>4,528</b> | <b>Total other revenue</b>        | <b>4,575</b> | <b>4,696</b> |

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

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

**Note 7: Transfer Payments and Subsidies**

| 2017 Forecast |               |  | Actual        |               |
|---------------|---------------|--|---------------|---------------|
| Budget        | Budget        |  | 30 June       | 30 June       |
| 2016          | 2017          |  | 2017          | 2016          |
| \$m           | \$m           |  | \$m           | \$m           |
| 12,912        | 13,044        | New Zealand superannuation                   | 13,043        | 12,267        |
| 1,797         | 1,763         | Family tax credit                            | 1,723         | 1,793         |
| 1,677         | 1,695         | Jobseeker support and emergency benefit      | 1,697         | 1,671         |
| 1,515         | 1,530         | Supported living payment                     | 1,533         | 1,523         |
| 1,149         | 1,129         | Accommodation assistance                     | 1,127         | 1,164         |
| 1,199         | 1,164         | Sole parent support                          | 1,159         | 1,153         |
| 827           | 848           | Income related rent subsidy                  | 815           | 755           |
| 738           | 781           | KiwiSaver subsidies                          | 743           | 698           |
| 645           | 610           | Other working for families tax credits       | 596           | 559           |
| 592           | 539           | Official development assistance              | 520           | 534           |
| 510           | 477           | Student allowances                           | 465           | 486           |
| 376           | 377           | Disability allowances                        | 377           | 377           |
| 1,458         | 1,547         | Other social assistance benefits             | 1,466         | 1,332         |
| <b>25,395</b> | <b>25,504</b> | <b>Total transfer payments and subsidies</b> | <b>25,264</b> | <b>24,312</b> |

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

**Note 8: Personnel Expenses**

| 2017 Forecast |               |  | Actual        |               |
|---------------|---------------|--|---------------|---------------|
| Budget        | Budget        |  | 30 June       | 30 June       |
| 2016          | 2017          |  | 2017          | 2016          |
| \$m           | \$m           |  | \$m           | \$m           |
| 21,045        | 20,899        | Salaries and wages   | 20,966        | 20,370        |
| 234           | 256           | Costs incurred on GSF and other defined benefit plans        | 245           | 309           |
| 424           | 445           | Costs incurred on defined contribution plans (eg, KiwiSaver) | 591           | 498           |
| 441           | 749           | Other personnel expenses                                     | 797           | 775           |
| <b>22,144</b> | <b>22,349</b> | <b>Total personnel expenses</b>                              | <b>22,599</b> | <b>21,952</b> |

**Note 8: Personnel Expenses (continued)**

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

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

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

Key management personnel compensation was \$10 million (2016: \$10 million). This reflects salaries, benefits and allowances. Key management personnel are the 28 Ministers of the Crown who are members of the Executive Council (including the Prime Minister).

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

**Note 9: Other Operating Expenses**

| 2017 Forecast |               |   | Actual        |               |
|---------------|---------------|---|---------------|---------------|
| Budget        | Budget        |   | 30 June       | 30 June       |
| 2016          | 2017          |   | 2017          | 2016          |
| \$m           | \$m           |   | \$m           | \$m           |
| 5,428         | 5,481         | Grants and subsidies                                    | 4,906         | 4,962         |
| 1,215         | 1,255         | Rental and leasing costs                                | 1,289         | 1,266         |
| 744           | 652           | Amortisation and impairment of non-financial assets     | 1,102         | 963           |
| 1,320         | 865           | Impairment of financial assets                          | 607           | 861           |
| 842           | 779           | Cost of concessionary lending                           | 753           | 747           |
| 583           | 636           | Lottery prize payments                                  | 652           | 537           |
| 244           | 376           | Inventory expenses                                      | 278           | 261           |
|               |               | Fees paid to audit firms other than the Auditor-General |               |               |
| 3             | 3             | (refer below)   | 5             | 5             |
| 29,031        | 28,965        | Other operating expenses                                | 28,704        | 27,041        |
| <b>39,410</b> | <b>39,012</b> | <b>Total other operating expenses</b>                   | <b>38,296</b> | <b>36,643</b> |

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

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

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

**Audit fees paid to the Controller and Auditor-General**

Fees paid to the Controller and Auditor-General for the audit of the financial statements of the Government and its reporting entities (including audit service providers) were \$42.1 million (2016: \$40.8 million). These fees include \$0.2 million (2016: \$0.2 million) for the audit of these financial statements. Audit Fees for assurance and related services paid to the Controller and Auditor-General were \$0.3 million (2016: \$0.4 million). As the Controller and Auditor-General is part of the Government reporting entity, these fees are eliminated on consolidation.

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

| 2017 Forecast |              |  | Note | Actual       |                |
|---------------|--------------|--|------|--------------|----------------|
| Budget        | Budget       |  |      | 30 June      | 30 June        |
| 2016          | 2017         |  |      | 2017         | 2016           |
| \$m           | \$m          |  |      | \$m          | \$m            |
| -             | 1,276        | Actuarial gains/(losses) on ACC outstanding claims                         | 11   | 387          | (5,099)        |
| -             | 1,486        | Actuarial gains/(losses) on GSF liability                                  | 20   | 964          | (2,028)        |
| -             | 63           | Gains/(losses) on the Emissions Trading Scheme                             | 21   | 73           | (1,503)        |
| (54)          | (101)        | Gains/(losses) on disposal or revaluation of property, plant and equipment |      | (193)        | (18)           |
| -             | (30)         | Other gains/(losses) on non-financial instruments                          |      | 90           | 12             |
| <b>(54)</b>   | <b>2,694</b> | <b>Net gains/(losses) on non-financial instruments</b>                     |      | <b>1,321</b> | <b>(8,636)</b> |

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

**Note 11: Insurance**

| 2017 Forecast                      |              |   | Actual       |              |
|------------------------------------|--------------|---|--------------|--------------|
| Budget                             | Budget       |   | 30 June      | 30 June      |
| 2016                               | 2017         |   | 2017         | 2016         |
| \$m                                | \$m          |   | \$m          | \$m          |
| <b>Insurance expense by entity</b> |              |   |              |              |
| 4,251                              | 4,574        | Accident Compensation Corporation (ACC) | 4,587        | 4,166        |
| 34                                 | 573          | Earthquake Commission (EQC)             | 332          | 337          |
| (56)                               | 300          | Southern Response                       | 325          | 200          |
| 10                                 | 11           | Other                                   | 174          | 22           |
| <b>4,239</b>                       | <b>5,458</b> | <b>Total insurance expenses</b>         | <b>5,418</b> | <b>4,725</b> |

EQC insurance expenses include \$550 million in relation to the Kaikōura earthquakes.

| 2017 Forecast   |               |   | Actual        |               |
|---|---------------|---|---------------|---------------|
| Budget  | Budget        |   | 30 June       | 30 June       |
| 2016  | 2017          |   | 2017          | 2016          |
| \$m   | \$m           |   | \$m           | \$m           |
| <b>Insurance liability by entity</b>                  |               |   |               |               |
| 38,250  | 39,379        | ACC liability                                     | 40,288        | 39,106        |
| 750   | 1,644         | EQC property damage liability                     | 1,853         | 2,485         |
| 215   | 622           | Southern Response liability                       | 668           | 807           |
| 66  | 49            | Other insurance liabilities                       | 57            | 57            |
| -   | (330)         | Inter-segment eliminations                        | (80)          | (329)         |
| <b>39,281</b>   | <b>41,364</b> | <b>Total insurance liabilities</b>                | <b>42,786</b> | <b>42,126</b> |
| <b>By component</b>                                   |               |   |               |               |
|   |               | Outstanding claims liability                      | 39,998        | 39,466        |
|   |               | Unearned premium liability                        | 2,019         | 2,019         |
|   |               | Unearned premium liability deficiency             | 769           | 641           |
|   |               | <b>Total insurance liabilities</b>                | <b>42,786</b> | <b>42,126</b> |
| <b>By maturity</b>                                    |               |   |               |               |
|   |               | Expected to be settled within one year            | 7,256         | 8,004         |
|   |               | Expected to be outstanding for more than one year | 35,530        | 34,122        |
|   |               | <b>Total insurance liabilities</b>                | <b>42,786</b> | <b>42,126</b> |
| <b>Assets arising from insurance obligations are:</b> |               |   |               |               |
|   |               | Receivables for premiums                          | 2,280         | 2,253         |
|   |               | Reinsurance claim recoveries                      | 222           | 534           |

**Note 11: Insurance (continued)**

Premiums paid to reinsurers are recognised as reinsurance expense in the statement of financial performance. Premiums are measured 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.

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

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

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

The outstanding claims liability is the present value of the central estimate of expected payments for claims incurred plus a risk margin. The unearned premium liability represents premiums received to provide insurance cover after 30 June 2017. The unearned premium liability deficiency is the extent that the unearned premium liability is insufficient to cover expected future claims (ie, payments for future accidents within the period covered by the premiums received).

The remainder of this note provides detailed analysis of the ACC insurance expense and liability.

ACC's insurance obligations arise primarily from the accident compensation scheme provision of no fault personal injury cover for all New Zealand citizens, residents and temporary visitors to New Zealand.

|   | <b>Actual</b>                   |                                 |
|---|---------------------------------|---------------------------------|
|   | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| <b>Analysis of ACC Insurance Expense</b>                                      |                                 |                                 |
| <b>By type</b>  |                                 |                                 |
| Claims expense  | 4,524                           | 9,577                           |
| Movement in unearned premium deficiency liability                             | 109                             | 103                             |
| Other underwriting expenses   | 160                             | 129                             |
| <b>Total ACC claims and other expenses</b>                                    | <b>4,793</b>                    | <b>9,809</b>                    |
| Less expenses reported elsewhere in the statement of financial performance    |                                 |                                 |
| Actuarial gain/(loss) - (refer note 10)                                       | 387                             | (5,099)                         |
| Operating costs relating to claims  | (593)                           | (544)                           |
| <b>Total ACC insurance expenses (excluding gains/(losses) and operations)</b> | <b>4,587</b>                    | <b>4,166</b>                    |

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

**Note 11: Insurance (continued)**

|   | <b>Actual</b>                   |                                 |
|---|---------------------------------|---------------------------------|
|   | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| <b>ACC Claims Incurred</b>                                |                                 |                                 |
| <b><i>Current year net ACC claims incurred</i></b>        |                                 |                                 |
| Gross claims incurred and related expenses – undiscounted | 8,117                           | 7,017                           |
| Discount and discount movement                            | (3,902)                         | (3,072)                         |
| <b>Total current year net claims incurred</b>             | <b>4,215</b>                    | <b>3,945</b>                    |
| <b><i>Previous years' net ACC claims incurred</i></b>     |                                 |                                 |
| Reassessment of gross claims and expenses – undiscounted  | 7,113                           | (8,187)                         |
| Discount and discount movement                            | (6,804)                         | 13,819                          |
| <b>Total previous years' net claims incurred</b>          | <b>309</b>                      | <b>5,632</b>                    |
| <b>ACC claims expense</b>                                 | <b>4,524</b>                    | <b>9,577</b>                    |

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

|  | <b>Actual</b>                   |                                 |
|--|---------------------------------|---------------------------------|
|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| <b>Net ACC Underwriting Result</b>   |                                 |                                 |
| Premium revenue (refer to note 3)  | 2,882                           | 2,819                           |
| <b>ACC underwriting revenue</b>  | <b>2,882</b>                    | <b>2,819</b>                    |
| Less claims and other expenses   | (4,793)                         | (9,809)                         |
| <b>Net ACC underwriting surplus/(deficit)</b>                                | <b>(1,911)</b>                  | <b>(6,990)</b>                  |
| <b>ACC operating cash flows associated with the underwriting result are:</b> |                                 |                                 |
| Cash receipts  | 2,820                           | 3,137                           |
| Cash payments  | (3,590)                         | (3,385)                         |
| <b>Net ACC operating cash flows</b>  | <b>(770)</b>                    | <b>(248)</b>                    |

**Analysis of ACC insurance liability**

An independent actuarial estimate by PricewaterhouseCoopers, consulting actuaries, has been made of the future expenditure relating to accidents that occurred prior to balance date, whether or not the claims have been reported to or accepted by ACC. The PricewaterhouseCoopers actuarial report is signed by Mr Paul Rhodes, Fellow of the Institute and Faculty of Actuaries (UK), and Mr Michael Playford, Fellow of the Institute of Actuaries of Australia. Mr Paul Rhodes and Mr Michael Playford are also Fellows of the New Zealand Society of Actuaries. The actuaries are satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

The ACC liability comprises:

|   | <b>Actual</b>                   |                                 |
|---|---------------------------------|---------------------------------|
|   | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| ACC outstanding claims liability          | 37,739                          | 36,663                          |
| ACC unearned premium liability            | 1,870                           | 1,873                           |
| ACC unearned premium liability deficiency | 679                             | 570                             |
| <b>Total ACC liability</b>                | <b>40,288</b>                   | <b>39,106</b>                   |

**Note 11: Insurance (continued)**

|   | Actual                 |                        |
|---|------------------------|------------------------|
|   | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>Analysis of Outstanding ACC Claims Liability</b>   |                        |                        |
| Undiscounted outstanding claims liability   | 78,259                 | 67,827                 |
| Discount adjustment   | (44,854)               | (35,370)               |
| Risk margin   | 4,334                  | 4,206                  |
| <b>Total outstanding ACC claims liability</b>   | <b>37,739</b>          | <b>36,663</b>          |
| Discounted central estimate of future payments for outstanding claims   | 31,466                 | 30,471                 |
| Claims handling expenses  | 1,939                  | 1,986                  |
| <b>Outstanding claims liability before risk margin</b>  | <b>33,405</b>          | <b>32,457</b>          |
| Risk margin   | 4,334                  | 4,206                  |
| <b>Total outstanding ACC claims liability</b>   | <b>37,739</b>          | <b>36,663</b>          |
| <b>Movement in Outstanding ACC Claims Liability</b>   |                        |                        |
| Opening balance   | 36,663                 | 30,328                 |
| Claims incurred for the year  | 4,849                  | 4,272                  |
| Claims paid out in the year   | (4,138)                | (3,917)                |
| Discount rate unwind  | 752                    | 881                    |
| Experience adjustments (actuarial gains and losses):  |                        |                        |
| - actual and assumed claim experience   | 1,849                  | 210                    |
| - change in discount rate   | (3,452)                | 6,355                  |
| - change in inflation rate  | 1,216                  | (1,466)                |
| <b>Closing outstanding ACC claims liability</b>   | <b>37,739</b>          | <b>36,663</b>          |
| <b>Movement in ACC Unearned Premium Liability</b>   |                        |                        |
| Opening balance   | 1,873                  | 1,723                  |
| Earning of premiums previously deferred   | (1,873)                | (1,723)                |
| Deferral of premiums on current year contracts  | 1,870                  | 1,873                  |
| <b>Closing ACC unearned premium liability</b>   | <b>1,870</b>           | <b>1,873</b>           |
| <b>Analysis of ACC unearned premium liability deficiency</b>  |                        |                        |
| Unearned premium liability  | 1,870                  | 1,873                  |
| Adjusted for unearned premium relating to claims arising from medical misadventure premium liabilities without deficiency | (107)                  | (118)                  |
| <b>Adjusted ACC unearned premium liability</b>  | <b>1,763</b>           | <b>1,755</b>           |
| Discounted central estimate of payments for insured future claims   | 2,194                  | 2,089                  |
| Risk margin   | 248                    | 236                    |
| <b>Present value of expected cash flows for future accident claims</b>  | <b>2,442</b>           | <b>2,325</b>           |
| <b>Total ACC unearned premium liability deficiency</b>  | <b>679</b>             | <b>570</b>             |

**Note 11: Insurance (continued)****Claims development historical analysis**

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

|   | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 30 June<br>2017 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|
|   | \$m          | \$m          | \$m          | \$m          | \$m          | \$m          | \$m          | \$m             |
| <b>Estimate of ultimate claims costs:</b>     |              |              |              |              |              |              |              |                 |
| At the end of the                             |              |              |              |              |              |              |              |                 |
| accident year                                 | 7,517        | 6,877        | 6,794        | 7,264        | 7,192        | 6,884        | 7,914        |                 |
| One year later                                | 6,288        | 6,118        | 6,608        | 6,547        | 6,682        | 7,272        |              |                 |
| Two years later                               | 5,890        | 5,546        | 5,762        | 5,823        | 7,062        |              |              |                 |
| Three years later                             | 5,310        | 4,979        | 5,007        | 6,252        |              |              |              |                 |
| Four years later                              | 5,070        | 4,458        | 5,180        |              |              |              |              |                 |
| Five years later                              | 4,596        | 4,780        |              |              |              |              |              |                 |
| Six years later                               | 4,865        |              |              |              |              |              |              |                 |
| Current estimate of cumulative claim costs    | 4,865        | 4,780        | 5,180        | 6,252        | 7,062        | 7,272        | 7,914        | 43,325          |
| Cumulative payments                           | (1,551)      | (1,540)      | (1,618)      | (1,739)      | (1,800)      | (1,667)      | (1,030)      | (10,944)        |
| Outstanding claims undiscounted               | <b>3,314</b> | <b>3,240</b> | <b>3,562</b> | <b>4,513</b> | <b>5,262</b> | <b>5,605</b> | <b>6,884</b> | <b>32,381</b>   |
| Discount                                      |              |              |              |              |              |              |              | (19,587)        |
| Claims handling costs                         |              |              |              |              |              |              |              | 2,188           |
| 2010 and prior claims (net present value)     |              |              |              |              |              |              |              | 22,702          |
| Short tail outstanding claims                 |              |              |              |              |              |              |              | 55              |
| <b>Total outstanding ACC claims liability</b> |              |              |              |              |              |              |              | <b>37,739</b>   |

**Key Assumptions**

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

*(i) Risk-free discount rates*

The projected cash flows were discounted using a series of forward discount rates at the balance date derived from the yield curve for New Zealand government bonds. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is a short term discount rate of 3.80% (2016: 3.22%) and a long term discount rate of 4.75% beyond 39 years (2016: 4.75% beyond 39 years).

*(ii) Risk margin*

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

*(iii) Inflation and indexation*

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

*(iv) Rehabilitation rate*

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

*(v) Liability adequacy test*

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

**Note 11: Insurance (continued)**

|   | 30 June<br>2017     | 30 June<br>2017<br>Beyond | 30 June<br>2016      | 30 June<br>2016<br>Beyond |
|---|---------------------|---------------------------|----------------------|---------------------------|
|   | Next Year           | Next Year                 | Next Year            | Next Year                 |
| <b>Summary of assumptions</b>                                   |                     |                           |                      |                           |
| Average weighted term to settlement from reporting date         | 16 years<br>1 month |                           | 16 years<br>9 months |                           |
| Weighted average risk margin                                    | 13.0%               |                           | 13.0%                |                           |
| Probability of adequacy of liability                            | 75.0%               |                           | 75.0%                |                           |
| Weighted average risk margin for liability adequacy test        | 13.0%               |                           | 13.0%                |                           |
| Probability of adequacy of liability to cover unearned premiums | 75.0%               |                           | 75.0%                |                           |
| Risk-free discount rate   | 2.0%                | 2.4% to<br>4.8%           | 2.1%                 | 2.0% to<br>4.8%           |
| Inflation rates (excluding superimposed inflation):             |                     |                           |                      |                           |
| Weekly compensation   | 2.7%                | 2.7% to<br>3.0%           | 2.5%                 | 2.5% to<br>3.0%           |
| Impairment benefits   | 2.2%                | 1.7% to<br>2.0%           | 0.4%                 | 1.5% to<br>2.0%           |
| Social rehabilitation benefits (serious and non serious injury) | 1.9%                | 1.9% to<br>2.2%           | 1.7%                 | 1.7% to<br>2.2%           |
| Hospital rehabilitation benefits                                | 1.9%                | 1.9% to<br>2.2%           | 1.7%                 | 1.7% to<br>2.2%           |
| Medical costs   | 1.9%                | 1.9% to<br>2.2%           | 1.7%                 | 1.7% to<br>2.2%           |
| Superimposed inflation:   |                     |                           |                      |                           |
| Social rehabilitation benefits (serious injury)                 | 19.0%               | 1.2% to<br>7.5%           | 5.7%                 | 2.8% to<br>5.9%           |
| Social rehabilitation benefits (non-serious injury)             | 5.1%                | 1.0%                      | 4.3%                 | 2.0% to<br>4.3%           |
| Hospital rehabilitation benefits                                | 4.0%                | 4.0%                      | 5.0%                 | 4.0% to<br>5.0%           |
| Medical costs (GPs)   | 3.0%                | 3.0%                      | 4.0%                 | 3.0% to<br>4.0%           |
| Medical costs (Radiology)                                       | 2.0%                | 2.0%                      | 5.8%                 | 5.0% to<br>5.8%           |
| Medical costs (Physiotherapists)                                | 2.0%                | 2.0%                      | 2.0%                 | 2.0%                      |
| Medical costs others (specialists)                              | 2.5%                | 2.5%                      | 3.3%                 | 2.5% to<br>3.3%           |



**Note 11: Insurance (continued)****Sensitivity Analysis**

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

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

|   | Change  | Impact on liability              |                        |
|---|---------|----------------------------------|------------------------|
|   |         | Actual<br>30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>Sensitivity of assumptions</b>   |         |                                  |                        |
| Average weighted term to settlement from reporting date   | +1 year | (1,139)                          | (1,106)                |
|   | -1 year | 1,175                            | 1,141                  |
| Risk-free discount rate   | +1%     | (5,114)                          | (5,196)                |
|   | -1%     | 6,826                            | 6,982                  |
| Inflation rates (including superimposed inflation)  | +1%     | 7,031                            | 7,118                  |
|   | -1%     | (5,342)                          | (5,380)                |
| Social rehabilitation benefits - superimposed inflation for non-serious injury claims             | +1%     | 790                              | 835                    |
|   | -1%     | (594)                            | (613)                  |
| Social rehabilitation benefits - superimposed inflation after two years for serious injury claims | +1%     | 3,233                            | 3,336                  |
|   | -1%     | (2,384)                          | (2,445)                |

**Undiscounted outstanding claims liability**

The reported outstanding claims liability (before risk margin) of \$33,405 million (2016: \$32,457 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 2017. These estimated cash flows include the effects of assumed future inflation.

|  | Actual                 |                        |
|--|------------------------|------------------------|
|  | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| No later than 1 year                             | 2,559                  | 2,321                  |
| Later than 1 year and no later than 2 years      | 1,885                  | 1,672                  |
| Later than 2 years and no later than 5 years     | 4,782                  | 4,350                  |
| Later than 5 years and no later than 10 years    | 7,260                  | 6,514                  |
| Later than 10 years and no later than 15 years   | 6,837                  | 6,054                  |
| Later than 15 years and no later than 20 years   | 6,607                  | 5,783                  |
| Later than 20 years and no later than 25 years   | 6,459                  | 5,591                  |
| Later than 25 years and no later than 30 years   | 6,290                  | 5,370                  |
| Later than 30 years and no later than 35 years   | 6,074                  | 5,122                  |
| Later than 35 years and no later than 40 years   | 5,737                  | 4,825                  |
| Later than 40 years and no later than 45 years   | 5,276                  | 4,451                  |
| Later than 45 years and no later than 50 years   | 4,684                  | 3,979                  |
| Later than 50 years                              | 13,809                 | 11,795                 |
| <b>Undiscounted outstanding claims liability</b> | <b>78,259</b>          | <b>67,827</b>          |

**Note 12: Receivables**

| <b>2017 Forecast</b> |               |   | <b>Actual</b>  |                |
|----------------------|---------------|---|----------------|----------------|
| <b>Budget</b>        | <b>Budget</b> |   | <b>30 June</b> | <b>30 June</b> |
| <b>2016</b>          | <b>2017</b>   |   | <b>2017</b>    | <b>2016</b>    |
| <b>\$m</b>           | <b>\$m</b>    |   | <b>\$m</b>     | <b>\$m</b>     |
| 9,263                | 9,513         | Tax receivables                                   | 10,313         | 9,161          |
| 2,477                | 2,437         | ACC levy receivables                              | 2,225          | 2,294          |
| 604                  | 726           | Social benefit receivables                        | 736            | 704            |
| 285                  | 286           | Other levies, fines and penalty receivables       | 350            | 288            |
| <b>12,629</b>        | <b>12,962</b> | <b>Sovereign receivables</b>                      | <b>13,624</b>  | <b>12,447</b>  |
| 149                  | 202           | Reinsurance receivables                           | 222            | 534            |
| 4,706                | 3,476         | Trade and other receivables                       | 4,683          | 3,808          |
| <b>17,484</b>        | <b>16,640</b> | <b>Total receivables</b>                          | <b>18,529</b>  | <b>16,789</b>  |
| <b>By maturity</b>   |               |   |                |                |
| 16,175               | 15,141        | Expected to be realised within one year           | 16,898         | 14,822         |
| 1,309                | 1,499         | Expected to be outstanding for more than one year | 1,631          | 1,967          |
| <b>17,484</b>        | <b>16,640</b> | <b>Total receivables</b>                          | <b>18,529</b>  | <b>16,789</b>  |

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

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

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

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

**Note 12: Receivables (continued)**

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

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

Other levies, fines and penalty receivables comprise debtor portfolios administered by Ministry of Justice (ie, court fines) and Inland Revenue (ie, child support). These receivables are recorded at fair value, which on initial recognition represent the face value of the amount owed to the Crown, adjusted to reflect the amount expected to be recoverable. For the current year the initial adjustment from face value to fair value of these receivables was \$201 million (2016: \$312 million), with \$129 million (2016: \$252 million) of the adjustment relating to child support debt administered by Inland Revenue.

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

Trade and other receivables are relatively short term, with \$4,567 million (2016: \$3,454 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

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

| <b>30 June 2016</b>                         | <b>Gross<br/>receivable<br/>\$m</b> | <b>Impairment<br/>\$m</b> | <b>Net<br/>receivable<br/>\$m</b> |
|---|-------------------------------------|---------------------------|-----------------------------------|
| Tax receivables                             | 12,927                              | (3,766)                   | 9,161                             |
| ACC levy receivables                        | 2,398                               | (104)                     | 2,294                             |
| Social benefit receivables                  | 1,395                               | (691)                     | 704                               |
| Other levies, fines and penalty receivables | 2,800                               | (2,512)                   | 288                               |
| Reinsurance receivables                     | 534                                 | -                         | 534                               |
| Trade and other receivables                 | 3,895                               | (87)                      | 3,808                             |
| <b>Total receivables</b>                    | <b>23,949</b>                       | <b>(7,160)</b>            | <b>16,789</b>                     |

The Inland Revenue Department (IRD) administers the majority of the tax receivable portfolio. The recoverable amount of the portfolio is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current market rate of 5.0% (2016: 6.0%).

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

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

**Note 12: Receivables (continued)**

|   | <b>Actual</b>                   |                                 |
|---|---------------------------------|---------------------------------|
|   | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| <b>Gross Tax Receivable</b>                       |                                 |                                 |
| Current   | 9,357                           | 8,247                           |
| Past due  | 2,991                           | 4,680                           |
| <b>Total gross tax receivable</b>                 | <b>12,348</b>                   | <b>12,927</b>                   |
| % past due  | 24.2%                           | 36.2%                           |
| <b>Impairment of Tax Receivables</b>              |                                 |                                 |
| Opening balance                                   | 3,766                           | 4,215                           |
| Impairment losses recognised during the year      | 498                             | 683                             |
| Amounts written off as uncollectible              | (2,229)                         | (1,132)                         |
| <b>Closing balance</b>                            | <b>2,035</b>                    | <b>3,766</b>                    |
| <b>Tax Receivable Net of Impairment</b>           |                                 |                                 |
| Current   | 9,302                           | 8,192                           |
| Past due  | 1,011                           | 969                             |
| <b>Total tax receivable net of impairment</b>     | <b>10,313</b>                   | <b>9,161</b>                    |
| % past due  | 9.8%                            | 10.6%                           |
| <b>Ageing of Tax Receivables Past Due (Gross)</b> |                                 |                                 |
| Less than six months                              | 707                             | 738                             |
| Between six months and one year                   | 447                             | 398                             |
| Between one year and two years                    | 561                             | 662                             |
| Greater than two years                            | 1,276                           | 2,882                           |
| <b>Total tax receivables past due (Gross)</b>     | <b>2,991</b>                    | <b>4,680</b>                    |

**Note 13: Marketable Securities, Deposits and Derivatives in Gain**

| 2017 Forecast |               |  | Actual        |               |
|---------------|---------------|--|---------------|---------------|
| Budget        | Budget        |  | 30 June       | 30 June       |
| 2016          | 2017          |  | 2017          | 2016          |
| \$m           | \$m           |  | \$m           | \$m           |
|               |               | <b>By type</b>   |               |               |
| 43,357        | 40,981        | Marketable securities  | 39,558        | 40,822        |
| 4,875         | 3,287         | Long term deposits   | 4,730         | 4,791         |
| 2,758         | 4,696         | Derivatives in gain  | 4,381         | 5,888         |
| 2,299         | 1,806         | IMF financial assets   | 1,837         | 1,897         |
| <b>53,289</b> | <b>50,770</b> | <b>Total marketable securities, deposits and derivatives in gain</b> | <b>50,506</b> | <b>53,398</b> |
|               |               | <b>Expected Realisation</b>  |               |               |
| 35,899        | 33,348        | Expected to be realised within one year                              | 29,080        | 31,992        |
| 17,390        | 17,422        | Expected to be held for more than one year                           | 21,426        | 21,406        |
| <b>53,289</b> | <b>50,770</b> | <b>Total marketable securities, deposits and derivatives in gain</b> | <b>50,506</b> | <b>53,398</b> |

Marketable securities comprise bonds, commercial paper, debentures and similar tradable financial assets held by the Government for the purposes of realising capital gains or interest revenue. Long-term deposits are instruments with maturities greater than three months that are not traded in an active market.

Marketable securities and derivatives in gain are reported at their fair value. Fair value is either based on quoted market price or 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 discount these values back to present value.

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

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

**Note 14: Share Investments**

| 2017 Forecast |               |  | Actual        |               |
|---------------|---------------|--|---------------|---------------|
| Budget        | Budget        |  | 30 June       | 30 June       |
| 2016          | 2017          |  | 2017          | 2016          |
| \$m           | \$m           |  | \$m           | \$m           |
|               |               | <b>Expected Realisation</b>                |               |               |
| 15,013        | 16,815        | Expected to be realised within one year    | 19,555        | 13,407        |
| 11,604        | 11,796        | Expected to be held for more than one year | 11,145        | 10,810        |
| <b>26,617</b> | <b>28,611</b> | <b>Total share investments</b>             | <b>30,700</b> | <b>24,217</b> |

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

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

**Note 15: Advances**

| <b>2017 Forecast</b> |               |                             | <b>Actual</b>  |                |
|----------------------|---------------|-----------------------------|----------------|----------------|
| <b>Budget</b>        | <b>Budget</b> |                             | <b>30 June</b> | <b>30 June</b> |
| <b>2016</b>          | <b>2017</b>   |                             | <b>2017</b>    | <b>2016</b>    |
| <b>\$m</b>           | <b>\$m</b>    |                             | <b>\$m</b>     | <b>\$m</b>     |
| <b>By type</b>       |               |                             |                |                |
| 17,753               | 17,698        | Kiwibank loans and advances | 17,795         | 16,689         |
| 9,260                | 9,178         | Student loans               | 9,197          | 8,982          |
| 1,766                | 1,517         | Other advances              | 1,591          | 2,563          |
| <b>28,779</b>        | <b>28,393</b> | <b>Total advances</b>       | <b>28,583</b>  | <b>28,234</b>  |

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

| <b>2017 Forecast</b>                                      |               |   | <b>Actual</b>  |                |
|---|---------------|---|----------------|----------------|
| <b>Budget</b>   | <b>Budget</b> |   | <b>30 June</b> | <b>30 June</b> |
| <b>2016</b>   | <b>2017</b>   |   | <b>2017</b>    | <b>2016</b>    |
| <b>\$m</b>  | <b>\$m</b>    |   | <b>\$m</b>     | <b>\$m</b>     |
| <b>Kiwibank Loans and Advances</b>                        |               |   |                |                |
| <b>By maturity</b>  |               |   |                |                |
| 1,243   | 1,239         | Expected to be repaid within one year                 | 1,319          | 1,267          |
| 16,510  | 16,459        | Expected to be outstanding for more than one year     | 16,476         | 15,422         |
| <b>17,753</b>   | <b>17,698</b> | <b>Total Kiwibank Loans and Advances</b>              | <b>17,795</b>  | <b>16,689</b>  |
| <b>Impairment of Kiwibank Loans and Advances</b>          |               |   |                |                |
|   |               | Opening balance                                       | 53             | 53             |
|   |               | Impairment losses recognised                          | 10             | 21             |
|   |               | Amounts written off as uncollectible                  | (7)            | (11)           |
|   |               | Impairment losses reversed                            | (16)           | (10)           |
|   |               | <b>Closing balance</b>                                | <b>40</b>      | <b>53</b>      |
|   |               | Collective impairment allowance                       | 34             | 44             |
|   |               | Individual impairment allowance                       | 6              | 9              |
|   |               | <b>Impairment of Kiwibank Loans and Advances</b>      | <b>40</b>      | <b>53</b>      |
| <b>Ageing of Kiwibank Loans Past Due But Not Impaired</b> |               |   |                |                |
|   |               | Less than six months                                  | 101            | 108            |
|   |               | Between six months and one year                       | 7              | -              |
|   |               | <b>Total Kiwibank loans past due but not impaired</b> | <b>108</b>     | <b>108</b>     |

Kiwibank loans are measured at amortised cost. The fair value of Kiwibank loans is \$17,824 million (2016: \$16,804 million). This fair value is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses.

The maximum loss due to default on Kiwibank 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. The fair value of the collateral provided is sufficient to ensure that the entire amount owing over the life of the mortgage will be recovered and there is reasonable assurance that collection efforts will result in payment of the amounts owed in a timely manner.

## Note 15: Advances (continued)

| 2017 Forecast |              |   | Note | Actual       |              |
|---------------|--------------|---|------|--------------|--------------|
| Budget        | Budget       |   |      | 30 June      | 30 June      |
| 2016          | 2017         |   |      | 2017         | 2016         |
| \$m           | \$m          |   |      | \$m          | \$m          |
|               |              | <b>Student Loans</b>                              |      |              |              |
| 15,709        | 15,665       | Nominal value                                     |      | 15,735       | 15,340       |
| (6,449)       | (6,487)      | Write-down on initial recognition and impairment  |      | (6,538)      | (6,358)      |
| <b>9,260</b>  | <b>9,178</b> | <b>Total student loans</b>                        |      | <b>9,197</b> | <b>8,982</b> |
|               |              | Gross carrying value                              |      | 10,991       | 10,838       |
|               |              | Impairment of student loans                       |      | (1,794)      | (1,856)      |
|               |              | <b>Total student loans</b>                        |      | <b>9,197</b> | <b>8,982</b> |
|               |              | <b>By maturity</b>                                |      |              |              |
|               |              | Expected to be repaid within one year             |      | 1,273        | 1,209        |
|               |              | Expected to be outstanding for more than one year |      | 7,924        | 7,773        |
|               |              | <b>Total student loans</b>                        |      | <b>9,197</b> | <b>8,982</b> |
|               |              | <b>Movement During the Year</b>                   |      |              |              |
|               |              | Opening balance                                   |      | 8,982        | 8,864        |
|               |              | Net new lending (excluding fees)                  |      | 1,475        | 1,512        |
|               |              | New lending - establishment fee                   |      | 10           | 10           |
|               |              | Initial write-down to fair value                  |      | (662)        | (659)        |
|               |              | Repayments made during the year                   |      | (1,272)      | (1,208)      |
|               |              | Interest unwind                                   | 5    | 602          | 603          |
|               |              | Movement in impairment during the year            |      | 62           | (140)        |
|               |              | <b>Closing balance student loans</b>              |      | <b>9,197</b> | <b>8,982</b> |
|               |              | <b>Impairment of Student Loans</b>                |      |              |              |
|               |              | Opening balance                                   |      | 1,856        | 1,716        |
|               |              | Impairment losses recognised during the year      |      | (30)         | 175          |
|               |              | Amounts written off as uncollectible              |      | (32)         | (35)         |
|               |              | <b>Closing balance</b>                            |      | <b>1,794</b> | <b>1,856</b> |

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

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

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

**Note 15: Advances (continued)**

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

|  | <b>Actual</b>           |                         |
|--|-------------------------|-------------------------|
|  | <b>30 June<br/>2017</b> | <b>30 June<br/>2016</b> |
| Significant assumptions behind the carrying value are: |                         |                         |
| Effective interest rate - weighted average             | 6.8%                    | 6.9%                    |
| Interest rate applied to loans for overseas borrowers  | 3.9%-5.5%               | 3.6%-5.5%               |
| Consumer Price Index                                   | 0.2%-2.0%               | 0.4%-2.0%               |
| Future salary inflation                                | 1.5%-3.0%               | 1.1%-3.0%               |

In contrast to the amortised cost approach described above, fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2017. It is determined by discounting the cash flows at an appropriate discount rate.

|  | <b>Actual</b>                   |                                 |
|--|---------------------------------|---------------------------------|
|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| Fair value of the student loan portfolio               | 9,812                           | 9,794                           |
| Impact on fair value of a 1% increase in discount rate | (535)                           | (558)                           |
| Impact on fair value of a 1% decrease in discount rate | 601                             | 630                             |

The fair value differs from the carrying value by \$615 million due to changes in market interest rates at reporting date. The carrying value is not adjusted for such changes as it is valued using the effective interest rate determined when the loan was initially drawn. However, the fair value was calculated on a discount rate that was current at 30 June 2017. At that date the fair value was calculated on a discount rate (including expenses) of 5.7% (2016: 5.4%) whereas a weighted average effective interest rate of 6.8% (2016: 6.9%) was used for the carrying value.

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. This can be found at: [http://www.educationcounts.govt.nz/publications/series/student\\_loan\\_scheme\\_annual\\_reports](http://www.educationcounts.govt.nz/publications/series/student_loan_scheme_annual_reports)



## Note 16: Property, Plant and Equipment

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

The total amount of property, plant and equipment under construction is \$2,247 million (2016: \$2,083 million).

## Note 16: Property, Plant and Equipment (continued)

|  | Total          | Land          | Buildings     | State         | Electricity   | Electricity  | Aircraft     | Specialist   | Specified    | Rail         | Other plant   |
|--|----------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|---------------|
|  | \$m            | \$m           | \$m           | highways      | generation    | distribution | (excluding   | military     | cultural     | network      | and           |
|  |                |               |               |               | assets        | network      | military)    | equipment    | and          |              | equipment     |
|  |                |               |               |               | \$m           | \$m          | \$m          | \$m          | heritage     |              | \$m           |
|  |                |               |               |               |               |              |              |              | assets       |              | \$m           |
| For the year ended 30 June 2016                      |                |               |               |               |               |              |              |              |              |              |               |
| <b>Gross carrying amount</b>                         |                |               |               |               |               |              |              |              |              |              |               |
| Opening balance 1 July 2015                          | 138,681        | 39,912        | 30,703        | 21,034        | 14,995        | 5,361        | 3,291        | 3,484        | 3,521        | 1,558        | 14,822        |
| Additions  | 7,608          | 240           | 2,671         | 1,869         | 80            | 157          | 980          | 259          | 19           | 176          | 1,157         |
| Disposals  | (1,747)        | (275)         | (506)         | (299)         | (10)          | (30)         | (43)         | (2)          | (13)         | -            | (569)         |
| Net revaluations                                     | 6,371          | 5,209         | 768           | (210)         | 816           | -            | (255)        | -            | 43           | -            | -             |
| Transfers from/(to) other asset classes              | (998)          | (192)         | (168)         | (46)          | 5             | -            | (87)         | -            | -            | -            | (510)         |
| Other  | (109)          | 65            | (45)          | (1)           | (87)          | -            | (26)         | (1)          | -            | 1            | (15)          |
| <b>Total gross carrying amount</b>                   | <b>149,806</b> | <b>44,959</b> | <b>33,423</b> | <b>22,347</b> | <b>15,799</b> | <b>5,488</b> | <b>3,860</b> | <b>3,740</b> | <b>3,570</b> | <b>1,735</b> | <b>14,885</b> |
| <b>Accumulated Depreciation and Impairment</b>       |                |               |               |               |               |              |              |              |              |              |               |
| Opening balance 1 July 2015                          | 14,123         | -             | 1,789         | -             | 256           | 1,254        | 19           | 404          | 517          | 575          | 9,309         |
| Eliminated on disposal                               | (399)          | -             | (42)          | -             | (3)           | (24)         | (14)         | (1)          | (7)          | -            | (308)         |
| Eliminated on transfer to other asset classes        | (108)          | -             | (1)           | -             | -             | -            | (67)         | -            | -            | -            | (40)          |
| Eliminated on revaluation                            | (2,475)        | -             | (1,235)       | (407)         | (581)         | -            | (234)        | -            | (1)          | -            | (17)          |
| Impairment losses charged to operating balance       | 288            | -             | 33            | -             | -             | -            | -            | -            | -            | 172          | 83            |
| Depreciation expense                                 | 3,912          | -             | 1,388         | 407           | 416           | 184          | 297          | 303          | 27           | 29           | 861           |
| Other  | (34)           | -             | 1             | -             | (8)           | 1            | (1)          | (36)         | (1)          | -            | 10            |
| <b>Total accumulated depreciation and impairment</b> | <b>15,307</b>  | <b>-</b>      | <b>1,933</b>  | <b>-</b>      | <b>80</b>     | <b>1,415</b> | <b>-</b>     | <b>670</b>   | <b>535</b>   | <b>776</b>   | <b>9,898</b>  |
| <b>Carrying value as at 30 June 2016</b>             | <b>134,499</b> | <b>44,959</b> | <b>31,490</b> | <b>22,347</b> | <b>15,719</b> | <b>4,073</b> | <b>3,860</b> | <b>3,070</b> | <b>3,035</b> | <b>959</b>   | <b>4,987</b>  |
| <b>By holding</b>                                    |                |               |               |               |               |              |              |              |              |              |               |
| Leasehold  | 2,952          | -             | 331           | -             | 2             | -            | 2,575        | -            | -            | -            | 44            |
| Public Private Partnerships                          | 963            | 88            | 630           | 245           | -             | -            | -            | -            | -            | -            | -             |
| Freehold (excluding PPP)                             | 130,584        | 44,871        | 30,529        | 22,102        | 15,717        | 4,073        | 1,285        | 3,070        | 3,035        | 959          | 4,943         |
| <b>Carrying value as at 30 June 2016</b>             | <b>134,499</b> | <b>44,959</b> | <b>31,490</b> | <b>22,347</b> | <b>15,719</b> | <b>4,073</b> | <b>3,860</b> | <b>3,070</b> | <b>3,035</b> | <b>959</b>   | <b>4,987</b>  |

**Note 16: Property, Plant and Equipment (continued)**

Under Section 55 of the Public Finance Act 1989, borrowing by the Crown is a charge on the revenue of the Crown equally and rateably. Therefore, no property, plant and equipment owned by the 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. Property, plant and equipment owned by State-owned Enterprises and mixed ownership companies has been pledged to secure borrowings and finance lease obligations of \$3,348 million (2016: \$3,153 million).

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

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

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

|  | <b>Actual</b>                   |                                 |
|--|---------------------------------|---------------------------------|
|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| <b>Property, plant and equipment revaluation reserve</b> |                                 |                                 |
| Opening revaluation reserve                              | 75,626                          | 67,107                          |
| Net revaluations   | 8,745                           | 8,413                           |
| Transfers from/(to) taxpayer funds                       | (207)                           | 106                             |
| <b>Closing revaluation reserve</b>                       | <b>84,164</b>                   | <b>75,626</b>                   |
| <b>Class of Asset</b>                                    |                                 |                                 |
| Land   | 35,176                          | 30,718                          |
| Buildings  | 22,051                          | 18,787                          |
| State highways   | 14,120                          | 13,071                          |
| Electricity generation assets                            | 10,651                          | 10,267                          |
| Specified cultural and heritage assets                   | 1,507                           | 1,440                           |
| Specialist military equipment                            | 335                             | 332                             |
| Rail network   | 13                              | 13                              |
| Other plant and equipment                                | 311                             | 998                             |
| <b>Closing revaluation reserve</b>                       | <b>84,164</b>                   | <b>75,626</b>                   |

Net revaluations in the note above exclude movements attributable to minority interests and includes the share of associates revaluation of physical assets. It will therefore differ from the movements on pages 67 and 68.

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

|   |                |
|---|----------------|
| <i>Land and Buildings</i>                     | <i>Page 70</i> |
| <i>State Highways</i>                         | <i>Page 70</i> |
| <i>Specified Cultural and Heritage Assets</i> | <i>Page 71</i> |
| <i>Electricity Generation Assets</i>          | <i>Page 71</i> |
| <i>Rail Network</i>                           | <i>Page 71</i> |
| <i>Public Private Partnerships</i>            | <i>Page 72</i> |
| <i>Valuation Information</i>                  | <i>Page 73</i> |
| <i>Accounting Policies</i>                    | <i>Page 77</i> |

**Note 16: Property, Plant and Equipment (continued)****Land and Buildings****Breakdown of land and buildings  
(total valuation over \$500m)****30 June 2017**

|  |
|--|
| Housing stock                          |
| School property                        |
| State highway corridor land            |
| Conservation estate                    |
| Hospitals                              |
| Rail network corridor land             |
| Prisons and Department of Corrections  |
| Defence Force land and buildings       |
| Landcorp farmland and buildings        |
| Ministry of Justice land and buildings |
| Police stations                        |
| Other                                  |

**Total land and buildings**

|               | Actual        |               |
|---------------|---------------|---------------|
| Land          | Buildings     | Total         |
| \$m           | \$m           | \$m           |
| 17,845        | 8,910         | 26,755        |
| 5,683         | 12,413        | 18,096        |
| 10,892        | 9             | 10,901        |
| 5,718         | 64            | 5,782         |
| 1,091         | 4,716         | 5,807         |
| 3,520         | -             | 3,520         |
| 166           | 1,960         | 2,126         |
| 983           | 1,728         | 2,711         |
| 1,091         | 148           | 1,239         |
| 204           | 782           | 986           |
| 151           | 475           | 626           |
| 2,296         | 3,450         | 5,746         |
| <b>49,640</b> | <b>34,655</b> | <b>84,295</b> |

**30 June 2016**

|  |
|--|
| Housing stock                          |
| School property                        |
| State highway corridor land            |
| Conservation estate                    |
| Hospitals                              |
| Rail network corridor land             |
| Prisons and Department of Corrections  |
| Defence Force land and buildings       |
| Landcorp farmland and buildings        |
| Ministry of Justice land and buildings |
| Police stations                        |
| Other                                  |

**Total land and buildings**

|               | Actual        |               |
|---------------|---------------|---------------|
| Land          | Buildings     | Total         |
| \$m           | \$m           | \$m           |
| 15,632        | 8,568         | 24,200        |
| 4,770         | 9,876         | 14,646        |
| 9,757         | 9             | 9,766         |
| 5,691         | 90            | 5,781         |
| 995           | 4,468         | 5,463         |
| 3,354         | -             | 3,354         |
| 140           | 2,399         | 2,539         |
| 938           | 1,456         | 2,394         |
| 1,092         | 131           | 1,223         |
| 487           | 731           | 1,218         |
| 152           | 491           | 643           |
| 1,951         | 3,271         | 5,222         |
| <b>44,959</b> | <b>31,490</b> | <b>76,449</b> |

**Carrying value of other asset classes subject to revaluation****State Highways**

|                | Actual  |         |
|----------------|---------|---------|
|                | 30 June | 30 June |
|                | 2017    | 2016    |
|                | \$m     | \$m     |
| State highways | 23,829  | 22,347  |

There are some uncertainties about the values assigned to different components (eg, formation, bridges) of the state highway network. These uncertainties include whether the New Zealand Transport Agency's (NZTA) databases have accurate quantities and lives and whether there is complete capture for some cost components. Some uncertainties are inherent, but those arising from both the quantity and costs of components are planned to be reduced by improvements in the accuracy of the underlying databases.

Additional 'brownfield' costs associated with road construction in urban areas (eg, traffic management) are assessed as being the most significant part of the potential undervaluation, with the remaining due to incomplete records. An allowance to recognise these costs has been included for the current and some previous years. However, historic 'brownfield' costs cannot be reliably measured and are currently excluded from the valuation.

Any adjustments in value affect the Statement of Financial Position only. There is no impact on the operating balance.

**Note 16: Property, Plant and Equipment (continued)****Electricity generation assets**

|  | Actual        |               |
|--|---------------|---------------|
|  | 30 June 2017  | 30 June 2016  |
|  | \$m           | \$m           |
| Meridian Energy                            | 7,849         | 7,657         |
| Mercury NZ                                 | 5,241         | 5,268         |
| Genesis Energy                             | 2,938         | 2,955         |
| Inter segment eliminations                 | (162)         | (161)         |
| <b>Total electricity generation assets</b> | <b>15,866</b> | <b>15,719</b> |

**Specified cultural and heritage assets**

|   | Actual       |              |
|---|--------------|--------------|
|   | 30 June 2017 | 30 June 2016 |
|   | \$m          | \$m          |
| National Library                                    | 1,053        | 1,010        |
| Te Papa   | 948          | 924          |
| National Archives                                   | 614          | 625          |
| Conservation  | 446          | 442          |
| Other   | 36           | 34           |
| <b>Total specified cultural and heritage assets</b> | <b>3,097</b> | <b>3,035</b> |

**Rail network**

| Recoverable amount | ODRC         | 30 June 2016       |  | Recoverable amount | ODRC         | 30 June 2017       |
|--------------------|--------------|--------------------|--|--------------------|--------------|--------------------|
| \$m                | \$m          | Carrying value \$m |  | \$m                | \$m          | Carrying value \$m |
| 101                | 4,304        | 101                | Network required for freight                       | 96                 | 4,486        | 96                 |
| 8                  | 769          | 769                | Network not required for freight (including metro) | 9                  | 724          | 724                |
| <b>109</b>         | <b>5,073</b> | <b>870</b>         | <b>Total rail infrastructure</b>                   | <b>105</b>         | <b>5,210</b> | <b>820</b>         |
|                    |              | 49                 | Buildings  |                    |              | 50                 |
|                    |              | 40                 | Capital work in progress                           |                    |              | 69                 |
|                    |              | <b>959</b>         | <b>Rail network</b>                                |                    |              | <b>939</b>         |

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

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

Prior to the restructuring of KiwiRail as a profit-oriented entity, the total rail network infrastructure was measured on an optimised depreciated replacement cost basis reflecting the previous focus on it as a non-cash generating asset. If the value of the rail network was still measured using that approach, then a notional depreciation amount of \$210 million (2016: \$159 million) could be calculated, representing an estimate of the amount of “wear-and-tear” or consumption of the network asset over the year. This estimated “wear-and-tear” compares to the total maintenance and renewal expenditure of \$258 million (2016: \$184 million) on the rail network during the year.

**Note 16: Property, Plant and Equipment (continued)****Rail network (continued)**

Since the restructuring, both the Crown and KiwiRail have been challenged in marrying relatively short-term funding commitments with making prudent investment decisions for long-life assets such as rail infrastructure. The Government has therefore initiated a review to consider KiwiRail's operating structure, capital requirements and funding mechanisms within the context of rail's purpose within New Zealand's broader transport mix. The review is considering how KiwiRail's operations and its investment decisions can best be structured so as to incentivise an optimal combination of rail, road and other transport modes, incentivise commercial decision making by KiwiRail, and prudently minimise the extent to which KiwiRail requires ongoing Crown financial support. Decisions from this review are likely to affect the mix of assets and operations, the extent of the rail network, and which of the entities within the Crown might own those assets and/or perform those operations. These decisions could affect how much of the rail network is valued at ODRC (if fully valued at ODRC the rail infrastructure would be valued at \$5,210 million (2016: \$5,073 million) and how much is valued at recoverable amount (if fully valued at recoverable amount the rail infrastructure would be valued at \$105 million (2016: \$109 million)).

**Public Private Partnerships**

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

|   | <b>Actual</b>       |                     |
|---|---------------------|---------------------|
|   | <b>30 June 2017</b> | <b>30 June 2016</b> |
|   | <b>\$m</b>          | <b>\$m</b>          |
| Transmission Gully                        | 448                 | 287                 |
| Education Assets                          | 384                 | 210                 |
| Auckland South Corrections Facility       | 325                 | 318                 |
| Auckland Prison                           | 295                 | 148                 |
| Puhoi to Warkworth State Highway          | 184                 | -                   |
| <b>Total public private partnerships</b>  | <b>1,636</b>        | <b>963</b>          |
| <b>Carrying value of assets by source</b> |                     |                     |
| Provided by private sector partner        | 1,350               | 842                 |
| Existing government assets                | 286                 | 121                 |
| <b>Total public private partnerships</b>  | <b>1,636</b>        | <b>963</b>          |

**Movements in carrying value for Public Private Partnerships**

|  | <b>Actual</b>       |                     |
|--|---------------------|---------------------|
|  | <b>30 June 2017</b> | <b>30 June 2016</b> |
|  | <b>\$m</b>          | <b>\$m</b>          |
| <b>Gross carrying amount</b>                   |                     |                     |
| <b>Opening balance 1 July</b>                  | 977                 | 583                 |
| Assets provided by private sector partner(s)   | 505                 | 292                 |
| Existing Government assets                     | 124                 | 102                 |
| Net revaluations                               | 35                  | -                   |
| Other  | 2                   | -                   |
| <b>Total Gross Carrying Amount</b>             | <b>1,643</b>        | <b>977</b>          |
| <b>Accumulated Depreciation and Impairment</b> |                     |                     |
| <b>Opening balance 1 July</b>                  | 14                  | 1                   |
| Eliminated on revaluation                      | (22)                | -                   |
| Depreciation expense                           | 15                  | 13                  |
| <b>Total accumulated depreciation</b>          | <b>7</b>            | <b>14</b>           |
| <b>Carrying value as at 30 June</b>            | <b>1,636</b>        | <b>963</b>          |

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

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

**Note 16: Property, Plant and Equipment (continued)****Valuation Information****Land and Buildings**

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

**Note 16: Property, Plant and Equipment (continued)****Specified cultural and heritage assets**

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

**State highways**

| Description  | Valuer/Reviewer                        | Approach   | Timing  |
|--|--|--|---|
| Roads, bridges, culverts, tunnels, underpasses including the formation works, road structure, drainage works and traffic facilities. | Opus International Consultants Limited | State Highways are valued using the ODRC of the existing asset database. (See below for further comments.) | A full valuation is completed yearly where the majority of assets are indexed. The latest valuation completed as at 30 June 2017. |



**Note 16: Property, Plant and Equipment (continued)****Specialist military equipment**

| Description                   | Valuer/Reviewer                               | Approach                     | Timing   |
|-------------------------------|---|------------------------------|--|
| Specialist military equipment | Internal valuations by subject matter experts | Valued using an ODRC method. | Valuation completed at least once every five years with the latest valuation being as at 31 December 2013. |

**Electricity generation assets**

| Description   | Valuer/Reviewer         | Approach   | Timing   |
|---|-------------------------|--|--|
| Meridian Energy: Hydro stations and wind farms            | PwC, Independent valuer | Based on an income valuation approach based primarily on the capitalisation of earnings with additional consideration of the discounted cash flows to establish a valuation range on which the Board's ultimate valuation decision is based. | Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance date. |
| Mercury NZ: Hydro and Geothermal stations                 | PwC, Independent valuer | Based on net present value of future earnings of the assets on an existing use basis excluding disposal and restoration costs.   | Annual valuation with the latest completed as at 30 June 2017.   |
| Genesis Energy: Thermal and Hydro stations and Wind farms | Internal valuation      | Based on the present value of estimated future cash flows of the assets.   | Valuation completed at least once every five years with the latest valuation being as at 30 June 2017.   |

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

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

**Meridian Energy**

| Key input                 |                                    | Sensitivity range     | Valuation Impact on fair value of generation assets |
|---------------------------|------------------------------------|-----------------------|---|
| NZ Generation volumes     | 13,033 GWh p.a to 13,386 GWh p.a   | +/- 250 GWh           | \$110 million / (\$110) million                     |
| Operating expenditure     | \$264 million p.a. (in real terms) | +/- \$10 million p.a. | (\$130) million / \$130 million                     |
| EBITDAF earnings multiple | 12.1 x EBITDAF                     | +/- 0.5x              | \$340 million / (\$340) million                     |

**Note 16: Property, Plant and Equipment (continued)***Genesis Energy*

| Key input                        |  | Sensitivity range | Valuation Impact on fair value of generation assets |
|----------------------------------|--|-------------------|---|
| Wholesale electricity price path | \$75/MWh to \$100/MWh by 2026 (in nominal terms) | +/- 10%           | \$541 million / (\$542) million                     |
| Generation volumes               | 6,930 GWh to 7,533 GWh                           | +/- 10%           | \$348 million / (\$348) million                     |
| Discount rate                    | Pre-tax equivalent discount rate of 10.4%        | +/- 1%.           | \$367 million / (\$294) million                     |

*Mercury NZ*

| Key input                               |   | Sensitivity range | Valuation Impact on fair value of generation assets |
|---|---|-------------------|---|
| Future wholesale electricity price path | \$70/MWh to \$104/MWh (in real terms)       | +/- 10%           | \$781 million / (\$790) million                     |
| Discount rate                           | Post-tax discount rate between 7.5% to 7.9% | +/- 0.5%          | \$(502) million / \$599 million                     |
| Operational expenditure                 | \$158 million p.a.                          | +/- 10%           | (\$231) million / \$231 million                     |

**Aircraft**

| Description                                      | Valuer/Reviewer                     | Approach   | Timing   |
|--|-------------------------------------|--|--|
| Aircraft and spare engines and flight simulators | The Aircraft Value Analysis Company | An external valuation is obtained to ascertain indicative market values of each aircraft on a stand-alone basis. | Annual valuation with the latest completed as at 30 June 2017. |

**Rail network**

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

**Note 16: Property, Plant and Equipment (continued)**

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

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

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

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

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

Items of PPE are revalued to fair value for the highest and best use of the item on the basis of the market value of the item, or on the basis of market evidence, such as discounted cash flow calculations. If no market evidence of fair value exists, an optimised depreciated replacement cost approach is used as the best proxy for fair value.

Where an item of PPE is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of PPE by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of PPE is recorded at its optimised depreciated replacement cost, the cost does not include any borrowing costs.

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

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

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

| <b>Class of PPE</b>           | <b>Accounting policy</b>   |
|-------------------------------|--|
| Land and buildings            | <p>Land and buildings are recorded at fair value and, for buildings, less depreciation accumulated since the assets were last revalued.</p> <p>Land associated with the rail network and state highways is valued using an estimate based on adjacent use, as an approximation to fair value.</p> <p>Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where applicable.</p> <p>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.</p> <p>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.</p> |
| Specialist military equipment | <p>Specialist military equipment is recorded on an optimised depreciated replacement cost basis less depreciation accumulated since the assets were last revalued.</p> <p>Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by an independent valuer.</p>   |
| State highways                | <p>State highways are recorded on an optimised depreciated replacement cost basis less depreciation accumulated since the assets were last revalued.</p>   |

**Note 16: Property, Plant and Equipment (continued)**

| <b>Class of PPE</b>   | <b>Accounting policy</b>  |
|---|---|
| Rail network  | Rail infrastructure used for freight services (freight only and dual use lines required for freight operations) are recorded at fair value less depreciation accumulated since the assets were last revalued. Rail infrastructure not required for freight operations and used for metro services is recorded on an optimised depreciated replacement cost basis less depreciation accumulated since the assets were last revalued.   |
| Aircraft  | Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation accumulated since the assets were last revalued.   |
| Electricity distribution  | Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.  |
| Electricity generation  | Electricity generation assets are recorded at fair value less depreciation accumulated since the assets were last revalued.   |
| Specified cultural and heritage assets  | Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value less subsequent impairment losses. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation. For example, Crown research institutes own various collections, library resources and databases that are an integral part of the research work they undertake. These collections are highly specialised and there is no reliable basis for establishing a valuation. They have therefore not been valued for financial reporting purposes. |
| Other plant and equipment   | Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.  |
| Typically, the estimated useful lives of different classes of PPE are as follows: |   |
| <b>Class of PPE</b>   | <b>Estimated useful lives</b>   |
| Buildings   | 25 to 150 years   |
| Specialist military equipment (SME)   | 5 to 55 years   |
| State highways:   |   |
| Pavement (surfacing)  | 7 years   |
| Pavement (other)  | 50 years  |
| Bridges   | 70 to 105 years   |
| Rail Network:   |   |
| Track and ballast   | 40 to 50 years  |
| Tunnels and bridges   | 75 to 200 years   |
| Overhead traction and signalling  | 15 to 80 years  |
| Aircraft (excluding SME)  | 10 to 20 years  |
| Electricity distribution network  | 2 to 80 years   |
| Electricity generation assets   | 25 to 100 years   |
| Other plant and equipment   | 3 to 30 years   |

**Note 17: Equity Accounted Investments**

| 2016 Forecast         |                       |   | Actual                 |                        |
|-----------------------|-----------------------|---|------------------------|------------------------|
| Budget<br>2016<br>\$m | Budget<br>2017<br>\$m |   | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| 10,128                | 12,022                | Tertiary Education Institutions           | 11,972                 | 10,669                 |
| 1,306                 | 1,415                 | Kaingaroa Timberlands Partnership         | 1,593                  | 1,396                  |
| 1,017                 | 929                   | Other                                     | 645                    | 640                    |
| <b>12,451</b>         | <b>14,366</b>         | <b>Total equity accounted investments</b> | <b>14,210</b>          | <b>12,705</b>          |

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

The Treasury's view is that because the Government cannot determine their operating and financing policies, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates.

**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. While new control standards have been issued by the relevant accounting authorities, they are not applicable until the 2019/20 financial year. In the interim the TEIs have been included in the accounts as a 100% equity accounted investment.

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

| 2016 Forecast            |                       |                               | Actual                 |                        |
|--------------------------|-----------------------|-------------------------------|------------------------|------------------------|
| Budget<br>2016<br>\$m    | Budget<br>2017<br>\$m |                               | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>Operating Results</b> |                       |                               |                        |                        |
| 2,379                    | 2,380                 | Revenue from Crown            | 2,349                  | 2,308                  |
| 2,537                    | 2,761                 | Other revenue                 | 2,844                  | 2,683                  |
| (4,728)                  | (4,967)               | Expenses                      | (4,955)                | (4,857)                |
| <b>188</b>               | <b>174</b>            | <b>Net surplus</b>            | <b>238</b>             | <b>134</b>             |
| <b>Assets</b>            |                       |                               |                        |                        |
| 1,792                    | 2,324                 | Financial assets              | 1,833                  | 2,221                  |
| 9,644                    | 10,956                | Property, plant and equipment | 11,044                 | 9,673                  |
| 650                      | 1,146                 | Other assets                  | 1,324                  | 1,036                  |
| <b>12,086</b>            | <b>14,426</b>         | <b>Total assets</b>           | <b>14,201</b>          | <b>12,930</b>          |
| <b>Liabilities</b>       |                       |                               |                        |                        |
| 230                      | 501                   | Borrowings                    | 449                    | 426                    |
| 1,728                    | 1,903                 | Other liabilities             | 1,780                  | 1,835                  |
| <b>1,958</b>             | <b>2,404</b>          | <b>Total liabilities</b>      | <b>2,229</b>           | <b>2,261</b>           |
| <b>10,128</b>            | <b>12,022</b>         | <b>Net worth</b>              | <b>11,972</b>          | <b>10,669</b>          |

**Kaingaroa Timberlands Partnership**

The New Zealand Superannuation Funds has a 42% ownership interest (2016 42%) in Kaingaroa Timberlands Partnership (KTP). For the year ended 30 June 2017, KTP recognised revenue of \$457 million (2016: 357 million), profit of \$688 million (2016: 524 million), assets of \$4,055 million (2016 \$3,612 million), liabilities of \$30 million (2016: \$51 million) and equity of \$4,026 million (2016 \$3,561 million).

**Note 17: Equity Accounted Investments (continued)****New Zealand Local Government Funding Agency (NZLGFA)**

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

For the year ended 30 June 2017, NZLGFA recognised revenue of \$321 million (2016: \$278 million) and a surplus of \$11 million (2016: \$10 million). NZLGFA's assets and liabilities were \$8,478 million (2016: \$6,669 million) and \$8,424 million (2016: \$6,625 million) respectively. The Crown's share of the net assets is \$11 million (2016: \$9 million). The Crown is not a guarantor of the NZLGFA and has no share of any contingent liabilities of the NZLGFA.

**Note 18: Payables**

| 2017 Forecast      |               |   | Actual        |               |
|--------------------|---------------|---|---------------|---------------|
| Budget             | Budget        |   | 30 June       | 30 June       |
| 2016               | 2017          |   | 2017          | 2016          |
| \$m                | \$m           |   | \$m           | \$m           |
| <b>By type</b>     |               |   |               |               |
| 7,409              | 8,169         | Accounts payable                                  | 10,517        | 7,508         |
| 4,873              | 4,566         | Taxes repayable                                   | 4,277         | 4,521         |
| <b>12,282</b>      | <b>12,735</b> | <b>Total payables</b>                             | <b>14,794</b> | <b>12,029</b> |
| <b>By maturity</b> |               |   |               |               |
| 11,832             | 12,200        | Expected to be settled within one year            | 14,065        | 10,966        |
| 450                | 535           | Expected to be outstanding for more than one year | 729           | 1,063         |
| <b>12,282</b>      | <b>12,735</b> | <b>Total payables</b>                             | <b>14,794</b> | <b>12,029</b> |

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

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

**Note 19: Borrowings**

| 2017 Forecast       |                |   | Actual         |                |
|---------------------|----------------|---|----------------|----------------|
| Budget              | Budget         |   | 30 June        | 30 June        |
| 2016                | 2017           |   | 2017           | 2016           |
| \$m                 | \$m            |   | \$m            | \$m            |
| <b>By type</b>      |                |   |                |                |
| 71,308              | 64,533         | Government bonds                                  | 64,349         | 65,046         |
| 17,754              | 17,698         | KiwiBank customer deposits                        | 15,960         | 14,113         |
| 7,657               | 7,183          | Settlement deposits with Reserve Bank             | 6,471          | 6,878          |
| 3,531               | 3,335          | Derivatives in loss                               | 3,113          | 4,577          |
| 3,809               | 3,928          | Treasury bills                                    | 4,071          | 3,799          |
| 2,406               | 2,239          | Finance lease liabilities                         | 1,412          | 1,631          |
| 190                 | 205            | Government retail stock                           | 190            | 201            |
| 15,043              | 15,471         | Other borrowings                                  | 16,240         | 17,711         |
| <b>121,698</b>      | <b>114,592</b> | <b>Total borrowings</b>                           | <b>111,806</b> | <b>113,956</b> |
| <b>By maturity</b>  |                |   |                |                |
| 33,681              | 35,253         | Expected to be settled within one year            | 37,370         | 33,109         |
| 88,017              | 79,339         | Expected to be outstanding for more than one year | 74,436         | 80,847         |
| <b>121,698</b>      | <b>114,592</b> | <b>Total borrowings</b>                           | <b>111,806</b> | <b>113,956</b> |
| <b>By guarantee</b> |                |   |                |                |
| 90,594              | 83,535         | Sovereign-guaranteed debt                         | 81,395         | 84,043         |
| 31,104              | 31,057         | Non-sovereign debt                                | 30,411         | 29,913         |
| <b>121,698</b>      | <b>114,592</b> | <b>Total borrowings</b>                           | <b>111,806</b> | <b>113,956</b> |

**Note 19: Borrowings (continued)**

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

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

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

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

Other borrowings includes \$2,636 million (2016: \$3,820 million) of sovereign-guaranteed debt administered by the Reserve Bank and the Treasury.

**Government bonds**

|   | <b>Actual</b>                   |                                 |
|---|---------------------------------|---------------------------------|
|   | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| Government bonds measured at amortised cost | 64,349                          | 63,336                          |
| Government bonds measured at fair value     | -                               | 1,710                           |
| <b>Total Government bonds</b>               | <b>64,349</b>                   | <b>65,046</b>                   |

|  | <b>Actual</b>                   |                                 |
|--|---------------------------------|---------------------------------|
|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| <b>Government bonds measured at fair value</b> |                                 |                                 |
| Carrying value                                 | -                               | 1,710                           |
| Amount payable on maturity                     | -                               | 1,581                           |

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

The fair value of Government bonds measured at amortised cost is \$68,611 million (2016: \$70,414 million). This valuation is based on observable market prices. The valuation of Government bonds reported at fair value is also based on observable market prices.

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

**Note 19: Borrowings (continued)**

**Kiwibank customer deposits**

|  | Actual                 |                        |
|--|------------------------|------------------------|
|  | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| Kiwibank customer deposits at amortised cost | 15,960                 | 14,113                 |
| <b>Total Kiwibank customer deposits</b>      | <b>15,960</b>          | <b>14,113</b>          |

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

The fair value of Kiwibank customer deposits measured at amortised cost is \$15,970 million (2016: \$14,127 million). For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

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

**Settlement deposits with Reserve Bank**

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

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

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

**Treasury bills**

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



**Note 19: Borrowings (continued)****Other borrowings**

|   | <b>Actual</b>                   |                                 |
|---|---------------------------------|---------------------------------|
|   | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| Other borrowings measured at amortised cost | 11,777                          | 11,706                          |
| Other borrowings measured at fair value     | 4,463                           | 6,005                           |
| <b>Total other borrowings</b>               | <b>16,240</b>                   | <b>17,711</b>                   |

|  | <b>Actual</b>                   |                                 |
|--|---------------------------------|---------------------------------|
|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| <b>Other borrowings measured at fair value</b>             |                                 |                                 |
| Carrying value   | 4,463                           | 6,005                           |
| Amount payable on maturity                                 | 4,350                           | 5,819                           |
| Fair value impact from changes in credit risk for the year | (73)                            | 35                              |
| Cumulative fair value impact from changes in credit risk   | 115                             | 188                             |

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, their performance is evaluated on a fair value basis.

The fair value of other borrowings measured at amortised cost is \$11,556 million (2016: \$11,695 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets was determined by reference to quoted market prices. Where such prices are not available, use is made of estimated discounted cash flow models with reference to market interest rates.

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

The table above identifies the difference between the carrying 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 from the amount actually payable on maturity where the effect of discounting cash flows is material.

**Note 20: Retirement Plan**

| <b>2017 Forecast</b> |               |  | <b>Actual</b>  |                |
|----------------------|---------------|--|----------------|----------------|
| <b>Budget</b>        | <b>Budget</b> |  | <b>30 June</b> | <b>30 June</b> |
| <b>2016</b>          | <b>2017</b>   |  | <b>2017</b>    | <b>2016</b>    |
| <b>\$m</b>           | <b>\$m</b>    |  | <b>\$m</b>     | <b>\$m</b>     |
| 10,792               | 10,464        | Government Superannuation Fund (GSF)     | 11,004         | 12,441         |
| (10)                 | 1             | Other funds                              | 2              | 1              |
| <b>10,782</b>        | <b>10,465</b> | <b>Total retirement plan liabilities</b> | <b>11,006</b>  | <b>12,442</b>  |

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

The GSF obligation has been calculated by GSF's actuary as at 30 June 2017. 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:

|   | <b>Actual</b>  |                |
|---|----------------|----------------|
|   | <b>30 June</b> | <b>30 June</b> |
|   | <b>2017</b>    | <b>2016</b>    |
|   | <b>\$m</b>     | <b>\$m</b>     |
| <b>Net GSF Obligation</b>                                   |                |                |
| Present value of defined benefit obligation                 | 15,272         | 16,406         |
| Fair value of plan assets                                   | (4,268)        | (3,965)        |
| <b>Present value of unfunded defined benefit obligation</b> | <b>11,004</b>  | <b>12,441</b>  |
| <b>Present value of defined benefit obligation</b>          |                |                |
| Opening defined benefit obligation                          | 16,406         | 14,932         |
| Expected current service cost                               | 75             | 73             |
| Expected unwind of discount rate                            | 340            | 426            |
| Actuarial losses/(gains)                                    | (675)          | 1,846          |
| Benefits paid   | (874)          | (871)          |
| <b>Closing defined benefit obligation</b>                   | <b>15,272</b>  | <b>16,406</b>  |
| <b>Fair value of plan assets</b>                            |                |                |
| Opening fair value of plan assets                           | 3,965          | 4,087          |
| Expected return on plan assets                              | 194            | 220            |
| Actuarial gains/(losses)                                    | 289            | (182)          |
| Funding of benefits paid by Government                      | 690            | 703            |
| Contributions from other entities                           | 18             | 18             |
| Contributions from members                                  | 27             | 33             |
| Benefits paid   | (874)          | (871)          |
| Other   | (41)           | (43)           |
| <b>Closing fair value of plan assets</b>                    | <b>4,268</b>   | <b>3,965</b>   |

**Note 20: Retirement Plan (continued)**

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

| 2017 Forecast         |                       |  | Actual                 |                        |
|-----------------------|-----------------------|--|------------------------|------------------------|
| Budget<br>2016<br>\$m | Budget<br>2017<br>\$m |  | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
|                       |                       | <b>Personnel Expenses</b>                              |                        |                        |
|                       |                       | Expected current service cost                          | 75                     | 73                     |
|                       |                       | Expected unwind of discount rate on GSF obligation     | 340                    | 426                    |
|                       |                       | Expected return on plan assets                         | (194)                  | (220)                  |
|                       |                       | Contributions from members and funding employers       | (45)                   | (51)                   |
|                       |                       | Other expenses   | 41                     | 43                     |
|                       |                       | Past service cost                                      | -                      | -                      |
| <b>212</b>            | <b>214</b>            | <b>Total included in personnel expenses</b>            | <b>217</b>             | <b>271</b>             |
|                       |                       | <b>Net (Gains)/Losses on Non-Financial Instruments</b> |                        |                        |
| -                     | (1,486)               | Actuarial (gain)/loss recognised in the year           | (964)                  | 2,028                  |
| <b>212</b>            | <b>(1,272)</b>        | <b>Total GSF expense</b>                               | <b>(747)</b>           | <b>2,299</b>           |

The Government expects to make a contribution of \$741 million to GSF in the year ending 30 June 2018. 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<br>2017<br>% | 30 June<br>2016<br>% |
| <b>Summary of assumptions</b>                 |                      |                      |
| <i>For following year</i>                     |                      |                      |
| Discount rate                                 | 2.0%                 | 2.1%                 |
| Expected return on plan assets                | 5.0%                 | 5.0%                 |
| Expected rate of salary increases             | 2.5%                 | 2.5%                 |
| Expected rate of inflation                    | 1.7%                 | 1.5%                 |
| <i>Beyond next year</i>                       |                      |                      |
| Discount rates between 2 and 21 years         | 2.4% to<br>4.6%      | 2.0% to<br>3.9%      |
| Discount rates between 22 and 29 years        | 4.6% to<br>4.7%      | 3.9% to<br>4.3%      |
| Discount rates between 30 and 38 years        | 4.7% to<br>4.8%      | 4.3% to<br>4.7%      |
| Discount rate from 39 years onwards           | 4.8%                 | 4.8%                 |
| Expected return on plan assets                | 5.0%                 | 5.0%                 |
| Expected rate of salary increases             | 2.5%                 | 2.5%                 |
| Expected rate of inflation from years 2 to 12 | 1.7%                 | 1.5%                 |

Assumed inflation increases of 1.7% each year to year 20, then gradually increases, reaching 2.0% in year 31.

The defined benefit obligation decreased in the year to 30 June 2017 by \$1,134 million, mainly due to an increase in the short and medium term discount rates over the year, which together have more than offset the impact of the increase in the Consumer Price Index assumptions over the same period.

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

**Note 20: Retirement Plan (continued)**

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

|                                  | <b>Actual</b>           |                         |
|----------------------------------|-------------------------|-------------------------|
|                                  | <b>30 June<br/>2017</b> | <b>30 June<br/>2016</b> |
|                                  | <b>\$m</b>              | <b>\$m</b>              |
| Equity instruments               | 2,638                   | 2,227                   |
| Other debt instruments           | 517                     | 544                     |
| Cash and short term investments  | 220                     | 348                     |
| Property                         | 6                       | 7                       |
| Other                            | 887                     | 839                     |
| <b>Fair value of plan assets</b> | <b>4,268</b>            | <b>3,965</b>            |

The expected rate of return on the plan assets of 5.0% (2016: 5.0%) has been calculated by taking the expected long-term returns from each asset class, reduced by tax (using the current rates of tax).

The actual return on plan assets for the year ended 30 June 2017 was 12.7%, or \$490 million (2016: 1.0% or \$38 million).

**Sensitivity Analysis**

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

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

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

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

|   |       | Impact on net GSF obligation |                        |
|---|-------|------------------------------|------------------------|
|   |       | Change                       | Actual                 |
|   |       | 30 June<br>2017<br>\$m       | 30 June<br>2016<br>\$m |
| <b>Sensitivity of assumptions</b>               |       |                              |                        |
| Discount rate (present value of the obligation) | + 1%  | (1,561)                      | (1,771)                |
|   | - 1%  | 1,886                        | 2,157                  |
| Share price (fair value of equity instruments)  | + 10% | (264)                        | (223)                  |
|   | - 10% | 264                          | 223                    |
| Expected rate of inflation                      | + 1%  | 1,738                        | 1,982                  |
|   | - 1%  | (1,476)                      | (1,668)                |

**Note 20: Retirement Plan (continued)****Historical Analysis**

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

|  | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m | Actual<br>30 June<br>2015<br>\$m | 30 June<br>2014<br>\$m | 30 June<br>2013<br>\$m |
|--|------------------------|------------------------|----------------------------------|------------------------|------------------------|
| Present value of defined benefit obligation                          | 15,272                 | 16,406                 | 14,932                           | 14,560                 | 15,290                 |
| Fair value of plan assets  | (4,268)                | (3,965)                | (4,087)                          | (3,674)                | (3,382)                |
| <b>Present value of unfunded defined benefit obligation</b>          | <b>11,004</b>          | <b>12,441</b>          | <b>10,845</b>                    | <b>10,886</b>          | <b>11,908</b>          |
| Experience adjustment - increase/(decrease) in plan assets           | 289                    | (182)                  | 325                              | 212                    | 331                    |
| Less experience adjustment - increase/(decrease) in plan liabilities | (90)                   | 184                    | 157                              | 68                     | (90)                   |
| Total experience adjustments - (losses)/gains                        | 379                    | (366)                  | 168                              | 144                    | 421                    |
| Changes in actuarial assumptions                                     | 585                    | (1,662)                | (490)                            | 433                    | 830                    |
| <b>Actuarial (losses)/gains recognised in the year</b>               | <b>964</b>             | <b>(2,028)</b>         | <b>(322)</b>                     | <b>577</b>             | <b>1,251</b>           |

**Undiscounted defined benefit obligation**

The reported GSF defined benefit obligation of \$15,272 million (2016: \$16,406 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 2017. These estimated cash flows include the effects of assumed future inflation.

|  | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
|--|------------------------|------------------------|
| No later than 1 year                           | 918                    | 916                    |
| Later than 1 year and no later than 2 years    | 911                    | 902                    |
| Later than 2 years and no later than 5 years   | 2,753                  | 2,723                  |
| Later than 5 years and no later than 10 years  | 4,525                  | 4,477                  |
| Later than 10 years and no later than 15 years | 4,218                  | 4,174                  |
| Later than 15 years and no later than 20 years | 3,671                  | 3,647                  |
| Later than 20 years and no later than 25 years | 2,942                  | 2,943                  |
| Later than 25 years and no later than 30 years | 2,181                  | 2,197                  |
| Later than 30 years and no later than 35 years | 1,481                  | 1,503                  |
| Later than 35 years and no later than 40 years | 903                    | 931                    |
| Later than 40 years and no later than 45 years | 485                    | 512                    |
| Later than 45 years and no later than 50 years | 221                    | 241                    |
| Later than 50 years                            | 104                    | 122                    |
| <b>Undiscounted defined benefit obligation</b> | <b>25,313</b>          | <b>25,288</b>          |

**Note 21: Provisions**

| 2017 Forecast       |              |   | Actual       |              |
|---------------------|--------------|---|--------------|--------------|
| Budget              | Budget       |   | 30 June      | 30 June      |
| 2016                | 2017         |   | 2017         | 2016         |
| \$m                 | \$m          |   | \$m          | \$m          |
| <b>By type</b>      |              |   |              |              |
| 3,492               | 3,505        | Provision for employee entitlements               | 3,582        | 3,604        |
| 1,169               | 2,082        | Provision for ETS credits                         | 2,028        | 2,250        |
| 797                 | 873          | Provision for National Provident Fund guarantee   | 856          | 918          |
| -                   | -            | Aircraft Lease Return Costs                       | 266          | 295          |
| 1,461               | 1,916        | Other provisions                                  | 1,809        | 1,645        |
| <b>6,919</b>        | <b>8,376</b> | <b>Total provisions</b>                           | <b>8,541</b> | <b>8,712</b> |
| <b>By longevity</b> |              |   |              |              |
| 3,547               | 3,794        | Expected to be settled within one year            | 3,932        | 3,785        |
| 3,372               | 4,582        | Expected to be outstanding for more than one year | 4,609        | 4,927        |
| <b>6,919</b>        | <b>8,376</b> | <b>Total provisions</b>                           | <b>8,541</b> | <b>8,712</b> |

**For the year ended 30 June 2017**

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

**For the year ended 30 June 2016**

|                                | Employee entitlements | ETS          | NPF guarantee | Aircraft lease return costs |
|--------------------------------|-----------------------|--------------|---------------|-----------------------------|
|                                | \$m                   | \$m          | \$m           | \$m                         |
| Opening Provision              | 3,533                 | 855          | 893           | 253                         |
| Additional Provision           | 1,735                 | 163          | -             | 84                          |
| Provision Utilised             | (1,492)               | (271)        | (67)          | (34)                        |
| Reversal of previous provision | (172)                 | -            | (27)          | -                           |
| (Gains) / Losses on NZ Units   | -                     | 1,503        | -             | -                           |
| Other Movements                | -                     | -            | 119           | (8)                         |
| <b>Closing Provision</b>       | <b>3,604</b>          | <b>2,250</b> | <b>918</b>    | <b>295</b>                  |

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.

**Employee entitlements**

The provision for employee entitlements represents annual leave, accrued long service leave, retiring leave, and sick leave entitlements accrued by employees. Probability assumptions about continued future service affecting entitlements accrued as at reporting date have been made using previous employment data. For entitlements that vest over a period exceeding one year discount rates applied rise from 1.97% (2016: 2.12%) next year to 4.75% (2016: 4.75%) in later years.

**Note 21: Provisions (continued)****Emissions Trading Scheme**

The Emissions Trading Scheme (ETS) was established to encourage a reduction in New Zealand's greenhouse gas emissions. The carbon price used to calculate the ETS provision at 30 June 2017 is \$NZ17.20 (2016: \$NZ17.75). The ETS provision represents the tradeable NZ units outstanding, that will be accepted by the government as emitters honour the emissions obligations under the ETS. The carbon price used by the Ministry for the Environment is determined by the quoted NZU spot price at the end of the reporting date as published by OM Financial Limited on their website: <https://www.comtrade.co.nz>

**National Provident Fund guarantee**

The Government has guaranteed superannuation schemes managed by the National Provident Fund (NPF). Included in the provision is the NPF's DBP Annuitants Scheme unfunded liability position of \$856 million (2016: \$918 million), represented by a gross estimated pension obligation of \$892 million (2016: \$955 million) with net investment assets valued at \$36 million (2016: \$37 million).

**Aircraft lease return costs**

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

**Other provisions**

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

**Note 22: Minority Interests**

| 2017 Forecast |              |   | Actual       |              |
|---------------|--------------|---|--------------|--------------|
| Budget        | Budget       |   | 30 June      | 30 June      |
| 2016          | 2017         |   | 2017         | 2016         |
| \$m           | \$m          |   | \$m          | \$m          |
|               |              | <b>Net Worth Attributable to Minority Interests</b>         |              |              |
| 5,755         | 6,155        | Opening minority interest                                   | 6,155        | 5,782        |
| 521           | 455          | Operating balance attributable to minority interests        | 319          | 436          |
| (500)         | (750)        | Transactions with minority interests                        | (756)        | (404)        |
| -             | -            | Movement in reserves attributable to minority interests     | 227          | 367          |
| 8             | 19           | Other movements   | (5)          | (26)         |
| <b>5,784</b>  | <b>5,879</b> | <b>Closing minority interest</b>                            | <b>5,940</b> | <b>6,155</b> |
|               |              | <b>Consisting of interests in:</b>                          |              |              |
|               |              | Mercury NZ  | 2,326        | 1,513        |
|               |              | Meridian Energy   | 920          | 2,301        |
|               |              | Genesis Energy  | 1,503        | 927          |
|               |              | Air New Zealand   | 1,128        | 1,224        |
|               |              | Other   | 63           | 190          |
|               |              | <b>Closing minority interest</b>                            | <b>5,940</b> | <b>6,155</b> |
|               |              | <b>Minority share of Operating Balance</b>                  |              |              |
|               |              | Mercury NZ  | 90           | 73           |
|               |              | Meridian Energy   | 40           | 84           |
|               |              | Genesis Energy  | 83           | 41           |
|               |              | Air New Zealand   | 116          | 252          |
|               |              | Other   | (10)         | (14)         |
|               |              | <b>Operating balance attributable to minority interests</b> | <b>319</b>   | <b>436</b>   |

Transactions with minority interests include dividend payments and dividend reinvestments. Other minority interests consists of interests in Crown Fibre Holdings Limited (investments in local fibre companies) and the KiwiBank Group capital notes issued.

## Note 23: Capital Objectives and Fiscal Policy

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

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

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 held by the New Zealand Superannuation Fund.

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

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

### Long Term Fiscal Objectives - Fiscal Strategy Report 2017<sup>4</sup>

#### **Debt**

Manage total debt at prudent levels. Reduce net debt to within a range of 10% to 15% of GDP.

#### **Operating balance**

Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the NZS Fund, and ensure consistency with the debt 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 below 30% of GDP.

#### **Operating revenues**

Ensure sufficient operating revenue to meet the operating balance objective.

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<sup>4</sup> The long-term fiscal objectives are stated in the Fiscal Strategy Report 2017.



**Note 23: Capital Objectives and Fiscal Policy (continued)****Net worth**

Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Consistent with the debt and operating balance objectives, the Government will start building up net worth ahead of the full fiscal impact of the demographic change expected in the mid-2020s.

| <b>Short Term Fiscal Intentions</b>  |  |  |
|--|--|--|
| <b>Fiscal Strategy Report 2016</b>   | <b>Fiscal Strategy Report 2017</b>   | <b>Fiscal Position 2017<sup>5</sup></b>  |
| <p><b>Debt</b></p> <p>The Government's intention is to reduce net debt to around 20% of GDP in 2020.</p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 30.4% of GDP in 2019/20.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 23.1% in 2018/19, 20.8% of GDP in 2019/20 and projected to be 19.3% of GDP in 2020/21.</p>   | <p><b>Debt</b></p> <p>The Government's Intention is to reduce net debt to around 20% of GDP in 2020 and to between 10% and 15% of GDP by 2025. Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 26.3% of GDP in 2020/21.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 20.6% of GDP in 2019/20 and 19.3% in 2020/21. It is projected to be 13.3% in 2024/25 and 11.8% in 2025/26.</p>  | <p><b>Debt</b></p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2017 was 34.5% of GDP (2016: 36.8%).</p> <p>Net core Crown debt (excluding NZS Fund and advances) at 30 June 2017 was 22.2% of GDP (2016: 24.4%).</p> |
| <p><b>Operating balance</b></p> <p>The Government's intention is to maintain rising operating balance (before gains and losses) surpluses so that net core Crown debt begins to reduce in dollar terms (subject to any significant shocks to the economy).</p> <p>The operating balance (before gains and losses) is forecast to be 0.3% of GDP in 2015/16, 0.3% of GDP in 2016/17 and 2.2% of GDP in 2019/20. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 3.2% of GDP in 2019/20.</p> | <p><b>Operating balance</b></p> <p>The Government's intention is to maintain rising operating surpluses (before gains and losses) so that net core Crown debt begins to reduce in dollar terms (subject to any significant shocks to the economy).</p> <p>The operating balance (before gains and losses) is forecast to be 0.6% of GDP in 2016/17, rising to 1.0% of GDP in 2017/18 and 2.2% of GDP in 2020/21. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 3.3% of GDP in 2020/21.</p> | <p><b>Operating balance</b></p> <p>The operating balance (before gains and losses) for the year ended 30 June 2017 was a surplus of 1.5% of GDP (2016: 0.7%).</p> <p>The operating surplus for the year ended 30 June 2017 was 4.6% of GDP (2016: - 2.1%).</p>                     |

<sup>5</sup> GDP for the year ended 30 June 2017 was \$268,101 million (2016: \$253,211 million revised).

**Note 23: Capital Objectives and Fiscal Policy (continued)**

| Fiscal Strategy Report 2016   | Fiscal Strategy Report 2017  | Fiscal Position 2017  |
|---|--|---|
| <p><b>Expenses</b></p> <p>The Government's intention is to support fiscal surpluses by restraining the growth in core Crown expenses and managing these to below 30% of GDP.</p> <p>Core Crown expenses are forecast to fall from 29.7% of GDP in 2015/16 to 28.3% of GDP in 2019/20.</p> <p>Total Crown expenses are forecast to be 36.4% of GDP in 2019/20.</p> <p>This assumes a new operating allowance of \$1.5 billion in Budget 2017 and for the remainder of the forecast period, growing at 2% thereafter.</p> | <p><b>Expenses</b></p> <p>The Government's intention is to support fiscal surpluses by restraining the growth in core Crown expenses and reducing these to below 30% of GDP.</p> <p>Core Crown expenses are forecast to fall from 28.8% of GDP in 2016/17 to 27.5% of GDP in 2020/21.</p> <p>Total Crown expenses are forecast to be 35.2% of GDP in 2020/21.</p> <p>This assumes new operating allowances of \$1.7 billion per year in Budget 2018, growing at 2% per Budget until Budget 2020.</p> | <p><b>Expenses</b></p> <p>Core Crown expenses for the year ended 30 June 2017 were 28.5% GDP (2016: 29.2%).</p> <p>Total Crown expenses for the year ended 30 June 2017 were 37.2% of GDP (2016: 37.9%).</p>  |
| <p><b>Revenues</b></p> <p>The Government's intention is to support fiscal surpluses by growing revenue in dollar terms, although maintaining it at broadly the same proportion of GDP.</p> <p>Total Crown revenues are forecast to be 38.8% of GDP in 2019/20.</p> <p>Core Crown revenues are forecast to be 30.6% of GDP in 2019/20.</p> <p>Core Crown tax revenues are forecast to be 28.2% of GDP in 2019/20.</p>  | <p><b>Revenues</b></p> <p>The Government's intention is to support fiscal surpluses by growing revenue in dollar terms, although maintaining it at broadly the same proportion of GDP.</p> <p>Total Crown revenues are forecast to be 37.6% of GDP in 2020/21.</p> <p>Core Crown revenues are forecast to be 29.8% of GDP in 2020/21.</p> <p>Core Crown tax revenues are forecast to be 27.7% of GDP in 2020/21.</p>   | <p><b>Revenues</b></p> <p>Total Crown revenues for the year ended 30 June 2017 were 38.9% of GDP (2016: 38.8%).</p> <p>Core Crown revenues for the year ended 30 June 2017 were 30.5% of GDP (2016: 30.1%).</p> <p>Core Crown tax revenues for the year ended 30 June 2017 were 28.2% of GDP (2016: 27.8%).</p> |
| <p><b>Net worth</b></p> <p>The Government's intention is to strengthen the Crown's financial position as a buffer against future adverse shocks.</p> <p>Total net worth attributable to the Crown is forecast to be 36.4% of GDP in 2019/20.</p> <p>Total Crown net worth is forecast to be 38.4% of GDP in 2019/20.</p>  | <p><b>Net worth</b></p> <p>The Government's intention is to strengthen the Crown's balance sheet as a buffer against future adverse shocks.</p> <p>Total net worth attributable to the Crown is forecast to be 40.9% of GDP in 2020/21.</p> <p>Total Crown net worth is forecast to be 42.7% of GDP in 2020/21.</p>  | <p><b>Net worth</b></p> <p>Total net worth attributable to the Crown as at 30 June 2017 was 41.2% of GDP (2016: 35.3%).</p> <p>Total Crown net worth as at 30 June 2017 was 43.4% of GDP (2016: 37.7%).</p>   |

**Note 24: Commitments**

|  | <b>Actual</b>                   |                                 |
|--|---------------------------------|---------------------------------|
|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
| <b>Capital Commitments</b>               |                                 |                                 |
| State highways                           | 6,130                           | 5,398                           |
| Aircraft (excluding military)            | 1,637                           | 2,210                           |
| Specialist military equipment            | 366                             | 235                             |
| Land and buildings                       | 2,735                           | 2,200                           |
| Other property, plant and equipment      | 471                             | 368                             |
| Other capital commitments                | 227                             | 246                             |
| Tertiary Education Institutions          | 673                             | 533                             |
| <b>Total capital commitments</b>         | <b>12,239</b>                   | <b>11,190</b>                   |
| <b>Operating Lease Commitments</b>       |                                 |                                 |
| Non-cancellable accommodation leases     | 3,398                           | 3,197                           |
| Other non-cancellable leases             | 2,468                           | 2,411                           |
| Tertiary Education Institutions          | 499                             | 730                             |
| <b>Total operating lease commitments</b> | <b>6,365</b>                    | <b>6,338</b>                    |
| <b>Total commitments</b>                 | <b>18,604</b>                   | <b>17,528</b>                   |
| <b>By source</b>                         |                                 |                                 |
| Core Crown                               | 5,945                           | 5,102                           |
| Crown entities                           | 9,032                           | 8,392                           |
| State-owned Enterprises                  | 4,492                           | 4,826                           |
| Inter-segment eliminations               | (865)                           | (792)                           |
| <b>Total commitments</b>                 | <b>18,604</b>                   | <b>17,528</b>                   |
| <b>By Term</b>                           |                                 |                                 |
| <b>Capital Commitments</b>               |                                 |                                 |
| One year or less                         | 5,162                           | 4,973                           |
| From one year to two years               | 2,431                           | 2,334                           |
| From two to five years                   | 2,027                           | 2,416                           |
| Over five years                          | 2,619                           | 1,467                           |
| <b>Total capital commitments</b>         | <b>12,239</b>                   | <b>11,190</b>                   |
| <b>Operating Lease Commitments</b>       |                                 |                                 |
| One year or less                         | 1,053                           | 1,096                           |
| From one year to two years               | 942                             | 884                             |
| From two to five years                   | 1,749                           | 1,765                           |
| Over five years                          | 2,621                           | 2,593                           |
| <b>Total operating lease commitments</b> | <b>6,365</b>                    | <b>6,338</b>                    |
| <b>Total commitments</b>                 | <b>18,604</b>                   | <b>17,528</b>                   |

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

Commitments are classified as:

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

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

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

## Note 25: Contingent Liabilities and Contingent Assets

Contingent liabilities are:

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

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

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

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

Contingent liabilities and contingent assets involving amounts of over \$20 million are separately disclosed. Any quantifiable contingencies less than \$20 million are included in the “other quantifiable” total. Some contingencies of the Crown are not able to be quantified; these unquantifiable contingent liabilities and contingent assets are disclosed as at 30 June 2017 where they are expected to be material but not remote. Where there is an obligation under New Zealand GAAP, amounts have been recognised in the financial statements.

### Contingent Liabilities

|  |      | Actual                 |                        |
|--|------|------------------------|------------------------|
|  | Note | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>Quantifiable Contingent Liabilities</b>       |      |                        |                        |
| Uncalled capital                                 | a    | 7,638                  | 7,910                  |
| Guarantees and indemnities                       | b    | 690                    | 288                    |
| Legal proceedings and disputes                   | c    | 333                    | 221                    |
| Other contingent liabilities                     | d    | 327                    | 314                    |
| <b>Total quantifiable contingent liabilities</b> |      | <b>8,988</b>           | <b>8,733</b>           |
| <b><i>By source</i></b>                          |      |                        |                        |
| Core Crown                                       |      | 8,769                  | 8,593                  |
| Crown entities                                   |      | 16                     | 40                     |
| State-owned Enterprises                          |      | 203                    | 100                    |
| <b>Total quantifiable contingent liabilities</b> |      | <b>8,988</b>           | <b>8,733</b>           |

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

**Note 25: Contingent Liabilities and Contingent Assets (continued)****a) Uncalled Capital**

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

|   | Note | Actual       |              |
|---|------|--------------|--------------|
|   |      | 30 June 2017 | 30 June 2016 |
|   |      | \$m          | \$m          |
| Asian Development Bank                                | i    | 2,941        | 3,051        |
| International Monetary Fund - promissory notes        | ii   | 2,123        | 2,205        |
| International Bank for Reconstruction and Development | iii  | 1,512        | 1,558        |
| International Monetary Fund - arrangements to borrow  | iv   | 540          | 559          |
| Asian Infrastructure Investment Bank                  | v    | 504          | 519          |
| Other uncalled capital                                |      | 18           | 18           |
| <b>Total uncalled capital</b>                         |      | <b>7,638</b> | <b>7,910</b> |

**i) Asian Development Bank (ADB)**

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

**ii) IMF Promissory Notes**

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

**iii) International Bank for Reconstruction and Development (IBRD)**

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

**iv) IMF arrangements to borrow**

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

**v) Asian Infrastructure Investment Bank (AIIB)**

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

**Southern Response Earthquake Services Ltd**

In addition to the uncalled capital detailed above, the Crown has agreed to provide an uncalled capital facility of \$230 million to Southern Response Earthquake Service Limited (SRES) to support the Christchurch earthquake recovery process.

The above capital support will increase core Crown net debt when called; however, as Southern Response is part of the Crown there would be no impact on the total Crown operating balance.

**Note 25: Contingent Liabilities and Contingent Assets (continued)****b) Guarantees and Indemnities**

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

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

|   | Note | Actual       |              |
|---|------|--------------|--------------|
|   |      | 30 June 2017 | 30 June 2016 |
|   |      | \$m          | \$m          |
| The Body Laid Bare Exhibition indemnity                 | i    | 459          | -            |
| New Zealand Export Credit Office guarantees             | ii   | 136          | 211          |
| Air New Zealand letters of credit and performance bonds | iii  | 32           | 33           |
| Other guarantees and indemnities                        |      | 63           | 44           |
| <b>Total guarantees and indemnities</b>                 |      | <b>690</b>   | <b>288</b>   |

**i) The Body Laid Bare Exhibition indemnity**

From March to July 2017, the Auckland Art Gallery Toi o Tāmaki is hosting the exhibition The Body Laid Bare: Masterpieces from the Tate Gallery. The exhibition is indemnified under the Government Indemnity of Touring Exhibition Scheme from 7 February 2017 to 28 July 2017 to cover the period of transit and display of these valuable works of art.

**ii) New Zealand Export Credit Office guarantees**

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

**iii) Air New Zealand letters of credit and performance bonds**

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

**c) Legal proceedings and disputes**

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

|   | Note | Actual       |              |
|---|------|--------------|--------------|
|   |      | 30 June 2017 | 30 June 2016 |
|   |      | \$m          | \$m          |
| Legal proceedings                           | i    | 145          | 172          |
| Kiwifruit vine disease Psu-V                | ii   | 93           | -            |
| Customs legal dispute                       | iii  | 78           | 5            |
| Other legal proceedings and disputes        |      | 17           | 44           |
| <b>Total legal proceedings and disputes</b> |      | <b>333</b>   | <b>221</b>   |

**i) Legal proceedings**

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

**Note 25: Contingent Liabilities and Contingent Assets (continued)****ii) Kiwifruit vine disease Psa-V**

A post-harvest operator, Seeka Kiwifruit Limited (the second plaintiff) filed a claim against the Ministry alleging it is legally liable for damages they have suffered from a biosecurity incursion of the kiwifruit vine disease, Psa-V, in New Zealand. In September 2016, Seeka filed a notice of particulars of loss which quantified its loss as \$92.7 million. The Ministry is defending the claim.

**iii) Customs legal dispute**

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

**d) Other quantifiable contingent liabilities**

|   | Note | Actual       |              |
|---|------|--------------|--------------|
|   |      | 30 June 2017 | 30 June 2016 |
|   |      | \$m          | \$m          |
| Unclaimed monies                          | i    | 147          | 133          |
| Air New Zealand partnership               | ii   | 121          | 68           |
| Other contingent liabilities              |      | 59           | 114          |
| <b>Total other contingent liabilities</b> |      | <b>327</b>   | <b>315</b>   |

**i) Unclaimed monies**

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

**ii) Air New Zealand partnership**

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

**Unquantifiable Contingent Liabilities**

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

**Indemnities**

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

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

| Party indemnified      | Instrument of indemnification  | Actions indemnified   |
|------------------------|--|---|
| Air New Zealand        | Deed of indemnity issued 24 September 2001.  | Claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US\$1 billion in respect of any one claim.  |
| Contact Energy Limited | The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei. | The documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party. |



**Note 25: Contingent Liabilities and Contingent Assets (continued)**

| <b>Party indemnified</b>   | <b>Instrument of indemnification</b>   | <b>Actions indemnified</b>   |
|--|--|--|
| Earthquake Commission (EQC)  | Section 16 of the Earthquake Commission Act 1993   | As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines.<br><br>Net Core Crown's debt will increase as a result of funding the EQC liabilities.  |
| Genesis Energy Limited   | Deed between Genesis Power Limited and the Genesis acquisition of Crown Tekapo A & B power stations  | The agreement sees the Crown compensate Genesis in the event that Genesis has less gas than it requires for the long-term supply of gas to cover Huntly power station's minimum needs.<br><br>Indemnity against any damage to the bed of lakes and rivers subject to operating easements.  |
| Housing New Zealand Limited (HNZL)   | The Crown has provided a warranty in respect of title to the assets transferred to HNZL  | The Crown indemnified HNZL against: <ul style="list-style-type: none"> <li>• any breach of the warranty provided, and</li> <li>• any third party claims that are a result of acts or omissions prior to 1 November 1992.</li> </ul> The Crown 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. |
| New Zealand Railways Corporation   | The Minister of Finance signed the indemnity on 1 September 2004   | The directors of New Zealand 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.   |
|  | Section 10 of the Finance Act 1990   | Guarantees all loan and swap obligations of the New Zealand Railways Corporation.  |
| Justices of the Peace, Community Magistrates and Disputes Tribunal Referee | Section 11CE of the District Courts Act 1947 and Section 4F of the Justices of the Peace Act 1957<br><br>Section 58 of the Disputes Tribunal Act 1988        | Damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.  |
| Maui Partners  | Confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information   | Any losses arising from a breach of the deed.  |
| New Zealand Aluminium Smelter and Comalco                                  | The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill | Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.   |
| New Zealand Local Authorities  | Section 39 of the Civil Defence Emergency Management Act 2002 Civil Defence Emergency Management Plan  | The Guide to the National Civil Defence Emergency Management Plan ("the Guide") states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.  |



**Note 25: Contingent Liabilities and Contingent Assets (continued)**

| <b>Party indemnified</b>                | <b>Instrument of indemnification</b>  | <b>Actions indemnified</b>  |
|---|---|---|
| Persons exercising investigating powers | Section 63 of the Corporations (Investigation and Management) Act 1989                                | Indemnifies the Financial Markets Authority (formerly Securities Commission), the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.   |
| Synfuels-Waitara Outfall Indemnity      | 1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI) | The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line, which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.  |
| Westpac New Zealand Limited             | The Domestic Transaction Banking Services Master  | <p>The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited dated 24 September 2015. The Crown has indemnified Westpac New Zealand Limited:</p> <ul style="list-style-type: none"> <li>• for all amounts paid by Westpac New Zealand under letters of credit issued on behalf of the Crown, and</li> <li>• against certain cost, damages and losses to third parties resulting from: <ul style="list-style-type: none"> <li>- unauthorised, forged or fraudulent payment instructions</li> <li>- unauthorised or incorrect direct debit instructions, or</li> <li>- cheques mistakenly drawn in favour of a third party rather than drawn in favour of the Crown.</li> </ul> </li> </ul> |

**Legal claims and proceedings**

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

**i) Accident Compensation Corporation (ACC) litigations**

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

**ii) Ministry for Primary Industries – Biosecurity Act compensation**

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

**iii) Treaty of Waitangi claims**

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

**Note 25: Contingent Liabilities and Contingent Assets (continued)**

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

**iv) Kiwifruit vine disease Psa-V**

Approximately 210 growers, represented by the first plaintiff, Strathboss Kiwifruit Limited, filed a claim against the Ministry for Primary Industries alleging it is legally liable for damages they have suffered from a biosecurity incursion of the kiwifruit vine disease, Psa-V, in New Zealand. The total losses have not been quantified. As Strathboss Kiwifruit Limited is required to prove the Ministry owes a duty of care to the growers before losses will be assessed, the Ministry is unable to quantify the first plaintiff's claim. The Ministry is defending the claim.

**Other contingent liabilities****i) Criminal Proceeds (Recovery) Act**

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

**ii) Environmental liabilities**

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

In accordance with PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions.

**iii) Treaty of Waitangi claims – settlement relativity payments**

The Deeds of Settlement negotiated with Waikato-Tainui, and Ngāi 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 Waikato-Tainui's, and Ngāi Tahu's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17 percent for Waikato-Tainui and approximately 16 percent for Ngāi Tahu.

The relativity mechanism has now been triggered, and in future years, additional costs are likely to 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. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

**iv) Holidays Act and other relevant legislation**

A number of entities have commenced a review of payroll calculations over the past six years in order to ensure compliance with the Holidays Act 2003 and other relevant legislation. Where possible, provision has been made in these financial statements for obligations arising from that review. To the extent that an obligation cannot reasonably be quantified at 30 June 2017, a contingent liability exists.

**Note 25: Contingent Liabilities and Contingent Assets (continued)****Contingent Assets**

|   |      | Actual                 |                        |
|---|------|------------------------|------------------------|
|   | Note | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>Contingent assets</b>                    |      |                        |                        |
| Tax disputes                                | i    | 48                     | 22                     |
| Transpower                                  | ii   | 40                     | 21                     |
| Other contingent assets                     |      | 14                     | 30                     |
| <b>Total contingent assets</b>              |      | <b>102</b>             | <b>73</b>              |
| <b><i>By source</i></b>                     |      |                        |                        |
| Core Crown                                  |      | 58                     | 51                     |
| Crown entities                              |      | 4                      | 1                      |
| State-owned Enterprises                     |      | 40                     | 21                     |
| <b>Total quantifiable contingent assets</b> |      | <b>102</b>             | <b>73</b>              |

**i) Tax disputes**

A contingent asset is recognised when the Inland Revenue has advised a taxpayer of a proposed adjustment to their tax assessment. The taxpayer has the right to dispute this adjustment and a disputes resolution process can be entered into. The contingent asset is based on the likely cash collectable from the disputes process based on experience and similar prior cases, net of losses carried forward. The increase in contingent assets relates to the movement in values between resolved cases and a new case added since December 2016.

**ii) Transpower New Zealand Limited**

Transpower operates its revenue setting methodology within an economic value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. Under Commerce Commission regulations, Transpower is required to pass onto or claim from customers over time the economic value of the gains or losses. Transpower's contingent asset includes the provisional balance from the EV accounts at 30 June 2017. These figures will not be finalised until October 2017.

**Unquantifiable Contingent Assets****Social Housing – Crown Residual Interest (CRI)**

The Crown has the contractual right to receive the return of the Crown Residual Interest (CRI) in relation to social housing properties released from capacity contracts with registered Community Housing Providers via a cash payment. This arrangement ensures that social housing stock is available to be used for social housing purposes.

## Note 26: Financial Instruments

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

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

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

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

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

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

- Non-derivative financial instrument policies (pages 103 to 104)
- Classification of financial assets and financial liabilities (pages 105 to 106)
- Fair value measurement (pages 106 to 107)
- Derivative disclosures (pages 108 to 109)
- Risk management (pages 110 to 113), and
- Sensitivity analysis (pages 113 to 114).

**Note 26: Financial Instruments (continued)****Non-derivative financial assets**

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

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

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

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

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

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

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

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

**Note 26: Financial Instruments (continued)**

| <b>Non-derivative financial liabilities</b>   |  |
|---|--|
| Financial liabilities are designated into the following categories: amortised cost, financial liabilities held-for-trading and financial liabilities designated as fair value through the operating balance. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.   |  |
| Major financial liability type  | Designation                              |
| Accounts payable  | All designated at amortised cost         |
| Government stock  | Generally designated at amortised cost   |
| Treasury bills  | Generally designated at amortised cost   |
| Government retail stock   | All designated at amortised cost         |
| Settlement deposits with Reserve Bank   | All designated at amortised cost         |
| Issued currency   | Not designated: Recognised at face value |
| <p>Financial liabilities held-for-trading and financial liabilities designated at fair value through the operating balance are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. A financial liability is designated at fair value through the operating balance if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either eliminates or significantly reduces an accounting mismatch with related assets or is part of a group of financial liabilities that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.</p> <p>Other financial liabilities are recognised initially at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.</p> <p>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.</p> |  |

**Note 26: Financial Instruments (continued)****Classification of financial assets and financial liabilities**

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

**Financial assets**

|   |      | Actual                 |                        |
|---|------|------------------------|------------------------|
|   | Note | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>By class</b>                             |      |                        |                        |
| Cash and cash equivalents                   |      | 18,732                 | 15,617                 |
| Reinsurance, trade and other receivables    | 12   | 4,905                  | 4,342                  |
| Long-term deposits                          | 13   | 4,730                  | 4,791                  |
| Derivatives in gain                         | 13   | 4,381                  | 5,888                  |
| Marketable securities                       | 13   | 39,558                 | 40,822                 |
| IMF financial assets                        | 13   | 1,837                  | 1,897                  |
| Share investments                           | 14   | 30,700                 | 24,217                 |
| Kiwibank loans                              | 15   | 17,795                 | 16,689                 |
| Student loans                               | 15   | 9,197                  | 8,982                  |
| Other advances                              | 15   | 1,591                  | 2,563                  |
| <b>Total financial assets</b>               |      | <b>133,426</b>         | <b>125,808</b>         |
| <b>By valuation methodology</b>             |      |                        |                        |
| Loans and receivables at amortised cost     |      | 58,135                 | 54,015                 |
| Fair value                                  |      |                        |                        |
| Available for sale                          |      | 1,223                  | 747                    |
| Held for trading                            |      | 4,446                  | 5,948                  |
| Fair value through the operating balance    |      | 69,622                 | 65,098                 |
| <b>Total financial assets at fair value</b> |      | <b>75,291</b>          | <b>71,793</b>          |
| <b>Total financial assets</b>               |      | <b>133,426</b>         | <b>125,808</b>         |

As at 30 June 2017, the carrying value of financial assets that had been pledged as collateral was \$888 million (2016: \$2,416 million). These transactions are conducted under terms that are usual and normal to standard securities borrowing. The amount will fluctuate depending on the market values of derivatives held that are in a loss position at 30 June 2017 and that require collateral to be posted as per the terms. The decrease in collateral pledged is largely as a result of securities pledged as collateral by the Reserve Bank and the New Zealand Superannuation Fund. For more information refer to the individual entity's annual report.

**Note 26: Financial Instruments (continued)****Financial liabilities**

|  |      | Actual                 |                        |
|--|------|------------------------|------------------------|
|  | Note | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>By class</b>                                  |      |                        |                        |
| Issued currency                                  |      | 5,980                  | 5,715                  |
| Accounts payable                                 | 18   | 10,517                 | 7,508                  |
| Borrowings:                                      | 19   |                        |                        |
| Government bonds                                 |      | 64,349                 | 65,046                 |
| Kiwibank customer deposits                       |      | 15,960                 | 14,113                 |
| Settlement deposits with Reserve Bank            |      | 6,471                  | 6,878                  |
| Derivatives in loss                              |      | 3,113                  | 4,577                  |
| Treasury bills                                   |      | 4,071                  | 3,799                  |
| Finance lease liabilities                        |      | 1,412                  | 1,631                  |
| Government retail stock                          |      | 190                    | 201                    |
| Other borrowings                                 |      | 16,240                 | 17,711                 |
| <b>Total borrowings</b>                          |      | <b>111,806</b>         | <b>113,956</b>         |
| <b>Total financial liabilities</b>               |      | <b>128,303</b>         | <b>127,179</b>         |
| <b>By valuation methodology</b>                  |      |                        |                        |
| Amortised cost (loans and receivables)           |      | 120,727                | 114,887                |
| Fair value                                       |      |                        |                        |
| Held for trading                                 |      | 3,113                  | 4,577                  |
| Fair value through the operating balance         |      | 4,463                  | 7,715                  |
| <b>Total financial liabilities at fair value</b> |      | <b>7,576</b>           | <b>12,292</b>          |
| <b>Total financial liabilities</b>               |      | <b>128,303</b>         | <b>127,179</b>         |

**Fair Value Measurement**

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

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



**Note 26: Financial Instruments (continued)****Financial instruments measured at fair value**

|  | <b>Actual</b>                             |   |
|--|---|---|
|  | <b>As at<br/>30 June<br/>2017<br/>\$m</b> | <b>As at<br/>30 June<br/>2016<br/>\$m</b> |
| <b>Financial assets</b>                          |   |   |
| Quoted market price                              | 43,039                                    | 30,447                                    |
| Observable market inputs                         | 28,948                                    | 37,882                                    |
| Significant non-observable inputs                | 3,304                                     | 3,464                                     |
| <b>Total financial assets at fair value</b>      | <b>75,291</b>                             | <b>71,793</b>                             |
| <b>Financial liabilities</b>                     |   |   |
| Quoted market price                              | 881                                       | 2,591                                     |
| Observable market inputs                         | 6,629                                     | 9,552                                     |
| Significant non-observable inputs                | 66  | 149                                       |
| <b>Total financial liabilities at fair value</b> | <b>7,576</b>                              | <b>12,292</b>                             |
| <b>Net financial instruments at fair value</b>   | <b>67,715</b>                             | <b>59,501</b>                             |

**Significant non-observable inputs**

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

|   | <b>Actual</b>                             |   |
|---|---|---|
|   | <b>As at<br/>30 June<br/>2017<br/>\$m</b> | <b>As at<br/>30 June<br/>2016<br/>\$m</b> |
| Financial assets  | 3,304                                     | 3,464                                     |
| Financial liabilities   | 66  | 149                                       |
| <b>Net financial instruments</b>  | <b>3,238</b>                              | <b>3,315</b>                              |
| <b>Opening balance</b>  | <b>3,315</b>                              | <b>3,659</b>                              |
| Total gains/(losses) recognised in the statement of financial performance             | 197                                       | (181)                                     |
| Total gains/(losses) recognised in the statement of comprehensive revenue and expense | 28  | (18)                                      |
| Purchases   | 433                                       | 438                                       |
| Sales   | (104)                                     | (158)                                     |
| Issues  | 1   | 1   |
| Settlements   | (671)                                     | (423)                                     |
| Transfers into and out of non-observable inputs                                       | 39  | (3)                                       |
| <b>Closing balance</b>  | <b>3,238</b>                              | <b>3,315</b>                              |

**Note 26: Financial Instruments (continued)****Derivatives**

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

|                          | Carrying Value<br>As at 30 June 2017 |                        |                       | Carrying Value<br>As at 30 June 2016 |                        |                       |
|--------------------------|--------------------------------------|------------------------|-----------------------|--------------------------------------|------------------------|-----------------------|
|                          | Derivatives<br>in gain               | Derivatives<br>in loss | Net carrying<br>value | Derivatives<br>in gain               | Derivatives<br>in loss | Net carrying<br>value |
|                          | \$m                                  | \$m                    | \$m                   | \$m                                  | \$m                    | \$m                   |
|                          |                                      |                        |                       |                                      |                        |                       |
| Foreign exchange         | 1,677                                | 475                    | 1,202                 | 1,943                                | 436                    | 1,507                 |
| Cross currency swaps     | 864                                  | 441                    | 423                   | 1,034                                | 752                    | 282                   |
| Interest rate swaps      | 1,175                                | 1,710                  | (535)                 | 1,993                                | 2,664                  | (671)                 |
| Futures                  | 9                                    | 4                      | 5                     | 28                                   | 10                     | 18                    |
| Other derivatives        | 656                                  | 483                    | 173                   | 890                                  | 715                    | 175                   |
| <b>Total derivatives</b> | <b>4,381</b>                         | <b>3,113</b>           | <b>1,268</b>          | <b>5,888</b>                         | <b>4,577</b>           | <b>1,311</b>          |

|                          | Notional Value<br>As at 30 June 2017 |                        |                         | Notional Value<br>As at 30 June 2016 |                        |                         |
|--------------------------|--------------------------------------|------------------------|-------------------------|--------------------------------------|------------------------|-------------------------|
|                          | Derivatives<br>in gain               | Derivatives<br>in loss | Total Notional<br>value | Derivatives<br>in gain               | Derivatives<br>in loss | Total Notional<br>value |
|                          | \$m                                  | \$m                    | \$m                     | \$m                                  | \$m                    | \$m                     |
|                          |                                      |                        |                         |                                      |                        |                         |
| Foreign exchange         | 64,964                               | 14,803                 | 79,767                  | 46,420                               | 15,564                 | 61,984                  |
| Cross currency swaps     | 11,122                               | 5,469                  | 16,591                  | 10,638                               | 8,642                  | 19,280                  |
| Interest rate swaps      | 42,183                               | 55,027                 | 97,210                  | 41,363                               | 51,547                 | 92,910                  |
| Futures                  | 2,037                                | 3,371                  | 5,408                   | 3,375                                | 4,207                  | 7,582                   |
| Other derivatives        | 20,400                               | 13,077                 | 33,477                  | 24,118                               | 15,652                 | 39,770                  |
| <b>Total derivatives</b> | <b>140,706</b>                       | <b>91,747</b>          | <b>232,453</b>          | <b>125,914</b>                       | <b>95,612</b>          | <b>221,526</b>          |

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

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

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

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

**Note 26: Financial Instruments (continued)**

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

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

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in the statement of financial performance together with any changes in the fair value of the hedged asset or liability. The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged.

**Derivatives liquidity analysis**

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

|                                 | <b>Total<br/>cash flows<br/>\$m</b> | <b>&lt;1 year<br/>\$m</b> | <b>1-2 years<br/>\$m</b> | <b>2-5 years<br/>\$m</b> | <b>5-10 years<br/>\$m</b> | <b>&gt; 10 years<br/>\$m</b> |
|---------------------------------|-------------------------------------|---------------------------|--------------------------|--------------------------|---------------------------|------------------------------|
| <b>As at 30 June 2017</b>       |                                     |                           |                          |                          |                           |                              |
| Derivatives settled gross       |                                     |                           |                          |                          |                           |                              |
| - inflow                        | 97,085                              | 83,274                    | 3,364                    | 4,495                    | 5,037                     | 915                          |
| - outflow                       | (95,054)                            | (81,944)                  | (3,305)                  | (4,081)                  | (4,764)                   | (960)                        |
| Total settled gross             | 2,031                               | 1,330                     | 59                       | 414                      | 273                       | (45)                         |
| Derivatives in loss settled net | 2,200                               | 892                       | 437                      | 600                      | 235                       | 36                           |
| <b>As at 30 June 2016</b>       |                                     |                           |                          |                          |                           |                              |
| Derivatives settled gross       |                                     |                           |                          |                          |                           |                              |
| - inflow                        | 78,370                              | 66,082                    | 2,124                    | 4,202                    | 4,420                     | 1,542                        |
| - outflow                       | (76,135)                            | (64,518)                  | (1,927)                  | (3,979)                  | (4,058)                   | (1,653)                      |
| Total settled gross             | 2,235                               | 1,564                     | 197                      | 223                      | 362                       | (111)                        |
| Derivatives in loss settled net | 3,636                               | 873                       | 644                      | 1,468                    | 603                       | 48                           |

**Interest rate risk**

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

**Note 26: Financial Instruments (continued)****Foreign currency risk**

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

|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
|--|---------------------------------|---------------------------------|
| <b>Financial Assets (excluding derivatives)</b>            |                                 |                                 |
| New Zealand Dollar   | 56,159                          | 55,635                          |
| United States Dollar                                       | 33,907                          | 31,015                          |
| Yen  | 8,157                           | 7,929                           |
| Euro   | 10,168                          | 7,078                           |
| Other  | 20,654                          | 18,263                          |
| <b>Total financial assets (excluding derivatives)</b>      | <b>129,045</b>                  | <b>119,920</b>                  |
| <b>Financial Liabilities (excluding derivatives)</b>       |                                 |                                 |
| New Zealand Dollar   | 112,773                         | 112,919                         |
| United States Dollar                                       | 8,057                           | 5,971                           |
| Yen  | 817                             | 600                             |
| Euro   | 980                             | 238                             |
| Other  | 2,563                           | 2,874                           |
| <b>Total financial liabilities (excluding derivatives)</b> | <b>125,190</b>                  | <b>122,602</b>                  |
| <b>Derivatives in gain/(loss)</b>                          |                                 |                                 |
| New Zealand Dollar   | 48,553                          | 43,745                          |
| United States Dollar                                       | (21,136)                        | (19,820)                        |
| Yen  | (7,652)                         | (7,798)                         |
| Euro   | (10,649)                        | (8,099)                         |
| Other  | (7,848)                         | (6,717)                         |
| <b>Total derivatives</b>                                   | <b>1,268</b>                    | <b>1,311</b>                    |
| <b>Net Financial Assets/(Liabilities)</b>                  |                                 |                                 |
| New Zealand Dollar   | (8,061)                         | (13,539)                        |
| United States Dollar                                       | 4,714                           | 5,224                           |
| Yen  | (312)                           | (469)                           |
| Euro   | (1,461)                         | (1,259)                         |
| Other  | 10,243                          | 8,672                           |
| <b>Net Financial Assets/(Liabilities)</b>                  | <b>5,123</b>                    | <b>(1,371)</b>                  |

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

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

**Note 26: Financial Instruments (continued)****Credit risk**

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

Of the financial assets held by the Government at 30 June 2017, the fair value of collateral held that could be sold or repurchased was \$17,194 million (2016: \$18,513 million). The majority of this relates to Kiwibank Limited, who can enforce their collateral in satisfying the debt in the event of the borrower failing to meet their contractual obligations.

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

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

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

| <b>As at 30 June 2017</b>                         | <b>Total<br/>\$m</b> | <b>AAA<br/>\$m</b> | <b>AA<br/>\$m</b> | <b>A<br/>\$m</b> | <b>Other<br/>\$m</b> | <b>Non-rated<br/>\$m</b> |
|---|----------------------|--------------------|-------------------|------------------|----------------------|--------------------------|
| Cash and cash equivalents                         | 18,732               | 3,975              | 7,315             | 7,244            | 57                   | 141                      |
| Trade and other receivables                       | 4,905                | -                  | 70                | 152              | -                    | 4,683                    |
| Long-term deposits                                | 4,730                | -                  | 3,733             | 847              | 124                  | 26                       |
| Derivatives in gain                               | 4,381                | -                  | 1,884             | 2,351            | 75                   | 71                       |
| Marketable securities                             | 39,558               | 13,261             | 13,341            | 4,593            | 3,137                | 5,226                    |
| IMF financial assets                              | 1,837                | -                  | -                 | -                | 1,837                | -                        |
| Share investments                                 | 30,700               | 556                | 2,896             | 7,263            | 7,035                | 12,950                   |
| Kiwibank loans                                    | 17,795               | -                  | -                 | -                | -                    | 17,795                   |
| Student loans                                     | 9,197                | -                  | -                 | -                | -                    | 9,197                    |
| Other advances                                    | 1,591                | -                  | 198               | 122              | 235                  | 1,036                    |
| <b>Total credit exposure by<br/>credit rating</b> | <b>133,426</b>       | <b>17,792</b>      | <b>29,437</b>     | <b>22,572</b>    | <b>12,500</b>        | <b>51,125</b>            |
| <b>As at 30 June 2016</b>                         | <b>Total<br/>\$m</b> | <b>AAA<br/>\$m</b> | <b>AA<br/>\$m</b> | <b>A<br/>\$m</b> | <b>Other<br/>\$m</b> | <b>Non-rated<br/>\$m</b> |
| Cash and cash equivalents                         | 15,617               | 1,574              | 9,312             | 4,640            | 78                   | 13                       |
| Trade and other receivables                       | 4,342                | -                  | 192               | 342              | -                    | 3,808                    |
| Long-term deposits                                | 4,791                | -                  | 3,932             | 859              | -                    | -                        |
| Derivatives in gain                               | 5,888                | 426                | 3,431             | 1,328            | 346                  | 357                      |
| Marketable securities                             | 40,822               | 14,278             | 13,264            | 4,413            | 2,754                | 6,113                    |
| IMF financial assets                              | 1,897                | -                  | -                 | -                | 1,897                | -                        |
| Share investments                                 | 24,217               | 374                | 2,281             | 5,503            | 5,850                | 10,209                   |
| Kiwibank loans                                    | 16,689               | -                  | -                 | -                | -                    | 16,689                   |
| Student loans                                     | 8,982                | -                  | -                 | -                | -                    | 8,982                    |
| Other advances                                    | 2,563                | -                  | 665               | 127              | 457                  | 1,314                    |
| <b>Total credit exposure by<br/>credit rating</b> | <b>125,808</b>       | <b>16,652</b>      | <b>33,077</b>     | <b>17,212</b>    | <b>11,382</b>        | <b>47,485</b>            |

**Note 26: Financial Instruments (continued)**

|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
|--|---------------------------------|---------------------------------|
| <b>Financial Assets</b>                                      |                                 |                                 |
| <b>Concentration of credit exposure by geographical area</b> |                                 |                                 |
| New Zealand  | 53,352                          | 55,582                          |
| USA  | 25,581                          | 22,292                          |
| Europe   | 20,486                          | 19,304                          |
| Japan  | 8,128                           | 7,151                           |
| Australia  | 10,505                          | 8,584                           |
| Other  | 15,374                          | 12,895                          |
| <b>Total financial assets</b>                                | <b>133,426</b>                  | <b>125,808</b>                  |
| <b>Concentration of credit exposure by industry</b>          |                                 |                                 |
| Individuals  | 27,181                          | 25,881                          |
| Sovereign issuers  | 25,758                          | 22,447                          |
| New Zealand banking  | 12,643                          | 12,326                          |
| Foreign banking  | 13,280                          | 14,671                          |
| Supranational  | 8,070                           | 7,045                           |
| Other  | 46,494                          | 43,438                          |
| <b>Total financial assets</b>                                | <b>133,426</b>                  | <b>125,808</b>                  |

At 30 June 2017, 15.1% (2016: 15.1%) of student loan borrowers were overseas. As the total advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk.

**Liquidity risk**

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

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

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

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

|  | <b>30 June<br/>2017<br/>\$m</b> | <b>30 June<br/>2016<br/>\$m</b> |
|--|---------------------------------|---------------------------------|
| <b>Financial Liabilities (excluding derivatives)</b> |                                 |                                 |
| Less than 1 year                                     | 55,942                          | 49,340                          |
| 1-2 years  | 17,488                          | 16,350                          |
| 2-5 years  | 29,914                          | 39,888                          |
| 5-10 years   | 28,059                          | 23,830                          |
| More than 10 years                                   | 14,868                          | 10,931                          |
| <b>Total contractual cash flows</b>                  | <b>146,271</b>                  | <b>140,339</b>                  |
| <b>Total carrying value</b>                          | <b>125,190</b>                  | <b>122,602</b>                  |

**Note 26: Financial Instruments (continued)**

The Government holds loan commitments of \$3,378 million (2016: \$2,902 million) which all have contractual cash flows of less than one year.

In addition to the above financial liabilities, the Crown has entered into various financial guarantees and indemnities totalling \$702 million (2016: \$288 million) which expose the Crown to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 25. For all these guarantees, the earliest period which the Crown would be required to pay if the guarantees are called upon is less than one year.

The Government has access to financing facilities, of which the total unused amount at 30 June 2017 was \$959 million (2016: \$976 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

**Sensitivity analysis**

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

|   | Impact on operating balance |         | Impact on net worth |         |
|---|-----------------------------|---------|---------------------|---------|
|   | 2017                        | 2016    | 2017                | 2016    |
|   | \$m                         | \$m     | \$m                 | \$m     |
| Increase in NZ interest rates 1% (100 basis points) | (946)                       | (896)   | (927)               | (887)   |
| Decrease in NZ interest rate 1% (100 basis points)  | 1,122                       | 926     | 1,107               | 922     |
| NZ dollar exchange rate strengthens by 10%          | (793)                       | (963)   | (828)               | (981)   |
| NZ dollar exchange rate weakens by 10%              | 922                         | 1,087   | 962                 | 1,109   |
| Share prices strengthen by 10%                      | 3,044                       | 2,394   | 3,044               | 2,394   |
| Share prices weaken by 10%                          | (3,044)                     | (2,394) | (3,044)             | (2,394) |

**Interest rate sensitivity**

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

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

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

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

**Note 26: Financial Instruments (continued)**

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

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

***Foreign currency sensitivity***

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

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

***Equity market sensitivity***

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

The sensitivity analysis above has been determined based on the exposure of the NZS Fund and ACC to share price risks at the reporting date. These portfolios combined make up 99% of the Government's total share investments (2016: 99%).

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



## Note 27: Related Parties

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

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

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

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

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

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

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

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

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

## Note 28: Canterbury Earthquakes

These consolidated financial statements include both revenue and expenses for the Government as well as the best estimate of the Government's significant assets and liabilities in relation to the earthquakes and aftershocks that occurred in the Canterbury region in late 2010 and 2011.

As time elapses the ability to directly attribute costs to the original events in 2010 and 2011 becomes more difficult. To ensure expenditure is not unnecessarily included in future, costs associated with the Canterbury earthquakes will be limited to the reassessment of insurance claims by EQC and Southern Response, or the construction of large capital projects such as the Justice and Emergency Services Precinct.

Amounts recognised in the statement of financial performance (operating expenses) as well as capital expenditure incurred to date in respect of the Canterbury earthquakes were:

|   | <b>30 June<br/>2017<br/>\$m</b> | <b>Actual<br/>30 June<br/>2016<br/>\$m</b> | <b>Total<br/>to date<br/>\$m</b> |
|---|---------------------------------|--|----------------------------------|
| EQC insurance claims                    | (308)                           | 21   | 7,026                            |
| Southern Response support package       | 309                             | 204  | 1,420                            |
| Christchurch central city rebuild       | 110                             | 153  | 1,030                            |
| Crown assets                            | 254                             | 498  | 1,223                            |
| Other earthquake costs                  | 395                             | 481  | 4,361                            |
| <b>Total Crown net earthquake costs</b> | <b>760</b>                      | <b>1,357</b>                               | <b>15,060</b>                    |
| <b>Operating and capital expenses</b>   |                                 |  |                                  |
| Operating expenses                      | 347                             | 587  | 12,431                           |
| Capital expenditure                     | 413                             | 770  | 2,629                            |
| <b>Total Crown net earthquake costs</b> | <b>760</b>                      | <b>1,357</b>                               | <b>15,060</b>                    |

The negative "costs" in relation to EQC insurance claims represents a re-estimation of EQC's outstanding claims liability, resulting in a reduction in the overall costs of the Canterbury earthquakes.

## Note 29: City Rail Link

On 30 June 2017 the Government signed a Sponsors Agreement with the Auckland Council to equally co-fund the development of the Auckland City Rail Link (an underground rail line between the city centre and the existing western line). A new company (City Rail Link Limited) has been set up to deliver the project which is estimated to cost \$3.4 billion. As joint sponsor, the Government's share of costs is therefore expected to be \$1.7 billion.

City Rail Link Limited (CRL), a jointly controlled Crown entity, has been incorporated and will assume the responsibility for the design and construction of the City Rail Link from 1 July 2017 pursuant to the Project Delivery Agreement.

Subsequent to balance date CRL obtained the necessary authority to assume responsibility and the Crown's contractual commitments came into effect.

## Note 30: Events Subsequent to Balance Date

Other than the events described in Note 29: City Rail Link, there have been no events subsequent to balance date that would materially affect these financial statements.

## Statement of Unappropriated Expenditure

*for the year ended 30 June 2017*

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

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

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

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

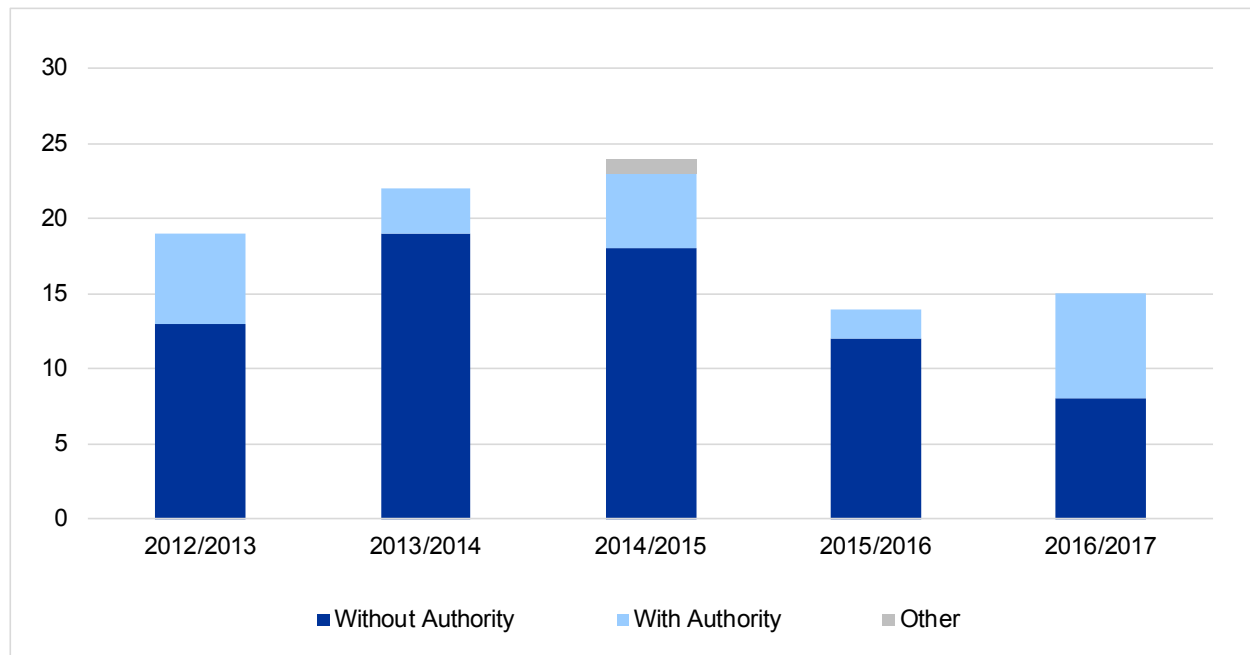
- it must be disclosed in the annual financial statements of the Government, and of the relevant administering department, and
- it must be retrospectively validated by Parliament through the passing of an Appropriation (Confirmation and Validation) Act.

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

| Category of unappropriated expenditure   | Reporting requirements to Parliament under the Act  |
|--|---|
| (A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989                               | Where the amount in excess (but within the scope) of an existing appropriation was within \$10,000 or 2% of the appropriation, Section 26B of the Act authorises the Minister of Finance to approve these items. Such items must also be confirmed by Parliament in the Appropriation Act for the year. |
| (B) With Cabinet authority to use imprest supply but in excess of appropriation prior to the end of the financial year | Where the unappropriated items exceed the limits available for approval under Section 26B, they fall into one of five categories of unappropriated expenditure.   |
| (C) With Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year      | All such instances are unlawful unless validated by Parliament through an Appropriation Act (Section 26C of the Act).   |
| (D) In excess of appropriation and without prior Cabinet authority to use imprest supply                               | The validating legislation will be accompanied by a report to the House of Representatives that sets out each unappropriated item together with an explanation made by the Minister responsible for the appropriation.  |
| (E) Outside scope of an appropriation and without prior Cabinet authority to use imprest supply                        |   |
| (F) Without appropriation and without prior Cabinet authority to use imprest supply                                    |   |

## Statement of Unappropriated Expenditure (continued)

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



In 2017 there were a total of 806 appropriations (2016: 811). In the 2017 financial year 15 instances of expenditure (2016:14) that either exceeded the amount appropriated or did not have an appropriation.

| 30 June<br>2017<br>Number | 30 June<br>2016<br>Number |  | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
|---------------------------|---------------------------|--|------------------------|------------------------|
| <b>By category</b>        |                           |  |                        |                        |
| 6                         | 1                         | Approved by the Minister of Finance                                    | 4                      | 2                      |
| -                         | -                         | Cabinet authority to use imprest supply but in excess of appropriation | -                      | -                      |
| 1                         | 1                         | Cabinet authority to use imprest supply but without appropriation      | 30                     | 3                      |
| 4                         | 6                         | Without Cabinet authority and in excess of appropriation               | 12                     | 52                     |
| 2                         | 1                         | Without Cabinet authority and outside scope                            | 5                      | 11                     |
| 2                         | 5                         | Without Cabinet authority and without appropriation                    | 73                     | 10                     |
| -                         | -                         | Other  | -                      | -                      |
| <b>15</b>                 | <b>14</b>                 | <b>Total unappropriated expenditure</b>                                | <b>124</b>             | <b>78</b>              |

## Statement of Unappropriated Expenditure (continued)

| Department<br>Vote  | Expense type<br>Appropriation name                                 | Authority at time of<br>breach<br>\$000 | Amount without or<br>exceeding<br>appropriation<br>\$000 |
|---|--|---|--|
| <b>(A) Expenses and capital incurred in excess of existing appropriation and approved by the Minister of Finance under Section 26B of the Public Finance Act 1989</b> |  |   |  |
| <b>New Zealand Police</b>   |  |   |  |
| Police  | <i>Departmental Output Expenses</i>                                |   |  |
|   | Police Primary Response Management                                 | 394,755                                 | 1,469  |
|   | General Crime Prevention Services                                  | 170,171                                 | 251  |
|   | Specific Crime Prevention Services and Maintenance of Public Order | 161,435                                 | 531  |
|   | Investigations   | 406,862                                 | 1,283  |
|   | Case Resolution and Support to Judicial Process                    | 138,467                                 | 483  |
|   | Policy Advice and Ministerial Services MCA                         | 4,888                                   | 10   |

New Zealand Police became aware of employee leave liability provisions being understated due to the use of incorrect superannuation rates in calculating these liabilities at year end. New Zealand Police have subsequently recognised this expense in the 2016/17 financial year, which has led to unappropriated expenditure totalling \$4.027 million in six appropriations.

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

|                              |  |  |        |
|------------------------------|--|--|--------|
| <b>Ministry of Transport</b> | <i>Non-Departmental Capital Expense</i>                        |  |        |
| Transport                    | Restoration of Main North Line between Picton and Christchurch |  | 30,000 |

As part of Budget 2017 Cabinet agreed to set aside \$70 million to fund the costs of reinstating the Main North Rail Line between Picton and Christchurch that were not covered by insurance. In June 2017 KiwiRail advised that they needed to draw \$30 million of these funds in 2016/17 as it was no longer able to meet its 2016/17 shortfall from its balance sheet. This expected unappropriated expenditure has been reported to Cabinet and it was agreed that \$30 million could be incurred under the authority of imprest supply.

## Statement of Unappropriated Expenditure (continued)

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

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

|              |                          |   |       |
|--------------|--------------------------|---|-------|
| Conservation | <i>Capital Injection</i> |   |       |
|              | Capital Injection        | - | 2,050 |

During the 2016/17 financial year, the Department of Conservation (DOC) received an unplanned non-cash injection of \$2.050 million relating to the value of fencing assets transferred from Land Information New Zealand to DOC. This has resulted in an unappropriated Capital Injection.

**Ministry of Business, Innovation and Employment**

|                      |   |        |     |
|----------------------|---|--------|-----|
| Building and Housing | <i>Departmental Output Expenses</i>         |        |     |
|                      | Residential Tenancy and Unit Title Services | 27,396 | 597 |

Ministry of Business, Innovation and Employment recorded a provision and expense for payroll remediation activities at 30 June 2017. The cost allocation of the expense has resulted in the *Residential Tenancy and Unit Title Services* appropriation to exceed the amount appropriated.

**Ministry of Business, Innovation and Employment**

|               |  |     |     |
|---------------|--|-----|-----|
| Labour Market | <i>Non-Departmental Other Expenses</i>   |     |     |
|               | Workplace Relations and Safety – Employment Relations Education Contestable Fund | 500 | 223 |

In 2016/17 the Ministry of Business, Innovation and Employment (MBIE) had an initial appropriation of \$0.500 million for the Workplace Relations and Safety – Employment Relations Education Contestable Fund. MBIE requested an increase in appropriation during the year. However, continued to incur expenses for a total of \$0.723 million against the appropriation before the increase was approved.

**Ministry for Culture and Heritage**

|  |                                    |       |       |
|--|------------------------------------|-------|-------|
|  | <i>Departmental Output Expense</i> |       |       |
|  | First World War Centenary          | 1,796 | 8,584 |

The Ministry for Culture and Heritage leases the Dominion Museum Building to provide a venue for the Great War Exhibition. The Ministry has reassessed the possible decommissioning obligations should the exhibition be discontinued at the end of the Great War Centenary period, this has resulted in an expense of \$8.857 million being recognised at 30 June 2017.

## Statement of Unappropriated Expenditure (continued)

| Department | Expense type       | Amount without or exceeding appropriation |
|------------|--------------------|---|
| Vote       | Appropriation name | \$000                                     |

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

|                                       |                                       |       |
|---------------------------------------|---------------------------------------|-------|
| <b>Department of Internal Affairs</b> | <i>Non-Departmental Other Expense</i> |       |
|                                       | Members of the Executive - Travel     |       |
| Internal Affairs                      | 1 July 2015 – 30 June 2016            | 2,584 |
|                                       | 1 July 2016 – 30 June 2017            | 2,511 |

Department of Internal Affairs has incurred out of scope expenditure as the scope statement is "This appropriation is limited to domestic and international travel by Members of the Executive and approved accompanying parties in accordance with the Members of Parliament (Remuneration and Services) Act 2013." As the Act does not specifically refer to staff travel, this excludes the payment of ministerial office staff travel from within the appropriation. This has occurred since the change of scope in 2015.

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

|  |   |     |
|--|---|-----|
| <b>Ministry of Business, Innovation and Employment</b> | <i>Non-Departmental Output Expense</i>                        |     |
| Business, Science and Innovation                       | Canterbury Earthquakes: Emergency and Temporary Accommodation | 245 |

Ministry of Business, Innovation and Employment requested a transfer of funding from the previous financial year into the current financial year. This transfer was approved in November 2016. However, \$0.245 million of output expense has already been incurred prior to the approval.

|                              |  |        |
|------------------------------|--|--------|
| <b>Ministry of Transport</b> | <i>Non-Departmental Output Expense</i>                                     |        |
| Transport                    | Restoration of State Highway 1 between Picton and Christchurch – Operating | 72,651 |

At Budget 2017, Cabinet approved \$812 million of capital expenditure to enable the reinstatement of the South Island Transport Corridors. Subsequently, a portion of the costs was determined to be operating expenditure not capital expenses. This unappropriated expenditure was reported to Cabinet as being incurred without authority in June.

## Statement of Expenses or Capital Expenditure Incurred in Emergencies

*for the year ended 30 June 2017*

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

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

## Statement of Trust Money

*for the year ended 30 June 2017*

Trust money is defined by section 66 of the Public Finance Act 1989 as:

- Money that is deposited with the Crown pending the completion of a transaction or dispute and which may become repayable to the depositor or payable to the Crown or any other person.
- All money that is paid into Court for possible repayment to the payee or a third party, by virtue of any Act, rule or authority whatsoever.
- All money that is paid to the Crown in trust for any purpose.
- Money that belongs to or is due to any person and is collected by the Crown pursuant to any agreement between the Crown and that person.
- Unclaimed money that is due to or belongs to any person and is deposited with the Crown.

Trust money exists only where there is a trustee/beneficiary relationship. Money set aside by the Crown or department for a particular purpose will normally not be trust money as there is no directly identifiable beneficiary who has deposited the money with the Crown.

Trust money held by the Crown is managed separately from public money.

Under the Act, the Treasury has the responsibility to manage and invest trust money. The Treasury may appoint agents (including departments) to act on its behalf. Written Notices of Appointment to Manage and Invest Trust Money are issued in these cases. Section 68 of the Act establishes the constraints on the investment of trust money.



## Statement of Trust Money (continued)

for the year ended 30 June 2017

| Department<br>Trust Account   | As at<br>30 June<br>2016<br>\$000 | Contributions<br>\$000 | Distributions<br>\$000 | Revenue<br>\$000 | Expenses<br>\$000 | As at<br>30 June<br>2017<br>\$000 |
|---|-----------------------------------|------------------------|------------------------|------------------|-------------------|-----------------------------------|
| <b>Department of Conservation</b>   |                                   |                        |                        |                  |                   |                                   |
| Bonds/Deposits Trust  | 6,786                             | 170                    | (405)                  | 187              | -                 | 6,738                             |
| Conservation Project Trust  | 1,064                             | 744                    | (500)                  | 19               | -                 | 1,327                             |
| National Parks Trust  | 145                               | 37                     | (7)                    | 1                | -                 | 176                               |
| Walkways Trust  | 11                                | -                      | -                      | -                | -                 | 11                                |
| Wildlife and Reserves Trusts <sup>1</sup>                                     | -                                 | -                      | -                      | -                | -                 | -                                 |
| <b>Department of Corrections</b>  |                                   |                        |                        |                  |                   |                                   |
| Prisons Trust   | 1,438                             | 16,709                 | (16,431)               | -                | -                 | 1,716                             |
| <b>Crown Law Office</b>   |                                   |                        |                        |                  |                   |                                   |
| Legal Claims Trust  | 545                               | 616                    | (1,107)                | 9                | (9)               | 54                                |
| <b>Ministry of Business, Innovation and Employment</b>                        |                                   |                        |                        |                  |                   |                                   |
| Coal and Minerals Deposits Trust  | 62                                | 286                    | (25)                   | -                | (32)              | 291                               |
| Criminal Assets Management and<br>Enforcement Regulators Association<br>Trust | 21                                | 1                      | -                      | -                | (6)               | 16                                |
| Employment Relations Service Trust  | 322                               | 611                    | (372)                  | 7                | (112)             | 456                               |
| Employment Relations Act Security<br>of Costs Trust                           | 46                                | 63                     | (65)                   | -                | (40)              | 4                                 |
| New Zealand Immigration Service Trust   | 1,252                             | 118                    | (303)                  | 22               | -                 | 1,089                             |
| Official Assignee's Office Trust  | 23,253                            | 28,659                 | (16,771)               | 689              | (11,147)          | 24,683                            |
| Patent Co-operation Treaty Fees Trust   | 121                               | 921                    | (894)                  | -                | (41)              | 107                               |
| Petroleum Deposits Trust  | 81                                | 15                     | -                      | -                | -                 | 96                                |
| Proceeds of Crime Trust   | 64,317                            | 137,904                | (57,467)               | 1,696            | (11,147)          | 135,303                           |
| Radio Frequencies Tender Trust  | 219                               | -                      | -                      | 68               | (287)             | -                                 |
| Residential Tenancies Bond Trust  | 467,665                           | 239,932                | (198,500)              | 20,629           | (20,629)          | 509,097                           |
| Weathertight Services Financial<br>Assistance Trust                           | -                                 | 7,884                  | (7,884)                | -                | -                 | -                                 |
| <b>Ministry for Culture and Heritage</b>                                      |                                   |                        |                        |                  |                   |                                   |
| Dictionary of New Zealand Biography<br>Trust                                  | 15                                | -                      | -                      | 1                | -                 | 16                                |
| New Zealand Historical Atlas Trust  | 152                               | -                      | -                      | 8                | -                 | 160                               |
| New Zealand History Research Trust  | 1,421                             | -                      | (49)                   | 40               | -                 | 1,412                             |
| New Zealand Oral History Awards<br>Trust                                      | 880                               | 10                     | (132)                  | 30               | (4)               | 784                               |
| War History Trust   | 99                                | -                      | -                      | 3                | -                 | 102                               |
| National War Memorial Trust   | 8                                 | -                      | -                      | -                | -                 | 8                                 |
| <b>New Zealand Customs Services</b>   |                                   |                        |                        |                  |                   |                                   |
| Customs Regional Deposit/Bonds<br>Trust No.1, No.2 & No.3                     | 22,101                            | 78,250                 | (11,300)               | -                | -                 | 89,051                            |
| Health Promotion Agency Trust <sup>3</sup>                                    | 993                               | 13,488                 | (13,493)               | -                | -                 | 988                               |
| Heavy Engineering Research<br>Association Trust                               | 139                               | 1,933                  | (1,885)                | -                | -                 | 187                               |
| New Zealand Customs Service IBM<br>MSA Trust                                  | 37,041                            | 108                    | (37,149)               | -                | -                 | -                                 |
| New Zealand Customs Service Multiple<br>Deposit Scheme Release Trust          | 197                               | 11,434                 | (11,149)               | -                | -                 | 482                               |
| New Zealand Customs Service Multiple<br>Deposit Scheme Suspense Trust         | 6                                 | 78,734                 | (78,738)               | -                | -                 | 2                                 |

## Statement of Trust Money (continued)

for the year ended 30 June 2017

| Department  | As at<br>30 June<br>2016<br>\$000 | Contributions<br>\$000 | Distributions<br>\$000 | Revenue<br>\$000 | Expenses<br>\$000 | As at<br>30 June<br>2017<br>\$000 |
|---|-----------------------------------|------------------------|------------------------|------------------|-------------------|-----------------------------------|
| Trust Account   |                                   |                        |                        |                  |                   |                                   |
| <b>Ministry of Education</b>  |                                   |                        |                        |                  |                   |                                   |
| Code of Practice for Providers who Enrol International Students Trust       | 7,111                             | 4,754                  | (5,780)                | 128              | (83)              | 6,130                             |
| Conferences Trust   | 2                                 | -                      | -                      | (2)              | -                 | -                                 |
| Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund Board Trust | -                                 | 1,564                  | (257)                  | 55               | (92)              | 1,270                             |
| Capital Works Construction Funds <sup>2</sup>                               | -                                 | -                      | -                      | -                | -                 | -                                 |
| <b>Ministry of Foreign Affairs and Trade</b>                                |                                   |                        |                        |                  |                   |                                   |
| Afghanistan New Zealand Aid Programme Trust                                 | 3                                 | -                      | -                      | 1                | -                 | 4                                 |
| Cook Island Trust   | 231                               | 1,645                  | (1,801)                | 21               | (95)              | 1                                 |
| Government Administration Building, Niue Trust                              | 65                                | -                      | (14)                   | 1                | -                 | 52                                |
| New Zealand/France Friendship Trust   | 36                                | 180                    | (160)                  | 1                | (12)              | 45                                |
| Niue Primary School Infrastructure Project Trust                            | 411                               | -                      | (86)                   | 7                | -                 | 332                               |
| Kiribati Green Climate Fund Readiness Support Programme Trust <sup>2</sup>  | -                                 | -                      | -                      | -                | -                 | -                                 |
| Niue Development Assistance Trust   | 2,864                             | 1,439                  | -                      | 75               | -                 | 4,378                             |
| <b>Ministry of Health</b>   |                                   |                        |                        |                  |                   |                                   |
| District Health Boards Deposit Trust  | 924                               | 7,682,773              | (7,682,768)            | -                | 465               | 1,394                             |
| Medicines Review Objectors Deposit Trust <sup>1</sup>                       | -                                 | -                      | -                      | -                | -                 | -                                 |
| <b>Inland Revenue Department</b>  |                                   |                        |                        |                  |                   |                                   |
| Child Support Agency Trust  | 11,715                            | 294,432                | (273,708)              | -                | -                 | 32,439                            |
| KiwiSaver Returned Transactions Trust                                       | 44                                | 2,948                  | -                      | -                | -                 | 2,992                             |
| KiwiSaver Employer Trust <sup>1</sup>                                       | -                                 | -                      | -                      | -                | -                 | -                                 |
| Reciprocal Child Support Agreement Trust                                    | 439                               | 13,938                 | (13,878)               | -                | -                 | 499                               |
| <b>Department of Internal Affairs</b>                                       |                                   |                        |                        |                  |                   |                                   |
| Christchurch Earthquake Appeal Trust  | 2,378                             | 1,117                  | (218)                  | 1,082            | (2,575)           | 1,784                             |
| Interloan Billing System Trust  | 43                                | -                      | -                      | 599              | (600)             | 42                                |
| Macklin Bequest Fund Trust  | 293                               | -                      | -                      | 9                | (12)              | 290                               |
| New Zealand 1990 Scholarship Trust <sup>1</sup>                             | -                                 | -                      | -                      | -                | -                 | -                                 |
| <b>Ministry of Justice</b>  |                                   |                        |                        |                  |                   |                                   |
| Courts Law Trust  | 10,335                            | 13,743                 | (12,865)               | -                | -                 | 11,213                            |
| Election Candidates Deposit Trust <sup>1</sup>                              | -                                 | -                      | -                      | -                | -                 | -                                 |
| Employment Court Trust  | 269                               | 195                    | (344)                  | -                | -                 | 120                               |
| Fines Trust   | 41,096                            | 207,463                | (203,086)              | -                | -                 | 45,473                            |
| Foreign Currency Euro Fund Trust <sup>1</sup>                               | -                                 | -                      | -                      | -                | -                 | -                                 |
| Foreign Currency United States Dollar Trust <sup>1</sup>                    | -                                 | -                      | -                      | -                | -                 | -                                 |
| Legal Complaints Review Officer Trust <sup>1</sup>                          | -                                 | -                      | -                      | -                | -                 | -                                 |
| Māori Land Court Trust  | 45                                | 3                      | -                      | -                | -                 | 48                                |
| Supreme Court Trust   | 94                                | 200                    | (107)                  | -                | -                 | 187                               |
| Victims' Claims Trust   | 66                                | 19                     | (69)                   | -                | -                 | 16                                |

## Statement of Trust Money (continued)

for the year ended 30 June 2017

| Department   | As at<br>30 June<br>2016<br>\$000 | Contributions<br>\$000 | Distributions<br>\$000 | Revenue<br>\$000 | Expenses<br>\$000 | As at<br>30 June<br>2017<br>\$000 |
|--|-----------------------------------|------------------------|------------------------|------------------|-------------------|-----------------------------------|
| Trust Account  |                                   |                        |                        |                  |                   |                                   |
| <b>Land Information New Zealand</b>                            |                                   |                        |                        |                  |                   |                                   |
| Crown Forestry Licences Trust                                  | 72                                | 5,539                  | (5,513)                | -                | -                 | 98                                |
| Deposits Trust <sup>1</sup>                                    | -                                 | -                      | -                      | -                | -                 | -                                 |
| Endowment Rentals Trust  | 1                                 | 170                    | (166)                  | -                | -                 | 5                                 |
| Hunter Gift for the Settlement of<br>Discharged Soldiers Trust | 57                                | -                      | -                      | -                | -                 | 57                                |
| <b>New Zealand Police</b>                                      |                                   |                        |                        |                  |                   |                                   |
| Bequests, Donations and Appeals Trust                          | -                                 | 5                      | -                      | -                | -                 | 5                                 |
| Found Money Trust  | 135                               | 470                    | (429)                  | -                | -                 | 176                               |
| Money in Custody Trust   | 11,930                            | 10,478                 | (11,075)               | -                | -                 | 11,333                            |
| Reparation Trust   | 5                                 | 22                     | (27)                   | -                | -                 | -                                 |
| Money forfeited to Crown                                       | -                                 | 553                    | -                      | -                | -                 | 553                               |
| <b>Ministry for Primary Industries</b>                         |                                   |                        |                        |                  |                   |                                   |
| MAF Overfishing Account Trust                                  | 7,327                             | 3,180                  | (3,675)                | -                | (188)             | 6,644                             |
| MAF Fish Forfeit Property Trust                                | 1,254                             | 92                     | (39)                   | 24               | -                 | 1,331                             |
| Meat Board Levies Trust  | 4                                 | 68,625                 | (68,621)               | -                | -                 | 8                                 |
| National Animal Identification Tracing<br>Trust                | 4                                 | 2,624                  | (2,621)                | -                | -                 | 7                                 |
| Seized Timber Trust  | 10                                | -                      | (10)                   | -                | -                 | -                                 |
| <b>Ministry of Social Development</b>                          |                                   |                        |                        |                  |                   |                                   |
| Australian Dollar Embargoed Arrears<br>Trust                   | 479                               | 6,747                  | (6,696)                | 6                | -                 | 536                               |
| Australian Recovery Debt Trust                                 | 2                                 | 5                      | (7)                    | -                | -                 | -                                 |
| Maintenance Trust  | 23                                | 388                    | (392)                  | 3                | -                 | 22                                |
| Netherlands Recovery Debt Trust                                | 4                                 | 86                     | (79)                   | -                | -                 | 11                                |
| Overseas Debt Recovery Trust <sup>1</sup>                      | -                                 | -                      | -                      | -                | -                 | -                                 |
| CYF Custody Trust Account                                      | -                                 | -                      | -                      | 6                | -                 | 6                                 |
| WR Wallace Trust   | 419                               | -                      | (37)                   | 93               | -                 | 475                               |
| <b>The Treasury</b>  |                                   |                        |                        |                  |                   |                                   |
| Genesis Share Offer Trust                                      | 20                                | -                      | -                      | -                | (19)              | 1                                 |
| Meridian Share Offer Trust                                     | 9                                 | -                      | -                      | -                | (8)               | 1                                 |
| Mighty River Share Offer Trust                                 | 1                                 | -                      | -                      | -                | -                 | 1                                 |
| Trustee Act 1956 Trust   | 9,362                             | 2,467                  | (3,353)                | 126              | (123)             | 8,479                             |
| <b>Total</b>   | <b>739,982</b>                    | <b>8,946,491</b>       | <b>(8,752,507)</b>     | <b>25,644</b>    | <b>(46,796)</b>   | <b>912,814</b>                    |

1 Inoperative trust account

2 New trust account

3 Name changes





# Additional Financial Information

## Fiscal Indicator Analysis

*for the year ended 30 June 2017*

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 28 to 116) and the fiscal indicators used to measure the Government's performance against the fiscal objectives set out in the *Fiscal Strategy Report*.

The fiscal analysis comprises two statements: core Crown residual cash and debt.

### Core Crown Residual Cash

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

### Debt

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

Gross debt is defined as gross-sovereign issued debt and represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills as these are issued for liquidity management purposes.

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

## Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2017

| 2017 Forecast   |                |   | Actual         |                |
|---|----------------|---|----------------|----------------|
| Budget  | Budget         |   | 30 June        | 30 June        |
| 2016  | 2017           |   | 2017           | 2016           |
| \$m   | \$m            |   | \$m            | \$m            |
| <b>Core Crown Cash Flows from Operations</b>            |                |   |                |                |
| 71,177  | 74,380         | Tax receipts  | 74,729         | 69,750         |
| 846   | 889            | Other sovereign receipts  | 955            | 835            |
| 2,030   | 1,840          | Interest, profits and dividends                                 | 1,770          | 1,699          |
| 2,313   | 2,104          | Sale of goods & services and other receipts                     | 2,258          | 2,026          |
| (25,384)  | (25,493)       | Transfer payments and subsidies                                 | (25,293)       | (24,338)       |
| (45,728)  | (45,339)       | Personnel and operating costs                                   | (44,581)       | (43,103)       |
| (3,819)   | (3,592)        | Finance costs   | (3,530)        | (3,604)        |
| (534)   | (230)          | Forecast for future new operating spending                      | -              | -              |
| 1,025   | 450            | Top-down expense adjustment                                     | -              | -              |
| <b>1,926</b>  | <b>5,009</b>   | <b>Net core Crown operating cash flows</b>                      | <b>6,308</b>   | <b>3,265</b>   |
| (3,430)   | (2,703)        | Net purchase of physical assets                                 | (2,153)        | (1,971)        |
| (616)   | (84)           | Net repayment / (issue) of advances                             | 111            | (468)          |
| (2,080)   | (2,106)        | Net purchase of investments                                     | (1,692)        | (2,148)        |
| (587)   | (170)          | Forecast for future new capital spending                        | -              | -              |
| 625   | 125            | Top-down capital adjustment                                     | -              | -              |
| <b>(6,088)</b>  | <b>(4,938)</b> | <b>Net Core Crown capital cash flows</b>                        | <b>(3,734)</b> | <b>(4,587)</b> |
| <b>(4,162)</b>  | <b>71</b>      | <b>Residual cash surplus / (deficit)</b>                        | <b>2,574</b>   | <b>(1,322)</b> |
| <b>Residual cash is (invested) / funded as follows:</b> |                |   |                |                |
| <b>Debt programme cash flows</b>                        |                |   |                |                |
| Market:   |                |   |                |                |
| 7,893   | 8,014          | Issue of government bonds                                       | 7,847          | 8,079          |
| -   | (5,055)        | Repayment of government bonds                                   | (6,080)        | (1,779)        |
| 400   | 60             | Net issue/(repayment) of short-term borrowing <sup>1</sup>      | 160            | (3,513)        |
| <b>8,293</b>  | <b>3,019</b>   | <b>Total market debt cash flows</b>                             | <b>1,927</b>   | <b>2,787</b>   |
| Non market:   |                |   |                |                |
| (665)   | (833)          | Repayment of government bonds                                   | (830)          | (139)          |
| -   | -              | Net issue/(repayment) of short-term borrowing                   | -              | (100)          |
| <b>(665)</b>  | <b>(833)</b>   | <b>Total non-market debt cash flows</b>                         | <b>(830)</b>   | <b>(239)</b>   |
| <b>7,628</b>  | <b>2,186</b>   | <b>Total debt programme cash flows</b>                          | <b>1,097</b>   | <b>2,548</b>   |
| <b>Other borrowing cash flows</b>                       |                |   |                |                |
| 559   | 2,500          | Net (repayment)/issue of other New Zealand dollar borrowing     | (2,352)        | (3,546)        |
| (590)   | (1,870)        | Net (repayment)/issue of foreign currency borrowing             | 2,425          | 3,176          |
| <b>(31)</b>   | <b>630</b>     | <b>Total other borrowing cash flows</b>                         | <b>73</b>      | <b>(370)</b>   |
| <b>Investing cash flows</b>                             |                |   |                |                |
| (3,603)   | 497            | Other net sale/(purchase) of marketable securities and deposits | (194)          | 685            |
| 175   | 46             | Issues of circulating currency                                  | 265            | 378            |
| (7)   | (3,430)        | Decrease/(increase) in cash                                     | (3,815)        | (1,919)        |
| <b>(3,435)</b>  | <b>(2,887)</b> | <b>Total investing cash flows</b>                               | <b>(3,744)</b> | <b>(856)</b>   |
| <b>4,162</b>  | <b>(71)</b>    | <b>Residual cash (invested) / funded</b>                        | <b>(2,574)</b> | <b>1,322</b>   |

<sup>1</sup> Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper

## Fiscal Indicator Analysis – Debt

as at 30 June 2017

| 2017 Forecast                                  |                       |   | Actual                 |                        |
|--|-----------------------|---|------------------------|------------------------|
| Budget<br>2016<br>\$m                          | Budget<br>2017<br>\$m |   | 30 June<br>2017<br>\$m | 30 June<br>2016<br>\$m |
| <b>Gross and net core Crown debt analysis:</b> |                       |   |                        |                        |
| <b>121,698</b>                                 | <b>114,592</b>        | Total borrowings  | <b>111,806</b>         | <b>113,956</b>         |
| <b>Net core Crown debt:</b>                    |                       |   |                        |                        |
| 102,812  | 97,118                | Core Crown borrowings <sup>1</sup>  | 94,107                 | 95,037                 |
| (1,651)  | (1,894)               | Add back NZS Fund holdings of sovereign-issued debt and<br>NZS Fund borrowings                          | (1,487)                | (1,754)                |
| <b>101,161</b>                                 | <b>95,224</b>         | <b>Gross sovereign-issued debt<sup>2</sup></b>  | <b>92,620</b>          | <b>93,283</b>          |
| 80,236   | 78,946                | Less core Crown financial assets <sup>3</sup>   | 81,015                 | 75,793                 |
| <b>20,925</b>                                  | <b>16,278</b>         | <b>Net core Crown debt (including NZS Fund)<sup>4</sup></b>   | <b>11,605</b>          | <b>17,490</b>          |
| 30,837   | 33,828                | Add back NZS Fund holdings of core Crown financial assets and<br>NZS Fund financial assets <sup>5</sup> | 35,861                 | 29,778                 |
| <b>51,762</b>                                  | <b>50,106</b>         | <b>Net core Crown debt (excluding NZS Fund)<sup>4</sup></b>   | <b>47,466</b>          | <b>47,268</b>          |
| 14,572   | 12,171                | Advances  | 12,014                 | 14,612                 |
| <b>66,334</b>                                  | <b>62,277</b>         | <b>Net core Crown debt (excluding NZS Fund and advances)<sup>6</sup></b>                                | <b>59,480</b>          | <b>61,880</b>          |
| 25.6%  | 23.2%                 | As a percentage of GDP  | 22.2%                  | 24.4%                  |
| <b>Gross debt:</b>                             |                       |   |                        |                        |
| 101,161  | 95,224                | Gross sovereign-issued debt <sup>2</sup>  | 92,620                 | 93,283                 |
| (8,881)  | (8,179)               | Less Reserve Bank settlement cash and bank bills  | (7,079)                | (7,955)                |
| 1,600  | 1,600                 | Add back changes to DMO borrowing due to settlement cash <sup>7</sup>                                   | 1,600                  | 1,600                  |
| <b>93,880</b>                                  | <b>88,645</b>         | <b>Gross sovereign-issued debt excluding settlement cash<br/>and bank bills</b>                         | <b>87,141</b>          | <b>86,928</b>          |
| 36.2%  | 33.0%                 | As a percentage of GDP  | 32.5%                  | 34.3%                  |

- 1 Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts payable in the statement of financial position).
- 2 Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.
- 3 Core Crown financial assets exclude receivables.
- 4 Net core Crown debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country.
- 5 Adding back the NZS Fund assets provides the financial liabilities less financial assets of the core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.
- 6 Net core Crown debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
- 7 The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by Government borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.



## Information on State-owned Enterprises and Crown Entities

### Accounting Policies

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

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

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

### Mixed Ownership Companies

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

| Company         | % minority interest before CFI investment | % minority interest after CFI investment |
|-----------------|---|--|
| Air New Zealand | 48.09%                                    | 46.07%                                   |
| Genesis Energy  | 48.77%                                    | 47.04%                                   |
| Meridian Energy | 48.98%                                    | 45.77%                                   |
| Mercury NZ      | 48.04%                                    | 45.44%                                   |

### 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 2017:

| Crown entities                 | Balance date | Information reported to |
|--------------------------------|--------------|-------------------------|
| New Zealand Symphony Orchestra | 31 December  | 30 June 2017            |
| School boards of trustees      | 31 December  | 31 December 2016        |
| TEIs                           | 31 December  | 30 June 2017            |

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

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

|  | 30 June 2017               |                              |                      |                    | 30 June 2016               |                              |                      |                    |
|--|----------------------------|------------------------------|----------------------|--------------------|----------------------------|------------------------------|----------------------|--------------------|
|  | Revenue<br>(excl<br>gains) | Expenses<br>(excl<br>losses) | Operating<br>balance | Distri-<br>butions | Revenue<br>(excl<br>gains) | Expenses<br>(excl<br>losses) | Operating<br>balance | Distri-<br>butions |
|  | \$m                        | \$m                          | \$m                  | \$m                | \$m                        | \$m                          | \$m                  | \$m                |
| <b>State-owned Enterprises</b>             |                            |                              |                      |                    |                            |                              |                      |                    |
| Airways Corporation of New Zealand Limited | 205                        | 182                          | 24                   | 9                  | 205                        | 183                          | 23                   | 9                  |
| AsureQuality Limited                       | 180                        | 172                          | 5                    | 5                  | 190                        | 185                          | 12                   | 7                  |
| Landcorp Farming Limited                   | 233                        | 227                          | 51                   | -                  | 210                        | 218                          | 12                   | -                  |
| New Zealand Post Limited <sup>1</sup>      | 923                        | 910                          | 70                   | 105                | 2,126                      | 2,029                        | 141                  | 5                  |
| KiwiRail Holdings Limited                  | 725                        | 973                          | (243)                | -                  | 730                        | 929                          | (207)                | -                  |
| Transpower New Zealand Limited             | 1,067                      | 859                          | 272                  | 164                | 1,043                      | 821                          | 185                  | 178                |
| Kordia Group Limited                       | 202                        | 202                          | (1)                  | 8                  | 242                        | 229                          | 12                   | 6                  |
| Kiwi Group Holdings Limited <sup>1</sup>   | 1,014                      | 1,011                        | 8                    | 1                  | -                          | -                            | -                    | -                  |
| New Zealand Railways Corporation           | -                          | -                            | 2                    | -                  | -                          | -                            | -                    | -                  |
| Other State-owned enterprises              | 429                        | 339                          | 6                    | 4                  | 360                        | 511                          | 114                  | 25                 |
| <b>Total State-owned Enterprises</b>       | <b>4,978</b>               | <b>4,875</b>                 | <b>194</b>           | <b>296</b>         | <b>5,106</b>               | <b>5,105</b>                 | <b>292</b>           | <b>230</b>         |
| Air New Zealand Limited                    | 5,153                      | 4,804                        | 251                  | 505                | 5,284                      | 4,766                        | 550                  | 219                |
| Genesis Energy Limited                     | 1,942                      | 1,884                        | 85                   | 164                | 1,975                      | 1,889                        | 87                   | 162                |
| Meridian Energy Limited                    | 2,321                      | 2,101                        | 197                  | 477                | 2,375                      | 2,100                        | 185                  | 501                |
| Mercury NZ Limited                         | 1,555                      | 1,405                        | 183                  | 252                | 1,114                      | 989                          | 160                  | 228                |
| Less minority interests                    | -                          | -                            | (347)                | (509)              | -                          | -                            | (474)                | (509)              |
| <b>Total mixed ownership companies</b>     | <b>10,971</b>              | <b>10,194</b>                | <b>369</b>           | <b>889</b>         | <b>10,748</b>              | <b>9,744</b>                 | <b>508</b>           | <b>601</b>         |
| Intra-segmental eliminations               | (478)                      | (426)                        | 42                   | -                  | (477)                      | (641)                        | (80)                 | -                  |
| <b>Total SOE segment</b>                   | <b>15,471</b>              | <b>14,643</b>                | <b>605</b>           | <b>1,185</b>       | <b>15,377</b>              | <b>14,208</b>                | <b>720</b>           | <b>831</b>         |
| <b>Crown Entities</b>                      |                            |                              |                      |                    |                            |                              |                      |                    |
| Accident Compensation Corporation          | 5,384                      | 5,978                        | 597                  | -                  | 5,197                      | 5,487                        | (3,368)              | -                  |
| Crown Fibre Holdings Limited               | 26                         | 95                           | (68)                 | 2                  | 16                         | 95                           | (111)                | 1                  |
| Crown Research Institutes                  | 717                        | 688                          | 28                   | -                  | 677                        | 658                          | 25                   | -                  |
| Callaghan Innovation                       | 266                        | 267                          | -                    | -                  | 249                        | 249                          | -                    | -                  |
| District Health Boards                     | 13,942                     | 14,055                       | (114)                | -                  | 13,453                     | 13,550                       | (98)                 | -                  |
| Earthquake Commission                      | 83                         | 398                          | (314)                | -                  | 364                        | 396                          | (33)                 | -                  |
| Housing New Zealand Corporation            | 1,327                      | 1,240                        | 110                  | -                  | 1,287                      | 1,132                        | 101                  | 30                 |
| Museum of New Zealand Te Papa              | 58                         | 63                           | (6)                  | -                  | 55                         | 62                           | (6)                  | -                  |
| New Zealand Fire Service Commission        | 411                        | 420                          | (2)                  | -                  | 388                        | 385                          | -                    | -                  |
| New Zealand Lotteries Commission           | 1,145                      | 870                          | 275                  | -                  | 927                        | 723                          | 204                  | -                  |
| New Zealand Transport Agency               | 2,353                      | 2,348                        | 81                   | -                  | 2,400                      | 2,398                        | (149)                | -                  |
| Ōtākaro Limited                            | 121                        | 145                          | (31)                 | -                  | 29                         | 14                           | 14                   | -                  |
| Public Trust                               | 62                         | 145                          | 4                    | -                  | 67                         | 14                           | 5                    | -                  |
| Schools                                    | 7,558                      | 7,428                        | 126                  | -                  | 7,284                      | 7,195                        | 83                   | -                  |
| Southern Response Earthquake Services      | 45                         | 347                          | (302)                | -                  | 37                         | 225                          | (182)                | -                  |
| Tāmaki Regeneration Limited                | 76                         | 153                          | 19                   | -                  | 14                         | (2)                          | (90)                 | -                  |
| Tertiary Education Commission              | 2,950                      | 2,892                        | 56                   | 2                  | 2,922                      | 2,874                        | 49                   | 7                  |
| TEIs                                       | -                          | -                            | 238                  | -                  | -                          | -                            | 134                  | -                  |
| Television New Zealand                     | 318                        | 317                          | 1                    | 13                 | 326                        | 308                          | 13                   | 8                  |
| Other Crown entities                       | 2,228                      | 2,074                        | 107                  | 3                  | 2,058                      | 2,107                        | (37)                 | -                  |
| <b>Total Crown entities</b>                | <b>39,070</b>              | <b>39,923</b>                | <b>805</b>           | <b>20</b>          | <b>37,750</b>              | <b>37,870</b>                | <b>(3,446)</b>       | <b>46</b>          |
| Intra-segmental eliminations               | (727)                      | (459)                        | (386)                | -                  | (612)                      | (446)                        | (34)                 | -                  |
| <b>Total Crown entities segment</b>        | <b>38,343</b>              | <b>39,464</b>                | <b>419</b>           | <b>20</b>          | <b>37,138</b>              | <b>37,424</b>                | <b>(3,480)</b>       | <b>46</b>          |

1 The comparative figures for New Zealand Post Limited include the results of Kiwi Group Holdings Limited.

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

|  | 30 June 2017    |               |                |               |                   |               | 30 June 2016  |
|--|-----------------|---------------|----------------|---------------|-------------------|---------------|---------------|
|  | Purchase of PPE | Total PPE     | Total assets   | Borrowings    | Total liabilities | Equity        | Equity        |
|  | \$m             | \$m           | \$m            | \$m           | \$m               | \$m           | \$m           |
| <b>State-owned Enterprises</b>             |                 |               |                |               |                   |               |               |
| Airways Corporation of New Zealand Limited | 38              | 155           | 208            | 42            | 92                | 116           | 100           |
| AsureQuality Limited                       | 5               | 32            | 110            | 31            | 59                | 51            | 50            |
| Landcorp Farming Limited                   | 31              | 1,287         | 1,814          | 318           | 349               | 1,465         | 1,411         |
| New Zealand Post Limited <sup>1</sup>      | 37              | 146           | 1,796          | 363           | 514               | 1,282         | 1,293         |
| KiwiRail Holdings Limited                  | 416             | 1,470         | 1,829          | 288           | 515               | 1,314         | 1,315         |
| Transpower New Zealand Limited             | 226             | 4,393         | 5,307          | 3,497         | 4,116             | 1,191         | 1,115         |
| Kordia Group Limited                       | 15              | 67            | 157            | 19            | 69                | 88            | 97            |
| Kiwi Group Holdings Limited <sup>1</sup>   | 11              | 32            | 20,717         | 19,224        | 19,286            | 1,406         | -             |
| New Zealand Railways Corporation           | 5               | 3,520         | 3,523          | -             | 25                | 3,523         | 3,363         |
| Other State-owned enterprises              | 9               | 78            | 416            | 146           | 379               | 37            | 35            |
| <b>Total State-owned Enterprises</b>       | <b>793</b>      | <b>11,180</b> | <b>35,877</b>  | <b>23,928</b> | <b>25,404</b>     | <b>10,473</b> | <b>8,779</b>  |
| Air New Zealand Limited                    | 758             | 4,933         | 7,634          | 2,578         | 5,185             | 2,449         | 2,667         |
| Genesis Energy Limited                     | 32              | 3,405         | 4,186          | 1,309         | 2,230             | 1,956         | 1,961         |
| Meridian Energy Limited                    | 33              | 7,961         | 8,622          | 1,430         | 3,540             | 5,082         | 5,050         |
| Mercury NZ Limited                         | 103             | 5,423         | 5,995          | 1,296         | 2,688             | 3,307         | 3,315         |
| <b>Total mixed ownership companies</b>     | <b>926</b>      | <b>21,722</b> | <b>26,437</b>  | <b>6,613</b>  | <b>13,643</b>     | <b>12,794</b> | <b>12,993</b> |
| Intra-segmental eliminations               | (4)             | (172)         | (1,759)        | (319)         | (499)             | (1,260)       | (514)         |
| <b>Total SOE segment</b>                   | <b>1,715</b>    | <b>32,730</b> | <b>60,555</b>  | <b>30,222</b> | <b>38,548</b>     | <b>22,007</b> | <b>21,258</b> |
| <b>Crown entities</b>                      |                 |               |                |               |                   |               |               |
| Accident Compensation Corporation          | 14              | 28            | 39,944         | 143           | 41,212            | (1,268)       | (1,865)       |
| Crown Fibre Holdings Limited               | 16              | 39            | 448            | -             | 11                | 437           | 633           |
| Crown Research Institutes                  | 62              | 483           | 827            | 2             | 213               | 614           | 579           |
| Callaghan Innovation                       | 11              | 40            | 160            | -             | 100               | 60            | 60            |
| District Health Boards                     | 315             | 6,390         | 7,857          | 78            | 2,353             | 5,504         | 2,796         |
| Earthquake Commission                      | 3               | 14            | 1,147          | -             | 1,917             | (770)         | (457)         |
| Housing New Zealand Corporation            | 583             | 24,910        | 25,900         | 2,070         | 4,305             | 21,595        | 19,164        |
| Museum of New Zealand Te Papa              | 22              | 1,385         | 1,412          | -             | 8                 | 1,404         | 1,330         |
| New Zealand Fire Service Commission        | 56              | 762           | 914            | 8             | 119               | 795           | 723           |
| New Zealand Lotteries Commission           | 4               | 17            | 158            | 1             | 133               | 25            | 23            |
| New Zealand Transport Agency               | 1,676           | 34,751        | 35,393         | 967           | 1,445             | 33,948        | 31,656        |
| Ōtākaro Limited                            | 26              | 159           | 348            | 148           | 226               | 122           | 91            |
| Public Trust                               | 1               | 4             | 510            | 451           | 459               | 51            | 44            |
| Schools                                    | 262             | 1,563         | 3,274          | 177           | 875               | 2,399         | 2,231         |
| Southern Response Earthquake Services      | -               | -             | 495            | -             | 670               | (175)         | (68)          |
| Tāmaki Regeneration Limited                | 31              | 1,857         | 1,967          | -             | 8                 | 1,959         | 1,732         |
| Tertiary Education Commission              | 4               | 6             | 680            | 27            | 554               | 126           | 71            |
| TEIs                                       | -               | -             | 11,972         | -             | -                 | 11,972        | 10,669        |
| Television New Zealand                     | 13              | 140           | 290            | 1             | 64                | 226           | 238           |
| Other                                      | 30              | 226           | 1,484          | 75            | 491               | 993           | 843           |
| <b>Total Crown entities</b>                | <b>3,129</b>    | <b>72,774</b> | <b>135,180</b> | <b>4,148</b>  | <b>55,163</b>     | <b>80,017</b> | <b>70,493</b> |
| Intra-segmental eliminations               | -               | (175)         | (393)          | (66)          | (277)             | (116)         | (199)         |
| <b>Total Crown entities segment</b>        | <b>3,129</b>    | <b>72,599</b> | <b>134,787</b> | <b>4,082</b>  | <b>54,886</b>     | <b>79,901</b> | <b>70,294</b> |

1 The comparative figures for New Zealand Post Limited include the results of Kiwi Group Holdings Limited.





# Independent Report of the Auditor-General



**TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF  
NEW ZEALAND FOR THE YEAR ENDED 30 JUNE 2017**

**Opinion**

I have audited the financial statements of the Government of New Zealand (the financial statements of the Government) for the year ended 30 June 2017 using my staff, resources and appointed auditors and their staff. The financial statements of the Government on pages 28 to 125 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2017, the statement of financial performance, analysis of expenses by functional classification, statement of comprehensive revenue and expense, statement of changes in net worth, and statement of cash flows for the year ended on that date, a statement of segments, and notes to the financial statements that include accounting policies, borrowings as at 30 June 2017, and other explanatory information;
- a statement of unappropriated expenditure for the year ended 30 June 2017;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended 30 June 2017; and
- a statement of trust money, administered by departments, for the year ended 30 June 2017.

In my opinion, the financial statements of the Government on pages 28 to 125:

- present fairly, in all material respects the Government's:
  - financial position as at 30 June 2017;
  - financial performance and cash flows for the year ended on that date;
  - borrowings as at 30 June 2017;
  - unappropriated expenditure for the year ended 30 June 2017;
  - expenses or capital expenditure incurred in emergencies for the year ended 30 June 2017; and
  - trust money administered by departments for the year ended 30 June 2017.
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity accounting standards.

My audit was completed on 29 September 2017. This is the date on which my opinion is expressed.

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

**Basis for Opinion**

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

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

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

## Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the Government for the current period. In applying my professional judgement to determine key audit matters, I considered those matters that are complex, have a high degree of uncertainty, or are important to the public because of their size or nature.

These matters were addressed in my audit of the financial statements of the Government as a whole, and in forming my opinion thereon.

| Recognising tax revenue  | How we addressed this matter  |
|--|---|
| <p>The largest sources of revenue for the Government are income tax and goods and services tax. These revenue sources total \$68.3 billion for the year ended 30 June 2017.</p> <p>As outlined in note 2, income tax is subject to significant assumptions and judgements due to the timing differences between the reporting date and when taxpayers file tax returns.</p> <p>In order to record tax revenue, judgement is applied to estimating:</p> <ul style="list-style-type: none"> <li>- the amount of tax revenue to be collected from provisional taxpayers who have not yet filed their final tax return;</li> <li>- the amount of tax revenue where payments have been received but no provisional or final tax return has been filed; and</li> <li>- the amount of tax revenue to be collected from, or refunded to, taxpayers who are not subject to provisional tax.</li> </ul> <p>I considered the recognition of tax revenue to be a key audit matter because of the significant assumptions and judgements applied.</p>   | <p>We obtained an understanding of the systems, processes and controls in place over the receipt and review of provisional and final tax returns, tax assessments, and tax revenue receipts.</p> <p>We assessed controls in place over significant reconciliation processes.</p> <p>We tested the underlying data used in the various tax revenue estimation models to ensure that it was relevant and was used appropriately. This was performed by reviewing evidence to support key assumptions. The sensitivity of key assumptions was also tested.</p> <p>We tested the reasonableness of the estimation models by checking actual revenue received related to previous financial years against estimates made in those years.</p> <p>I am satisfied that the assumptions and judgements applied in estimating tax revenue are reasonable.</p> |
| Valuing property, plant and equipment  | How we addressed this matter  |
| <p>The Government owns significant physical assets totalling \$144.6 billion.</p> <p>The valuation of some of these assets requires significant judgement due to the uncertainties inherent in the valuation of these assets, the quality of data available and the benefits these assets provide. I have identified some specific assets where such judgements are evident.</p> <p><b>State highway network</b></p> <p>As outlined in note 16, the state highway network has been valued at \$23.8 billion at 30 June 2017 by an independent external valuer. The valuation is based on information from a number of databases that identify the asset components that make up the network (roads, bridges, culverts, etc.), and their expected useful lives. These asset components exclude land which is separately valued.</p> <p>There are some uncertainties about the values assigned to different components (formation, bridges, etc.) of the state highway network due to limited information on quantities and useful lives within some databases and incomplete information relating to certain cost components.</p> <p>Some of the costs associated with road construction (e.g. traffic management) in urban areas are assessed as being a significant part of the network that may potentially be undervalued. An allowance to recognise these costs has been included since 2014. However, such costs before then cannot be reliably measured and are currently excluded from the valuation.</p> | <p>We obtained an understanding of how the state highway network is valued. This involved confirming the competence, capabilities, and objectivity of the valuer, challenging the valuers' key assumptions and assessing the valuation procedures, including the information extracted from databases.</p> <p>We also carried out audit procedures to confirm that key controls were operating over the systems and processes used to record cost and other asset information related to the state highway network.</p> <p>I am satisfied that the value of the state highway network at 30 June 2017 is reasonable and consistent with valuation practices, and that the disclosures outline the uncertainties about the valuation.</p>  |

| Valuing property, plant and equipment (continued)   | How we addressed this matter   |
|---|--|
| <p><b>Rail network</b></p> <p>As outlined in note 16, the rail network has been valued at \$939 million at 30 June 2017. In arriving at this value the freight and the metro transport parts of the network have been valued on different bases, reflecting the commercial nature of the freight part of the network and public benefit nature of the metro transport part of the network.</p> <p>The extent to which the freight part of the network is commercial is open to debate. The Government is currently conducting a review of rail in New Zealand to consider KiwiRail's operating structure, capital requirements and funding mechanisms. This review is expected to be completed by 30 June 2018, and is likely to result in changes that could affect the valuation of the freight part of the network.</p> <p>As outlined in note 16, the valuation of the rail network could increase by up to \$4.3 billion if the entire rail network was not considered commercial, and it was valued on an optimised depreciated replacement cost basis.</p> | <p>We considered the evidence around the commercial nature versus the public benefit nature of the freight part of the rail network. The evidence included reviewing:</p> <ul style="list-style-type: none"> <li>- the State-owned Enterprises Act 1986;</li> <li>- strategy documents;</li> <li>- forecast results;</li> <li>- correspondence setting out the Ministers' expectations; and</li> <li>- minutes from Board meetings.</li> </ul> <p>As in past years, the evidence showed mixed results for the commercial nature versus the public benefit nature of the freight part of the rail network.</p> <p>We also considered the terms of reference for the review of rail in New Zealand. The outcome of the current review will be key in deciding whether valuing the freight network on a commercial basis remains appropriate.</p> <p>Due largely to the current review of rail, I am satisfied that the judgement to value the freight part of the network on a commercial basis for the current year, although marginal, is reasonable, and that the disclosures outline the significant judgements.</p>   |
| <p><b>Electricity generation assets</b></p> <p>As outlined in note 16, the electricity generation assets, which are at least 51% owned by the Government, are valued at \$15.9 billion at 30 June 2017. The valuation of these assets is carried out by specialist valuers because of the complexity and significance of the assumptions about the future prices of electricity, the generation costs, and the generation volumes that these assets will create.</p> <p>As a result, small changes to these assumptions, in particular the forecast prices of electricity and the discount rates used to determine the present value of these prices, could significantly change the value of these assets.</p>   | <p>We obtained an understanding of how electricity generation assets are valued. This involved confirming the competence, capabilities, and objectivity of the valuers, testing the valuers' procedures for carrying out the valuations, including the information they used to carry them out, and challenging the valuers' critical assumptions and judgements. We also used our own valuation specialists to assess the valuers' procedures.</p> <p>We tested the sensitivity of the key underlying assumptions used by the valuers to ensure that they were reasonable, and we compared the forecast prices of electricity to the expected longer-term wholesale prices and market data where it was available.</p> <p>We also confirmed the underlying information held about assets by verifying asset purchases and disposals in the current period. This included testing whether there was adequate supporting documentation for those purchases and disposals. It also involved confirming the opening assets balances, and evaluating the related financial statement disclosures.</p> <p>I am satisfied that the valuation of electricity generation assets at 30 June 2017 is reasonable, and the disclosures outline the sensitivity and the complexity of the valuation of electricity generation assets.</p> |
| <p><b>Social Housing</b></p> <p>As outlined in note 16, the portfolio of social housing was revalued at 30 June 2017 at a fair value of \$26.8 billion. The portfolio is valued on a "highest and best use" basis which is aligned to market prices for properties of a similar size and condition in the same geographical location.</p> <p>As part of the Social Housing Reform Programme, the Government has been disposing of properties to other social housing providers. Prior to transferring properties to "held for sale", the Government places encumbrances on the properties to ensure their purposes for social housing is maintained.</p>  | <p>We assessed the competence, capability and objectivity of the valuer and challenged the valuation and approach adopted, which was consistent with prior years.</p> <p>We considered the extent to which the valuation appropriately took account of a wide range of significant factors, which included:</p> <ul style="list-style-type: none"> <li>- underlying movements in market prices in places where houses are located;</li> <li>- property acquisitions through to balance date;</li> <li>- sales experience during the year to 30 June 2017; and</li> <li>- the market implications of concentrations of social housing.</li> </ul>   |



| Valuing property, plant and equipment (continued)  | How we addressed this matter  |
|--|---|
| <p><b><i>Social Housing (continued)</i></b></p> <p>Encumbrances of this nature limit the highest and best use of the properties and mean their fair value is reduced.</p> <p>The reduction in value has been calculated using a discounted cash flow model based on a series of assumptions about income and expenditure for the properties.</p> <p>I considered the valuation of property, plant and equipment to be a key audit matter because of the significant amounts involved and the judgements applied.</p>   | <p>We reviewed the integrity of the data provided to the valuer on which its valuation has been based and assessed the appropriateness of the adjustments made to the valuation as a result of any timing differences between the date of the valuation and 30 June 2017.</p> <p>We assessed the appropriateness of the methodology and assumptions used to calculate the value of the properties held for sale that have encumbrances placed on them.</p> <p>We engaged our own valuation experts to review the methodology and calculations to assess the appropriateness of the approach.</p> <p>I am satisfied that the valuation of social housing, including properties held for sale, at 30 June 2017 is reasonable and that disclosures about the valuation are adequate.</p>   |
| Valuing insurance and superannuation liabilities   | How we addressed this matter  |
| <p>The Government has insurance liabilities of \$42.8 billion and public servants' superannuation liabilities of \$11.0 billion as at 30 June 2017. The valuation of these liabilities is complex and requires actuaries to estimate the value, based on assumptions about the future. I have identified some specific liabilities because of the significance of the value of those liabilities, and the uncertainties inherent in the valuations.</p> <p><b><i>Accident Compensation Corporation's (ACC) outstanding claims liability</i></b></p> <p>As outlined in note 11, ACC's outstanding claims liability has been valued at \$37.7 billion at 30 June 2017 by an independent actuary.</p> <p>Key assumptions used to value the outstanding claims liability include:</p> <ul style="list-style-type: none"> <li>- selecting an appropriate risk-free discount rate to present value future cash flows;</li> <li>- selecting an appropriate risk margin for the inherent uncertainty in the estimate of the present value of future cash flows;</li> <li>- estimating the impact of inflation and innovation on future medical costs; and</li> <li>- estimating the length of rehabilitation from injuries.</li> </ul> <p>The sensitivity of each assumption is analysed in note 11. This sensitivity analysis indicates that assumptions are closely linked, cannot be viewed in isolation and changes in assumptions can have a large impact on the value of the liability as well as the actuarial gain or loss recognised.</p> | <p>We obtained an understanding of how ACC's outstanding claims liability is valued by assessing the reasonableness of the approach taken to value the liability. We also reviewed the key assumptions adopted by ACC for each significant claim type to ensure these were appropriate.</p> <p>We tested the systems, and controls and carried out detailed testing of the process for recording claims.</p> <p>We tested key assumptions by evaluating them against past claims experience. We assessed the reasonableness of forecasts that diverged from past experience by looking at the evidence supporting the forecast.</p> <p>We tested the reconciliations of the underlying claims data to ACC's systems, examined the sensitivity analysis for movements in key assumptions, and evaluated the related financial statement disclosures.</p> <p>I am satisfied that the assumptions and judgements applied in estimating ACC's outstanding claims liability at 30 June 2017 are reasonable, and that disclosures outline the sensitivity of the valuation to changes in assumptions.</p> |

| Valuing insurance and superannuation liabilities<br>(continued)  | How we addressed this matter  |
|--|---|
| <p><b>Public servants' superannuation liability</b></p> <p>As outlined in note 20, the Government's liability for public servants' superannuation entitlements for past and current members under the Government Superannuation Fund has been valued at \$11.0 billion at 30 June 2017 by an independent actuary.</p> <p>The present value of the liability is sensitive to the estimated return on assets owned by the Fund, expected rates of salary increases for public servants who are members of the Fund and estimated inflation and discount rates.</p> <p>The sensitivity of critical assumptions and judgements is analysed in note 20. This sensitivity analysis indicates that assumptions are closely linked, cannot be viewed in isolation and changes in assumptions can have a large impact on the value of the liability.</p> <p>I considered the valuation of insurance and superannuation liabilities to be a key audit matter because of the significant amounts involved and the judgements applied.</p>   | <p>We obtained an understanding of how the Government's liability for public servants' superannuation entitlements is valued. This involved confirming the competence, capabilities, and objectivity of the actuary, as well as testing the actuary's valuation procedures. We engaged our own valuation specialists to review the assumptions, judgements and procedures used to value the liability.</p> <p>We tested key controls that ensure the completeness and accuracy of membership data, which was used in the actuary's valuation.</p> <p>We evaluated the appropriateness of key assumptions used in estimating the return on assets owned by the Fund and compared the expected rates of salary increases against external benchmarks.</p> <p>I am satisfied that the Government's liability for public servants' superannuation entitlements at 30 June 2017 is reasonable, and that the disclosures outline the sensitivities of the valuation to changes in assumptions.</p>  |
| Valuing financial assets and liabilities   | How we addressed this matter  |
| <p>As outlined in note 26, as at 30 June 2017, the Government has financial assets of \$133.4 billion, of which \$75.3 billion are valued at fair value (and \$58.1 billion are valued at amortised cost), and financial liabilities of \$128.3 billion, of which \$7.6 billion are valued at fair value (and \$120.7 billion are valued at amortised cost).</p> <p>Financial assets and liabilities measured at fair value include derivatives (which have a principal value of \$232.5 billion), marketable securities, and share investments.</p> <p>Where quoted market prices are not available to determine the value of financial assets and liabilities, fair value must be estimated. This is done by applying a valuation approach that is most appropriate for the asset or liability, such as using valuation models. Inputs into the models will use market data when available, otherwise inputs are derived from non-market data, which requires judgement.</p> <p>The fair value of financial assets and financial liabilities that are valued using non-observable inputs are valued at \$3.3 billion and \$66 million respectively.</p> <p>I considered the valuation of financial assets and liabilities to be a key audit matter because of the significant amounts involved and the judgements applied.</p> | <p>We obtained an understanding of the valuation techniques, controls and inputs used to determine the fair value of financial assets and liabilities.</p> <p>We also carried out a range of audit procedures which reflected the nature of the financial assets and liabilities being valued, the valuation techniques adopted and the uncertainties that existed in determining their fair values. These audit procedures included:</p> <ul style="list-style-type: none"> <li>- testing the internal controls in place over data relating to financial assets and liabilities that has been entered into financial and treasury systems;</li> <li>- obtaining an understanding of the controls and valuation approaches applied, where a fund manager carries out the valuation;</li> <li>- comparing the fair value of financial assets and liabilities to independent information and investigating any significant variances; and</li> <li>- assessing the appropriateness of the inputs used for valuing financial assets and liabilities where the fair value was dependent on non-observable inputs.</li> </ul> <p>I am satisfied that the fair values of financial assets and liabilities at 30 June 2017 are reasonable and that the disclosures outline the significant judgements.</p> |

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

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

- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity accounting standards; and
- present fairly the Government's financial position, financial performance, and cash flows; and
- present fairly the Government's:
  - borrowings;
  - unappropriated expenditure;

- expenses or capital expenditure incurred in emergencies; and
- trust money administered by departments.

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists.

Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions readers take on the basis of the financial statements of the Government.

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

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

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

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

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

- eliminations of transactions between the organisations that are consolidated into the financial statements of the Government;

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

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

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

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

### Other information

The Treasury is responsible for the other information. The other information comprises the information included on pages 1 to 26 and 127 to 133, but does not include the financial statements of the Government, and my auditor's report thereon.

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

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

### Independence

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

As an Officer of Parliament, I am constitutionally and operationally independent of the Government and, in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in the Government.



Greg Schollum  
Deputy Controller and Auditor-General  
Wellington, New Zealand

## Glossary of Terms

### **Commercial sector**

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

### **Comparatives (Budget 2016 and Budget 2017)**

Comparatives referred to as Budget 2016 were forecasts published in the *2016 Budget Economic and Fiscal Update* while comparatives referred to as Budget 2017 were forecasts published in the *2017 Budget Economic and Fiscal Update*.

### **Contingent assets**

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

### **Contingent liabilities**

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

### **Core Crown**

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 39 to 42).

### **Core Crown expenses**

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

### **Core Crown revenue**

Consists primarily of tax revenue collected by the Government but also includes investment revenue, sales of goods and services and other revenue of the core Crown.

### **Core Crown net debt**

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

### **Corporate tax**

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

### **Domestic bond programme**

The amount and timing of government bonds expected to be issued or redeemed.

### **Excise duties**

A tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

### **Financial assets**

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies), or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

### **Financial liabilities**

Any liability that is a contractual obligation to pay cash (government stock, accounts payable), or a right to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

### **Financial sector**

Consists of the assets and liabilities held by the Crown to finance or pre-fund government expenditure.

### **Forecast new capital spending**

An amount provided in the forecasts to represent the impact on the financial position and cash flows of capital initiatives expected to be introduced over the forecast period.

### **Forecast new operating spending**

An amount included in the forecasts to provide for the operating balance impact of policy initiatives, changes to demographics, and other forecasting changes expected to occur over the forecast period.

**Gains and losses**

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and the Government Superannuation Fund. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the statement of financial performance.

**Gross domestic product (GDP)**

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

**Gross debt (or Gross sovereign-issued debt)**

Represents debt issued by sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission.

**Insurance liabilities**

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

**Inter-segment eliminations**

The amounts of transactions between different segments (core Crown, Crown entities and State-owned Enterprises) that are eliminated to determine total Crown results.

**Marketable securities**

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

**Net core Crown cash flow from operations**

The cash impact of operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of State-owned Enterprises, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

**Net worth**

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

**Net worth attributable to the Crown**

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

**Operating balance**

Represents OBEGAL plus gains and losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long term liabilities.

**Operating balance before gains and losses (OBEGAL)**

Represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short term market fluctuations are not included in the calculation.

**Optimised Depreciated Replacement Cost**

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

**Public Sector PBE Accounting Standards (PBE standards)**

The reporting and measurement framework under which these financial statements are prepared. These standards are approved by the External Reporting Board in New Zealand, based on requirements of the international public sector accounting standards issued by the International Public Sector Accounting Standards Board, adjusted where appropriate for the New Zealand context.

**Residual cash**

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

Residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments (eg, purchase of assets, loans to others).

**Settlement cash**

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

***Social sector***

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

***Tax revenue***

The accrual, rather than the cash ("tax receipts") measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

***Top-down adjustment***

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

***Total borrowings***

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

***Total Crown***

Includes the core Crown (defined above) plus Crown entities and State-owned Enterprises. Also known as the Government Reporting Entities (which are listed on pages 39 to 42).