Financial Statements of the Government of New Zealand

for the year ended 30 June 2014

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Ministerial Statement

The New Zealand economy continues to grow, with real GDP increasing by 3.9 per cent in the year ended 30 June 2014 – the highest growth rate for the last decade. The Government's programme to build a more competitive and productive economy remains on track with the Crown's finances continuing to strengthen in the year under review.

The Government's operating deficit excluding gains and losses (OBEGAL) reduced for the third consecutive year to $2.9 billion, equal to 1.3 per cent of GDP in the year to 30 June 2014. The Government remains focussed on returning to surplus so we can start repaying debt.

That compares with deficits of $4.4 billion (2.1 per cent of GDP) in the June 2013 year, $9.2 billion (4.4 per cent of GDP) in the June 2012 year and $18.4 billion (9.2 per cent of GDP) in the June 2011 year.

In the year to June 2014, core Crown tax revenue continued to recover, reaching $61.5 billion, as forecast in the Treasury's *Pre-election Economic and Fiscal Update* and up $2.8 billion from the previous year.

The Government has continued to restrain growth in spending while focussing on getting better results from existing spending, particularly for the most vulnerable New Zealanders. Overall, while core Crown expenses grew by $1.2 billion (1.7 per cent) to $71.5 billion in the year to June 2014, the increase in spending was lower than the pace of growth in the nominal economy, resulting in expenses declining to 31.2 per cent of GDP (33.1 per cent of GDP 30 June 2013).

Returns from the Crown's financial institutions such as the New Zealand Superannuation Fund (NZSF) contributed to net gains of $5.4 billion, leading to an operating surplus of $2.8 billion (1.2 per cent of GDP). While these gains remain healthy (NZSF return was 19.4 per cent for the year ended 30 June 2014) they did not repeat the previous year's strong gains of $11.3 billion.

The size of the Crown's balance sheet grew over the year, with assets reaching $256.1 billion at 30 June, up $11.7 billion. The Crown's investment portfolios and value of property, plant and equipment all increased. The Government will work hard to improve the processes for investment in property, plant and equipment, investing only where it is required and where there are demonstrated benefits. The $1 billion increase in liabilities was more muted, with increases in borrowings and the ACC outstanding claims liability offset by a fall in a number of the Canterbury earthquake liabilities as claims and obligations are settled.

The Government's successful share offer programme was completed during the financial year taking the Future Investment Fund to $4.7 billion, which is earmarked for new capital spending in priority areas including health, education, and the Canterbury rebuild. $2.3 billion of those funds were received in the year under review, while the second instalment of the Meridian Energy share offer ($627.5 million) is due in May 2015.

Those proceeds, along with the stronger operating result, drove a fall in the residual cash deficit from $5.7 billion to $4.1 billion in the June 2014 year. Continuing cash deficits mean the core Crown's net debt continued to widen, reaching $59.9 billion (26.2 per cent of GDP) at 30 June.

The Government's fiscal strategy is to run growing operating surpluses in the years ahead so we can start repaying debt.

Hon Bill English
Minister of Finance
30 September 2014

Statement of Responsibility

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

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

Gabriel Makhlouf
Secretary to the Treasury
30 September 2014

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 2014 and its operations for the year ended on that date.

Hon Bill English
Minister of Finance
30 September 2014

COMMENTARY

Fiscal Overview

FISCAL STRATEGY LONG-TERM OBJECTIVES

Operating revenue

Ensure sufficient operating revenues to meet the operating balance objective

Operating expenses

To control the growth in spending so that over time core Crown expenses are reduced to below 30% of GDP

Operating balance

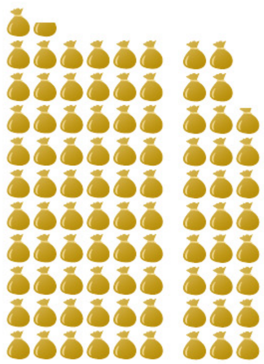
Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective

Total Crown

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

FINANCIAL RESULTS

$89.4b Total Crown revenue – **$92.2b Total expenses** = **($2.9b) OBEGAL** (excluding minority interests)

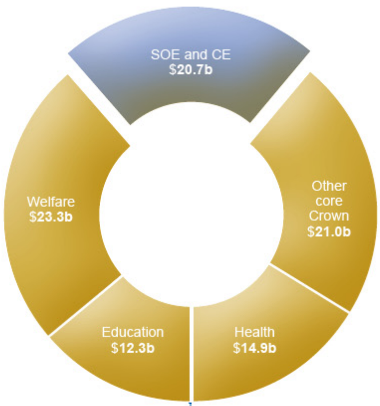


$61.5b

$27.9b

Core Crown tax revenue (26.8% of GDP)

Other revenue



■ SOE and Crown Entities
■ Core Crown expenses (31.2% of GDP)

\+ $5.7b Net gains

$2.8b Operating balance surplus (excluding minority interests)

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Fiscal strategy

- Note 29 (pg 117)

Revenue

- Tax revenue (pg 10)
- Other revenue (pg 11)

Expenses

- Functional classification tables (pg 29)
- Detailed expense notes (pgs 54–59)
- SOE and Crown entities (CE) results (pg 173–174)
- Unappropriated expenditure (pg 159–162)

Net result

- Operating statement (pg 28)
- Gains and losses notes (pgs 60–61)
- ACC insurance liability (pg 93–97)
- GSF note (pg 105–108)

FISCAL STRATEGY
LONG-TERM OBJECTIVES

Debt

Manage total debt at prudent levels ensuring net debt remains consistently below 35% of GDP and brought back to a level no higher than 20% of GDP by 2020

Core Crown

Moving from total Crown accrual measure to core Crown cash measure

Movement in net debt

($2.9b) OBEGAL + ($0.1b) Non-residual cash items – **$1.1b Capital items** = **($4.1b) Residual cash deficit**

FINANCIAL RESULTS

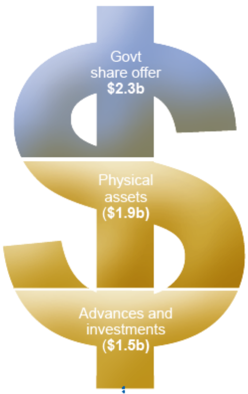
$0.7b
Non-cash expenses (eg, depreciation)

($0.8b)
SOE, CE and NZSF OBEGAL

($3.0b)
Core Crown operating cash flows

Inflows

Outflows



Core Crown investing cash flows

–

$55.8b Opening net debt

$59.9b
Closing Net debt

26.2% of GDP

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Non-cash movements

- SOE and CE results (pg 173–174)

Other impacts on cash

- Property, plant and equipment (pg 73)
- Advances (pg 68)
- Core Crown residual cash (pg 171)
- Govt share offer programme (pg 20, 156–157)

Debt

- Debt calculation (pg 172)
- Borrowings note (pg 89)

Introduction

These financial statements[1] contain the audited results for the financial year ended 30 June 2014. The results are compared against previous years and against two sets of forecasts[2] for the 2013/14 year:

- Budget 13 refers to the 2013 *Budget Economic and Fiscal Update*, and
- Budget 14 refers to the 2014 *Budget Economic and Fiscal Update*.

This commentary should be read in conjunction with the financial statements on pages 28 to 167.

At a Glance

Table 1 – Financial results

Year ended 30 June	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Forecast 30 June 2014 Budget 13	Forecast 30 June 2014 Budget 14
$ million							
Core Crown tax revenue	50,744	51,557	55,081	58,651	**61,474**	62,393	61,896
Core Crown expenses	64,013	70,450	69,076	70,306	**71,467**	72,367	71,616
OBEGAL (excluding minority interests)	(6,315)	(18,396)	(9,240)	(4,414)	**(2,933)**	(2,033)	(2,447)
Operating balance (excluding minority interests)	(4,509)	(13,360)	(14,897)	6,925	**2,808**	358	2,973
Residual cash	(9,000)	(13,343)	(10,644)	(5,742)	**(4,109)**	(6,886)	(3,914)
Gross debt	53,591	72,420	79,635	77,984	**81,956**	87,686	82,157
as a percentage of GDP	*27.8%*	*36.0%*	*38.1%*	*36.7%*	***35.8%***	*38.5%*	*35.6%*
Net debt	26,738	40,128	50,671	55,835	**59,931**	64,765	59,421
as a percentage of GDP	*13.9%*	*20.0%*	*24.2%*	*26.3%*	***26.2%***	*28.4%*	*25.8%*
Net worth attributable to the Crown	94,586	80,579	59,348	68,071	**75,568**	61,997	70,032

Headlines:

- Tax revenue up $2.8 billion from a year earlier, although lower than forecast (page 10).
- Core Crown expenses were $1.2 billion higher than the year before, also lower than forecast (page 12).
- OBEGAL deficit significantly reduced from 2013 to just over $2.9 billion (page 14).
- The Government share offer programme raised proceeds of $2.3 billion in the fiscal year (page 20).
- Core Crown net debt increased by $4.1 billion (to 26.2% of GDP) to fund residual cash deficits (page 16).
- Crown assets increased by $11.7 billion to reach $256.1 billion (page 19).
- Net worth attributable to the Crown continued to strengthen (page 18).

[1] 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 of New Zealand. Total Crown is comprised of the core Crown, State-owned enterprises and Crown entities.

[2] Comparisons against the *Pre-election Economic and Fiscal Update (Pre-election Update)* are available on page 9.

Summary

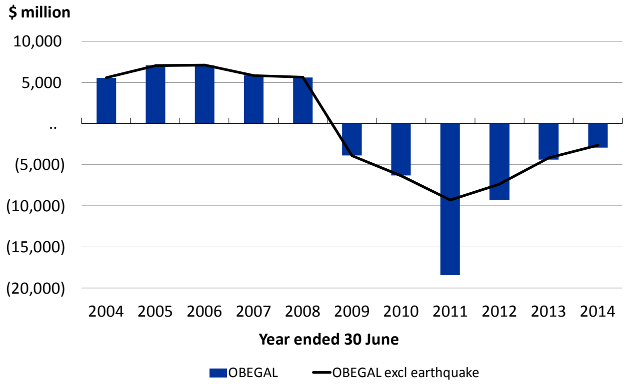
Overall the Crown's operating performance continued to improve...

The operating balance before gains and losses (OBEGAL) deficit decreased from $4.4 billion, to $2.9 billion.

The continued narrowing of the OBEGAL deficit was a result of further growth in the nominal economy (leading to a higher tax take).

Excluding the impact of the Canterbury rebuild, the adjusted OBEGAL deficit was $2.6 billion this year; which was around half the comparative figure for the previous year.

Figure 1 – OBEGAL (excluding minority interests)



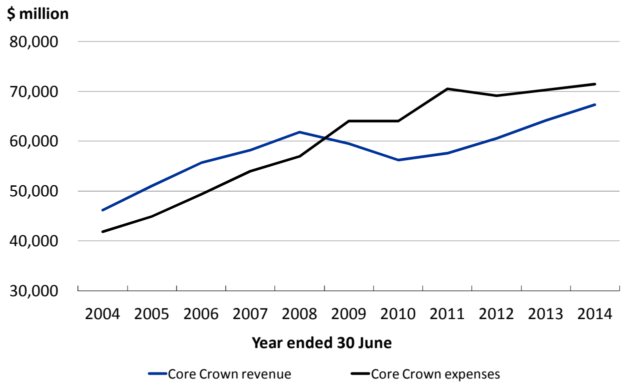
Source: The Treasury

... as the New Zealand economy continued to grow leading to an increase in the tax take...

Real gross domestic product expanded at an annual average rate of 3.5% in the June 2014 year, with strong growth in construction, primary industries and some services. In current dollar or nominal terms, the value of output increased 7.8%, largely as a result of a 15.8% increase in the goods terms of trade. Weekly paid hours were up 3.2% from the previous year and average hourly wages were up 2.6%, giving an increase in total weekly gross earnings of 5.8%.

The increase in economic activity and growth in employment led to core Crown tax revenue being $2.8 billion higher than a year earlier, with all major tax types improving to reach $61.5 billion. As a share of the economy, core Crown tax revenue was 26.8% of GDP – that compares, for example, with a peak in the past decade of 31.2% of GDP in the year to June 2006.

Figure 2 – Core Crown revenue and expenses



Source: The Treasury

...while core Crown expenses remained relatively flat...

In nominal terms, core Crown expenses increased $1.2 billion (1.7%) to $71.5 billion for the year to 30 June. As a share of the nominal economy, core Crown expenses were equal in value to 31.2% of GDP (33.1% of GDP in 2013).

The largest drivers of growth in nominal core Crown expenditure were New Zealand Superannuation expenditure as a result of indexation and an increase in the number of recipients, along with spending decisions in *Budget 2013*, primarily relating to health and education.

...and investment gains led to an operating balance surplus...

The total Crown operating balance, inclusive of gains and losses, was a surplus of $2.8 billion, as net gains of $5.4 billion more than offset the OBEGAL deficit.

...strengthening the Crown's net worth

With an operating surplus, the Crown's net worth increased for the second consecutive year. Total assets increased by $11.7 billion, while liabilities increased by $0.9 billion.

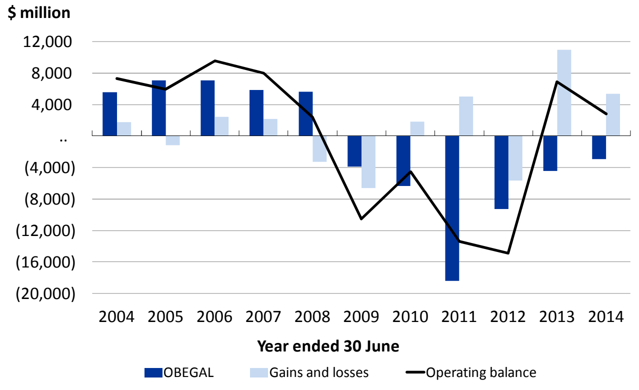
The higher asset values were largely the result of revaluations to Crown assets contributing to the increase in value of property, plant and equipment ($6.5 billion) and strong equity markets which contributed to an uplift in financial assets ($4.4 billion).

The increase in liabilities was due mainly to an increase in borrowings, partly offset by lower earthquake liabilities as claims were settled.

...however cash deficits continued, causing net debt to rise

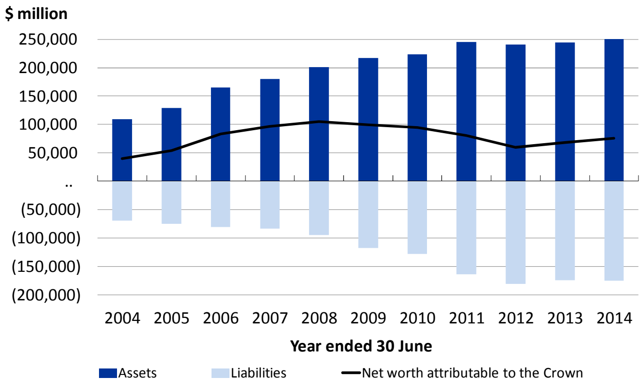
With the Crown recording an OBEGAL deficit, and maintaining capital spending, the resulting residual cash deficit meant that net debt continued to rise in nominal terms. Net debt reached $59.9 billion (26.2% of GDP) at 30 June 2014, up from $55.8 billion (26.3% of GDP) a year earlier. The rate of growth, however, has slowed in recent years as cash deficits have become smaller. At $4.1 billion, the residual cash deficit was $1.6 billion less than the year before as tax receipts grew faster than operating payments. In addition, this year included proceeds of $2.3 billion from the Government share offer programme ($0.7 billion higher than last year).

Figure 3 – Operating balance (excluding minority interests)



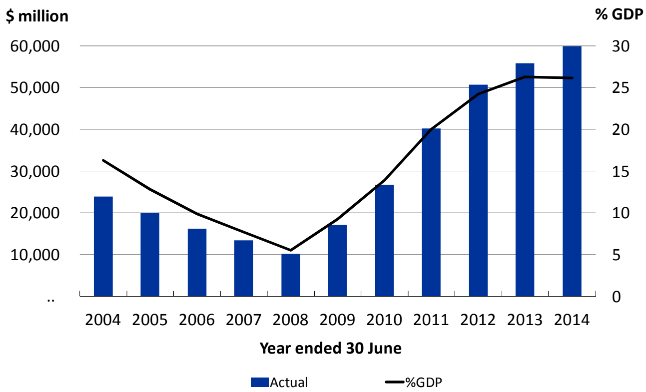
Source: The Treasury

Figure 4 – Net worth attributable to the Crown



Source: The Treasury

Figure 5 – Net debt



Source: The Treasury

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

The *Pre-election Update* was published on 19 August 2014. While the financial statements focus on results compared to *Budget 2014* forecasts, this section compares outcomes against the recent *Pre-election Update*.

Table 2 – 2014 results compared to the *Pre-election Update*

Year ended 30 June $ million	Actual 2014	Pre-election Update 2014	Variance to Pre-election Update 2014
Core Crown tax revenue	**61,474**	61,516	(42)
Core Crown expenses	**71,467**	71,291	(176)
OBEGAL (excluding minority interests)	**(2,933)**	(2,595)	(338)
Operating balance (excluding minority interests)	**2,808**	2,826	(18)
Residual cash	**(4,109)**	(4,191)	82
Gross debt	**81,956**	82,820	864
as a percentage of GDP	***35.8%***	35.8%	
Net debt	**59,931**	59,941	10
as a percentage of GDP	**26.2%**	25.9%	
Net worth attributable to the Crown	**75,568**	74,401	1,167

Overall, the results were broadly similar to the *Pre-election Update*. This is not unexpected, as the *Pre-election Update* incorporated unaudited interim 2014 year-end results as a base for the forecast. However, there have been some changes as the year-end results were finalised.

Core Crown tax revenue

Core Crown tax revenue was close to the *Pre-election Update*, with variances in GST ($87 million lower) and corporate tax ($44 million higher) partly offsetting each other. The negative variance on GST can be attributed to continued weakness in nominal domestic consumption. In contrast, weakness in corporate tax was not as great as expected.

Core Crown expenses

Core Crown expenses were $176 million higher than the *Pre-election Update*. Costs of $75 million associated with the Canterbury rebuild were reclassified as expenses (previously losses). In addition Treaty of Waitangi-related expenses were $52 million higher than expected, with the remaining variances spread across a number of entities and expense types.

OBEGAL

The OBEGAL deficit was $338 million greater than in the *Pre-election Update* at $2.9 billion.

- When the tax results of SOE's and Crown Entities are included, tax revenue was $122 million under forecast, due to the finalisation of their year-end results.
- Core Crown expenses contributed to $176 million of this result (as discussed above).

Net worth attributable to the Crown

Net worth attributable to the Crown was $1.2 billion higher than forecast in the *Pre-election Update*. Net property, plant and equipment revaluations account for the majority of this change, as valuations were not finalised at the time the forecast was released.

Debt

While gross debt was lower than expected (with the core Crown holding less debt instruments than forecast), financial assets were also lower, meaning net debt was close to forecast.

Revenue

Table 3 – Breakdown of revenue

Year ended 30 June	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Forecast 30 June 2014 Budget 13	Forecast 30 June 2014 Budget 14
$ million							
Core Crown tax revenue	50,744	51,557	55,081	58,651	61,474	62,393	61,896
Core Crown other revenue	5,472	5,993	5,484	5,498	5,823	5,989	5,879
Core Crown revenue	56,216	57,550	60,565	64,149	67,297	68,382	67,775
Crown entities, SOEs and eliminations	18,509	24,013	22,918	22,506	22,099	23,222	22,202
Total Crown revenue	**74,725**	**81,563**	**83,483**	**86,655**	**89,396**	**91,604**	**89,977**
% of GDP							
Core Crown tax revenue	26.4%	25.7%	26.3%	27.6%	26.8%	27.4%	26.8%
Core Crown other revenue	2.8%	3.0%	2.6%	2.6%	2.5%	2.6%	2.5%
Core Crown revenue	29.2%	28.6%	29.0%	30.2%	29.4%	30.0%	29.4%
Crown entities, SOEs and eliminations	9.6%	12.0%	11.0%	10.6%	9.6%	10.2%	9.6%
Total Crown revenue	**38.6%**	**40.6%**	**39.9%**	**40.8%**	**39.0%**	**40.2%**	**39.0%**

Total Crown revenue was $89.4 billion, an increase of $2.7 billion from a year earlier mostly due to higher core Crown tax revenue ($2.8 billion higher).

Core Crown Tax Revenue

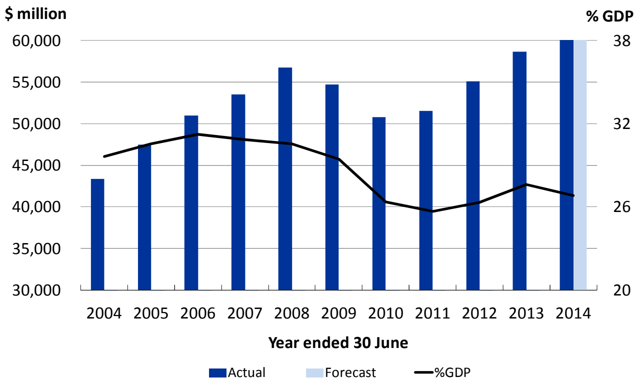
All major tax types contributed to the nominal increase in tax over the year, with three tax types making up most of the increase (Table 4):

- Source deductions: $1.4 billion (6%) higher than the previous year owing to a stronger labour market. More people were employed, and salaries and wages were higher, which added an estimated $0.8 billion and $0.6 billion respectively to source deductions, compared with the June 2013 year.
- GST: $0.8 billion stronger than 2013 largely owing to growth in domestic consumption.
- Corporate tax: $0.3 billion higher than the year before, mainly owing to growth in current-year taxable profits of companies, somewhat offset by a decline in 2013 terminal tax.

Although core Crown tax increased by $2.8 billion in nominal terms, it declined by 0.8% of GDP (figure 6). The two main reasons for this decline were:

- Some of the principal drivers of tax revenue, (eg, compensation of employees and private consumption), grew at a slower rate than overall GDP, causing the related tax-to-GDP ratio to decrease by approximately 0.3%, and
- A decline in terminal tax in 2014 reduced the tax-to-GDP ratio by approximately 0.4%.

Figure 6 – Core Crown tax revenue



Source: The Treasury

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

Year ended 30 June	
2013 core Crown tax revenue	**58.7**
Source deductions	1.4
GST	0.8
Corporate tax	0.3
Other movements	0.3
2014 core Crown tax revenue	**61.5**

Source: The Treasury

Revenue (continued)

- Compared to forecasts in *Budget 2014*, core Crown tax revenue was $0.4 billion less than expected, with the largest difference being in GST. GST was $0.3 billion lower than forecast due mainly to weakness in nominal domestic consumption relative to forecast.

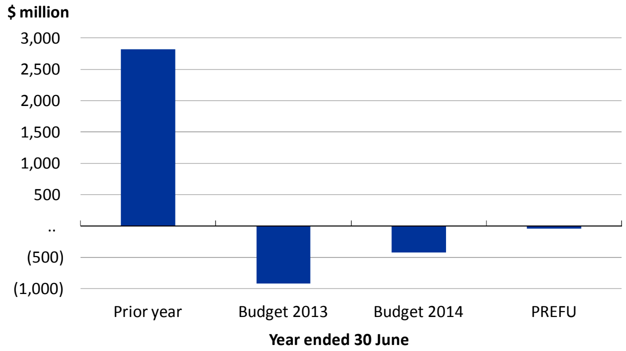
Other Revenue

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

Core Crown other revenue, at $5.8 billion was $0.3 billion higher than the previous year, while the SOE and CE sectors (including eliminations) recorded revenue of $22.1 billion, $0.4 billion lower than a year earlier (Table 3 and Figure 8).

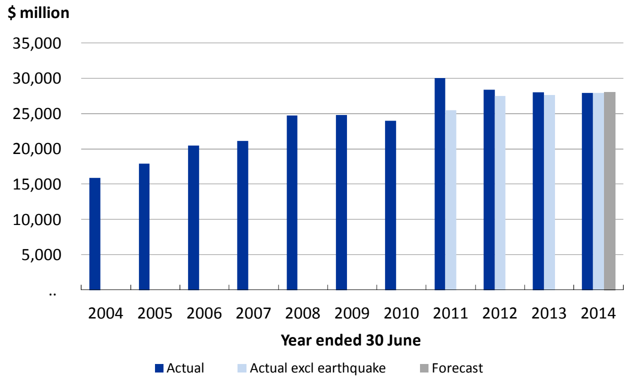
Most of the reduction in revenue ($0.4 billion) was attributable to a fall in SOE electricity company revenue; which was more than offset by an equivalent fall in their expenses.

Figure 7 – Core Crown tax revenue variance comparison



Source: The Treasury

Figure 8 – Other revenue



Source: The Treasury

Expenses

Table 5 – Breakdown of expenses

Year ended 30 June	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Forecast 30 June 2014 Budget 13	Forecast 30 June 2014 Budget 14
$ million							
Social security and welfare	21,185	22,005	22,028	22,741	23,281	23,595	23,329
Health	13,128	13,753	14,160	14,498	14,898	14,950	14,889
Education	11,724	11,650	11,654	12,504	12,300	12,389	12,411
Core government services	2,974	5,563	5,428	4,294	4,502	4,637	4,792
Law and order	3,191	3,382	3,403	3,456	3,501	3,561	3,575
Other core Crown expenses	11,811	14,097	12,403	12,813	12,985	13,235	12,620
Core Crown expenses	**64,013**	**70,450**	**69,076**	**70,306**	**71,467**	**72,367**	**71,616**
Crown entities, SOEs and eliminations	17,027	29,509	23,647	20,701	20,703	21,130	20,598
Total Crown expenses	**81,040**	**99,959**	**92,723**	**91,007**	**92,170**	**93,497**	**92,214**
% of GDP							
Social security and welfare	11.0%	11.0%	10.5%	10.7%	10.2%	10.4%	10.1%
Health	6.8%	6.8%	6.8%	6.8%	6.5%	6.6%	6.5%
Education	6.1%	5.8%	5.6%	5.9%	5.4%	5.4%	5.4%
Core government services	1.5%	2.8%	2.6%	2.0%	2.0%	2.0%	2.1%
Law and order	1.7%	1.7%	1.6%	1.6%	1.5%	1.6%	1.5%
Other core Crown expenses	6.1%	7.0%	5.9%	6.0%	5.7%	5.8%	5.5%
Core Crown expenses	**33.3%**	**35.1%**	**33.0%**	**33.1%**	**31.2%**	**31.8%**	**31.0%**
Crown entities, SOEs and eliminations	8.8%	14.7%	11.3%	9.7%	9.0%	9.3%	8.9%
Total Crown expenses	**42.1%**	**49.8%**	**44.3%**	**42.8%**	**40.2%**	**41.0%**	**40.0%**

Total Crown expenses were $92.2 billion in the latest year, $1.2 billion more than the year earlier. The increase reflected higher core Crown expenses of $1.2 billion.

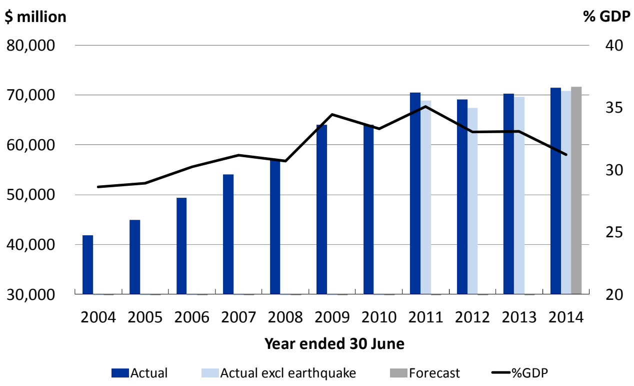
Core Crown Expenses

Despite the nominal expenditure increase of $1.2 billion, core Crown expenses fell as a share of the economy to 31.2% of GDP (Figure 9) - the lowest ratio level since 2008.

Table 6 shows the largest contributors to the nominal increase in core Crown expenses over the year, with the following key areas contributing to the increase:

- New Zealand Superannuation expenditure increased $0.7 billion, mostly a result of indexation and an increase in recipients of New Zealand Superannuation, from around 612,000 to 640,000.
- Health and Ministry of Education expenses were higher ($0.4 billion and $0.2 billion respectively) than the previous year as a result of allocations in *Budget 2013*.

Figure 9 – Core Crown expenses



Source: The Treasury

Table 6 – Movement in core Crown expenses ($ billion)

Year ended 30 June	
2013 core Crown expenses	**70.3**
New Zealand Superannuation	0.7
Health expenditure	0.4
Ministry of Education expenditure	0.3
Other	(0.2)
2014 core Crown expenses	**71.5**

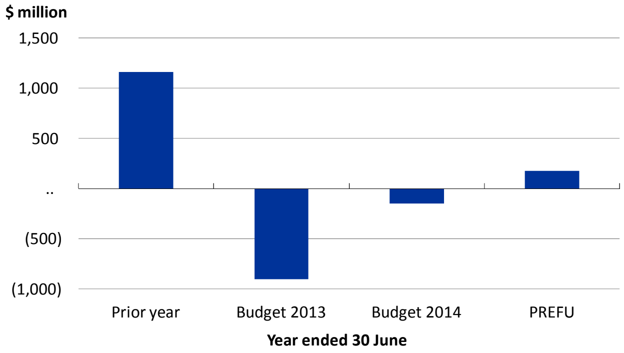
Source: The Treasury

Expenses (continued)

When compared to *Budget 2014*, core Crown expenses were $0.1 billion lower than expected.

The lower than forecast result was largely due to lower impairment expenses mainly relating to tax, KiwiSaver and Working for Families' debt. The impairment was $1.3 billion, which was $0.2 billion lower than forecast ($1.5 billion).

Figure 10 – Core Crown expenses variance comparison



Source: The Treasury

Other Expenses

While the SOE and CE sectors recorded expenses close to forecast, there were some overs and unders within this result.

- Insurance expenses increased $0.5 billion, reflecting additional claims expenses for ACC and Southern Response.
- DHB expenses were $0.3 billion higher than the previous year as a result of allocations to Health in *Budget 2013*.

These higher expenses were partly offset by $0.8 billion lower SOE electricity company expenses.

Operating Balance

Table 7 – Total Crown operating balance (excluding minority interests)

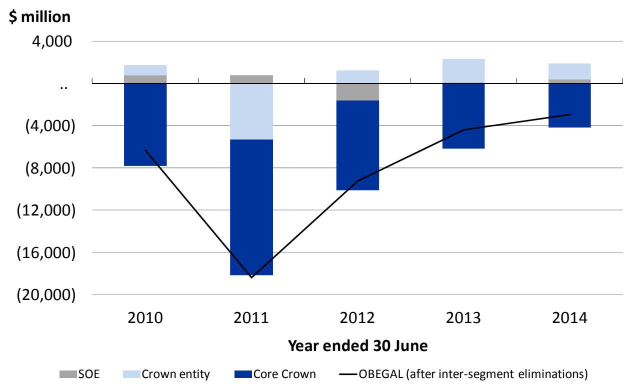
Year ended 30 June	Actual	Actual	Actual	Actual	Actual	Forecast 30 June 2014	
$ million	**2010**	**2011**	**2012**	**2013**	**2014**	**Budget 13**	**Budget 14**
Total Crown OBEGAL	**(6,315)**	**(18,396)**	**(9,240)**	**(4,414)**	**(2,933)**	**(2,033)**	**(2,447)**
Gains and losses:							
ACC actuarial gain/(loss)	410	996	(2,942)	2,369	479	498	1,082
GSF actuarial gain/(loss)	(1,231)	(574)	(3,896)	1,251	577	-	713
ETS/Kyoto net position	(15)	47	350	103	(324)	-	(184)
Investment portfolios:							
NZS Fund	1,750	3,518	(204)	4,374	3,735	1,358	2,872
ACC	745	961	944	1,796	730	203	343
Earthquake Commission	37	109	(53)	1	-	-	-
Other gains/(losses)*	110	(21)	144	1,445	544	332	594
Total Crown gains/(losses)	**1,806**	**5,036**	**(5,657)**	**11,339**	**5,741**	**2,391**	**5,420**
Total Crown operating balance	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**	**2,808**	**358**	**2,973**
% of GDP							
Total Crown OBEGAL	(3.3)%	(9.2)%	(4.4)%	(2.1)%	(1.3)%	(0.9)%	(1.1)%
Total Crown gains/(losses)	0.9%	2.5%	(2.7)%	5.3%	2.5%	1.0%	2.3%
Total Crown Operating balance	**(2.3)%**	**(6.7)%**	**(7.1)%**	**3.3%**	**1.2%**	**0.2%**	**1.3%**

* Other gains and losses includes the net surplus from associates and joint ventures and operating balances from minority interests

OBEGAL

The OBEGAL deficit narrowed significantly in the latest June year (Table 7). The improved result was mainly owing to higher tax revenue at the total Crown level (as discussed earlier). However, when compared to *Budget 2014*, the OBEGAL deficit was $0.5 billion bigger than expected largely owing to lower tax revenue than forecast.

Figure 11 – Components of OBEGAL by segment



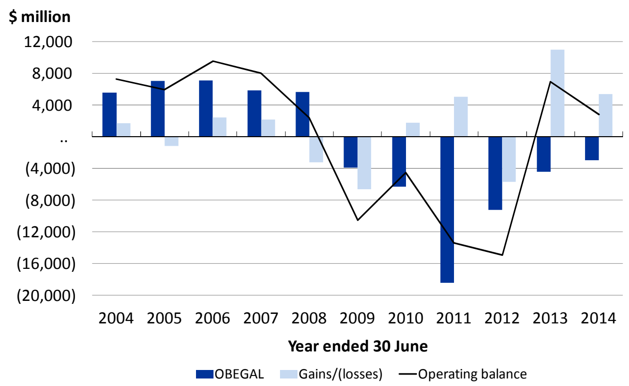
Source: The Treasury

Operating Balance

Adding the Crown's net gains of $5.7 billion to the OBEGAL deficit, the operating balance was a surplus of $2.8 billion ($4.1 billion lower than 2013).

While the Crown recorded net gains in the current year it was less than the previous year, when discount rates increased and equity markets were stronger, resulting in gains of $11.3 billion in that year. These large movements highlight the volatile nature of the operating balance (Figure 12).

Figure 12 – Operating balance



Source: The Treasury

The NZS Fund recorded $3.7 billion of the total Crown net gains. Their investment portfolio earned strong returns as global equity markets rose. Overall, the Fund returned 19.36% for the year to June (25.83% last year) and now has pre-tax assets of approximately $26.5 billion ($23 billion in 2013).

Changes in the inflation rate and experience adjustments resulted in actuarial gains on the long-term liabilities for ACC insurance and Government Superannuation Fund (GSF) pensions. A decrease in assumed inflation rates resulted in gains of $1.2 billion ($0.8 billion for ACC and $0.4 billion for GSF).

Compared to *Budget 2014*, the total Crown operating balance was close to forecast.

Canterbury Earthquake Recovery

Table 8 – Net costs to the Crown of the Canterbury Earthquakes to 30 June 2014

Year ending 30 June $ million	Total to date	Actual to 2013	Actual 2014	Forecast 2014	Difference to forecast
Local Infrastructure	1,516	1,407	109	101	8
Land zoning	1,000	903	97	(22)	119
Southern Response support package	582	458	124	67	57
Christchurch central city rebuild	588	115	473	456	17
Other earthquake costs	1,040	783	257	361	(104)
Canterbury earthquake recovery costs	**4,726**	**3,666**	**1,060**	**963**	**97**
EQC (net of reinsurance proceeds)	7,784	8,026	(242)	(412)	170
Other Crown Entities	(129)	(217)	88	25	63
Total Crown net earthquake costs	**12,381**	**11,475**	**906**	**576**	**330**
Operating expenses	11,579	11,253	326	(64)	390
Capital expenditure	802	222	580	640	(60)
Total Crown net earthquake costs	**12,381**	**11,475**	**906**	**576**	**330**

This June year the net cost (including both operating and capital spending) of the Canterbury earthquakes was $0.9 billion, $0.4 billion higher than in the June 2013 year, and $0.3 billion higher than expected in *Budget 14* (Table 8). These results bring the total net costs to date to $12.4 billion. It is important to note that this does not represent the total fiscal impact to the Crown of the earthquakes as some costs are yet to be incurred.

Operating expenses

The most significant operating expenses this year were incurred by:

- Canterbury Earthquake Recovery Authority (CERA) with $0.2 billion in relation to the central city rebuild, $0.1 billion in relation to land zoning costs (largely in relation to the red zone), and $0.1 billion for departmental and other costs.
- New Zealand Transport Agency with $0.1 billion for repair costs of local roads.
- Southern Response costs increased around $0.1 billion to June 2014.

Offsetting these costs were net recoveries of $0.2 billion for EQC and $0.1 billion due to insurance recoveries by agencies.

Capital expenses

Now the work in Christchurch has moved into the rebuild stage, capital costs have started to increase. In total, just under $0.6 billion of capital expenditure was incurred this year:

- $0.3 billion related to the Crown acquiring land for use in the Anchor Projects as part of the central city rebuild.
- $0.1 billion for refurbishment costs in relation to tertiary education institutes and $0.2 billion of costs for Canterbury hospitals, the state housing stock, schools and the new justice and emergency services precinct.

Compared to Budget 2014

The $0.9 billion of costs incurred this year were $0.3 billion higher than forecast in Budget 2014 largely due to the following:

- Updated actuarial valuations resulted in higher than forecast support package costs for Southern Response and lower than forecast net recoveries for EQC, totalling approximately $0.2 billion.
- Land zoning costs were $0.1 billion higher than forecast largely due to lower than expected recoveries during the year. Insurance recoveries with respect to red zone properties were lower than expected and anticipated funding from Christchurch City Council (CCC) for red zoning was also lower due to the level of uncertainty around the timing and amount of land recoveries.

Risk to cost estimates

Risks remain that the Canterbury earthquake costs will be higher than estimated. Key risks include the timing of expenditure and escalating costs as well as the independent review of infrastructure costs shared by the CCC and the Crown (due to be completed by 1 December 2014). Note 30 in the financial statements includes more detail about the costs this year and provides detailed information about the judgements and uncertainties involved in the cost estimations.

Debt

Table 9 – Net debt[3] and Gross debt[4]

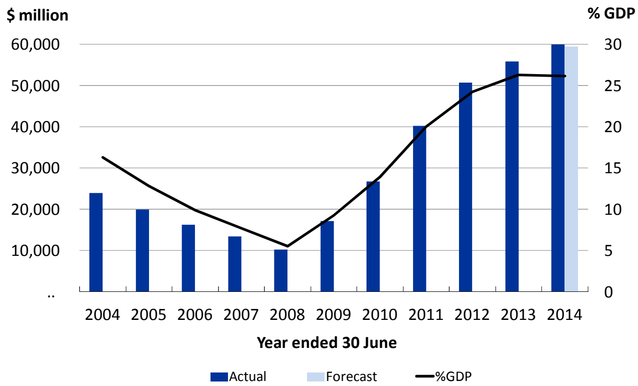
Year ended 30 June	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Forecast 30 June 2014 Budget 13	Budget 14
Net debt ($m)	26,738	40,128	50,671	55,835	59,931	64,765	59,421
Net debt (% GDP)	13.9%	20.0%	24.2%	26.3%	26.2%	28.4%	25.8%
Gross debt ($m)	53,591	72,420	79,635	77,984	81,956	87,686	82,157
Gross debt (% GDP)	27.8%	36.0%	38.1%	36.7%	35.8%	38.5%	35.6%
Residual cash ($m)	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(6,886)	(3,914)
Residual cash (% GDP)	(4.7%)	(6.6%)	(5.1%)	(2.7%)	(1.8%)	(3.0%)	(1.7%)

Net Debt

Net debt increased by $4.1 billion this June year, as the Crown continued to run a residual cash deficit, but didn't increase as fast as the nominal economy. As a share of the economy, net debt was 26.2% of GDP (versus 26.3% 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 debt



Source: The Treasury

Residual Cash

The residual cash deficit was $4.1 billion, $1.6 billion less than last year. Table 10 summarises the contributors to the reduction in the residual cash deficit over the year.

- Tax receipts were $3.5 billion higher than last year, which was in line with the improvement in core Crown tax revenue as discussed on page 10.
- The Crown received $2.3 billion from the remaining companies in the Government's share offer programme (compared with $1.6 billion received for Mighty River Power last year). Refer to the box on page 20 for further discussion about the share programme.

Table 10 – Movements in residual cash

Year ended 30 June	
2013 core Crown residual cash	**(5.7)**
Increase in tax receipts	3.5
Proceeds from share offer	0.7
Increase in operating payments	(2.2)
Other	(0.4)
2014 core Crown residual cash	**(4.1)**

Source: The Treasury

- Operating and interest payments were $2.2 billion higher than last year, in line with the increase to core Crown expenses and timing of cash payments being made.

In addition to the operating cash deficits recorded during the year, the core Crown spent the following on capital:

- Net purchases of physical assets of $1.9 billion, including $0.5 billion for the Ministry of Education, $0.4 billion for Defence and $0.3 billion for the Canterbury Earthquake Recovery Authority.

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[3] Net debt is defined as core Crown net debt excluding the NZS Fund and advances.

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

- Net investments of $0.9 billion, the largest of which is the Crown's investment in the New Zealand Transport Agency of $0.8 billion.
- Net increase in advances of $0.7 billion, which includes $0.5 billion for student loans.

This capital expenditure was partly offset by the Government share offer proceeds of $2.3 billion.

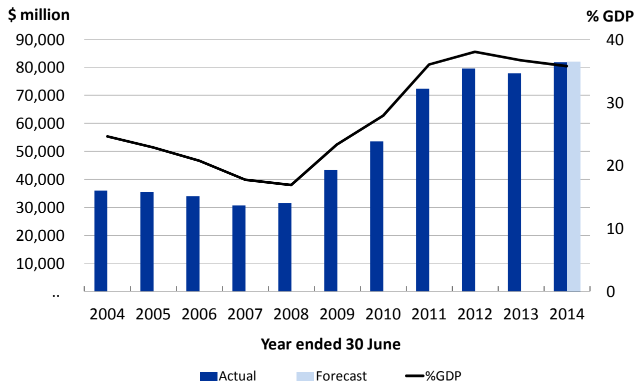
Compared with *Budget 2014*, the residual cash deficit was $0.2 billion higher mostly due to tax receipts coming in lower than forecast.

Gross Debt

Gross debt, which reflects the borrowings of the core Crown, was $4.0 billion higher than a year earlier at $82.0 billion (Figure 14). As a percentage of a growing nominal economy, gross debt eased to 35.8% of GDP.

The increase in nominal gross debt was predominantly the result of an increase in the issuance of government bonds more than offsetting the Crown's bond and bill repurchasing programme.

Figure 14 – Gross debt



Source: The Treasury

Crown's Borrowing Programme

The debt programme (Table 11) during 2013/14 returned net cash proceeds from the market of $4.6 billion. While the Crown continued to undertake a large bond programme ($8 billion face value), some proceeds were used to repurchase debt ($2.2 billion) and reduce Treasury Bills outstanding ($0.9 billion); both activities were signalled in *Budget 2014*.

Table 11 – Cash proceeds from debt programme

Year ended 30 June $ million	Actual 2010	Actual 2011	Actual I 2012	Actual 2013	Actual 2014	Forecast 30 June 2014 Budget 13	 Budget 14
Issue of government bonds	12,424	19,468	15,146	15,458	7,716	10,245	7,769
Repayment of government bonds	(4,197)	-	(7,602)	(9,982)	(2,196)	-	(2,046)
Net issue/(repayment) of short-term borrowing[5]	636	(422)	2,139	(5,404)	(935)	90	(795)
Total market debt cash flows	**8,863**	**19,046**	**9,683**	**72**	**4,585**	**10,335**	**4,928**
Issue of government bonds	799	270	-	-	-	-	-
Repayment of government bonds	(656)	(803)	(1,501)	(499)	-	(757)	-
Net issue/(repayment) of short-term borrowing	170	(125)	430	100	-	(219)	-
Total non-market debt cash flows	**313**	**(658)**	**(1,071)**	**(399)**	**-**	**(976)**	**-**
Total debt programme cash flows	**9,176**	**18,388**	**8,612**	**(327)**	**4,585**	**9,359**	**4,928**

5 Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper.

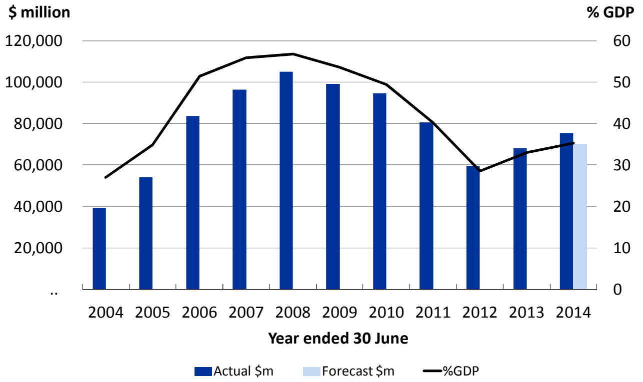
Net Worth Attributable to the Crown

Table 12 –Net worth

Year ended 30 June $ million	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Forecast 30 June 2014 Budget 13	Forecast 30 June 2014 Budget 14
Net worth attributable to the Crown	94,586	80,579	59,348	68,071	75,568	61,997	70,032
Net worth attributable to minority interests	402	308	432	1,940	5,211	3,185	5,435
Total net worth	**94,988**	**80,887**	**59,780**	**70,011**	**80,779**	**65,182**	**75,467**

Total net worth was $10.8 billion higher than last year. However, $3.3 billion of this increase is reflected as net worth attributable to minority interests following the Government's share offer programme. Net worth attributable to the Crown was $75.6 billion as at 30 June 2014, an increase of $7.5 billion from a year earlier, continuing the upward trend from last year. As a share of the economy net worth attributable to the Crown was 33.0% of GDP, which was 1.0% higher than a year earlier.

Figure 15 – Net worth attributable to the Crown



Source: The Treasury

The main reasons for the improvement in the Crown's net worth were the revaluation uplifts of the Crown's property, plant and equipment (details on the next page) and the operating balance surplus. The operating balance surplus was driven by gains on financial assets and reductions in long-term liabilities (as discussed on page 14).

Compared to *Budget 2014*, the net worth attributable to the Crown was $5.5 billion stronger than expected due to revaluation uplifts of the Crown's property, plant and equipment (that were not forecast).

The composition of the balance sheet remains largely similar to previous years (Table 13), except for the increase in minority interests, following the Government share offer programme over the last two years. For further information on this programme, refer to the box on page 20, and note 35 in the financial statements (pages 156 to 158).

Table 13 – Composition of the statement of financial position

Year ended 30 June $ million	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Forecast 30 June 2014 Budget 13	Forecast 30 June 2014 Budget 14
Property, plant and equipment	113,330	114,854	108,584	109,833	116,306	112,627	112,264
Financial assets and sovereign receivables	95,971	115,362	116,178	118,779	123,177	121,515	121,134
Other assets	14,054	14,999	15,556	15,804	16,600	16,036	15,905
Total assets	**223,355**	**245,215**	**240,318**	**244,416**	**256,083**	**250,178**	**249,303**
Borrowings	69,733	90,245	100,534	100,087	103,419	112,201	103,058
Other liabilities	58,634	74,083	80,004	74,318	71,885	72,795	70,778
Total liabilities	**128,367**	**164,328**	**180,538**	**174,405**	**175,304**	**184,996**	**173,836**
Net worth	**94,988**	**80,887**	**59,780**	**70,011**	**80,779**	**65,182**	**75,467**
Minority interests	(402)	(308)	(432)	(1,940)	(5,211)	(3,185)	(5,435)
Net worth attributable to the Crown	**94,586**	**80,579**	**59,348**	**68,071**	**75,568**	**61,997**	**70,032**

Net Worth Attributable to the Crown (continued)

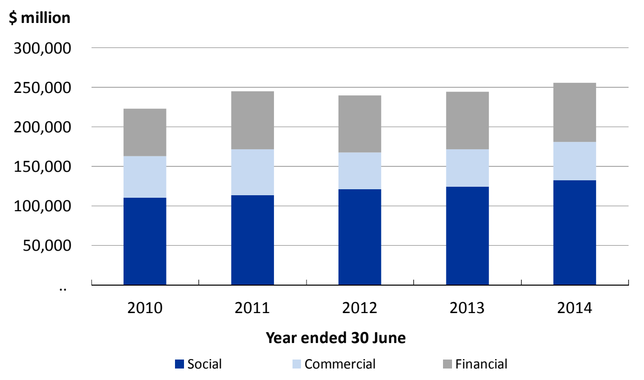
Assets

Total Crown assets were valued at $256.1 billion at 30 June 2014 (Figure 15), an $11.7 billion increase over the year with the growth largely in social assets ($8.1 billion), as well as financial assets ($2.3 billion).

Revaluations of property, plant and equipment had a significant impact on values of social assets, with the largest uplifts related to:

- The state housing portfolio ($2.1 billion of which $1.8 billion relates to land), reflecting the strength of the property market (primarily in Auckland).
- The value of state highways increased by $1.6 billion, mainly due to revaluation changes for the corridor land and increase in held properties. The corridor land was revalued in four regions and Auckland accounted for the largest portion of the increase. The held properties have increased since 2013 due to acquisition of properties in advance of future road developments in Auckland and Wellington.

Figure 16 – Total Crown assets



Source: The Treasury

The increase in financial assets was driven by strong returns in equity markets, which increased fair values of investment assets. Refer to page 14 for discussion about the investment gains this year (largely from the NZS Fund).

Liabilities

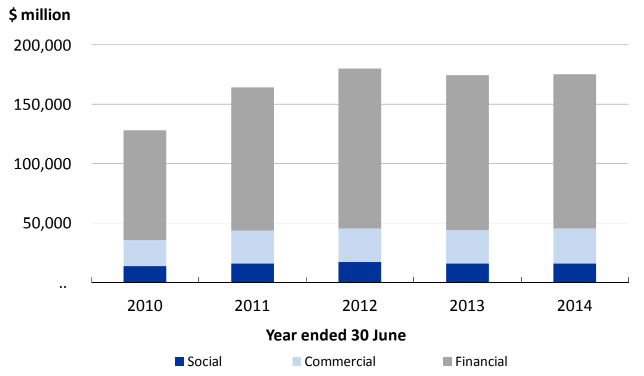
Total Crown liabilities were $175.3 billion at 30 June 2014, an increase of $0.9 billion (0.5%) from the previous year (Figure 17).

Total Crown borrowings increased by $3.3 billion to reach $103.4 billion. Core Crown borrowings made up a significant portion of this ($89.1 billion) and is generally the key driver for growth in total Crown borrowing (refer to page 17 for a discussion of the Crown's gross debt and the borrowing programme). Outside of the core Crown, the most significant borrowings were the deposits held by Kiwibank ($12.8 billion). These increased this year by $0.6 billion, underpinning an increase in its lending.

Other liabilities were $71.9 billion at 30 June 2014, compared to $74.3 billion at the end of last year. The decrease of $2.4 billion reflected the following items:

- ACC's insurance liability increased this year by $0.5 billion from $29.4 billion to $29.9 billion. The increase is due to an expected increase from new claims entering the ACC scheme during the year, the impact of legislative and policy changes, and partly offset by changes in inflation rates (as discussed on page 14).
- Earthquake-related insurance liabilities of EQC and Southern Response were $2.1 billion and $0.3 billion lower respectively as claims were paid out. EQC's claims liability movement includes an actuarial reduction reflecting greater certainty about the expected cost of claims still to be paid.
- Estimated retirement plan obligations for former state servants' Government Superannuation Fund were $1.0 billion lower than the year earlier largely owing to a decrease in the expected future inflation rate and favourable experience adjustments (as discussed on page 14). In addition, the assets (which are held by the Fund to offset the future obligations) increased this year with global equity markets providing strong returns.

Figure 17 – Total Crown liabilities



Source: The Treasury

Government Share Offer Programme

The Government Share Offer Programme has now concluded. Minority shareholdings in Mighty River Power, Meridian Energy and Genesis Energy have been sold, and the Crown has reduced its shareholding in Air New Zealand.

As a result of the sale of shares to minority interests, the income from the entities assets must be shared with the minority interests. However, because the Crown retains control of the assets, no "sale" of assets is reported. As a result, 100% of the assets, liabilities, revenue and expenses will continue to be reported in the financial statements of the Government. The key change to the financial statements will be the disclosure of non-controlling minority interests in those assets, liabilities, revenue and expenses.

Core Crown

The core Crowns' direct investment in the Government Share Offer Programme, is shown in Table 14 below.

Table 14 – Government Share Offer Programme

Year ended 30 June	Last year	Current year			
$ million	Mighty River Power	Meridian Energy	Air New Zealand	Genesis Energy	Total
Percentage sold	48.24%	48.98%	20.05%	47.61%	
Gross proceeds	1,689	1,883	365	738	**4,675**
Net proceeds	1,642	1,827	364	706	**4,539**

As shown in Table 14, the Crown will receive $4,675 million from the sale of these shares. Once the cost of the sales the estimated cost of the bonus share issues for Mighty River Power and Genesis Energy and the deferred settlement for Meridian Energy are deducted, the net proceeds from sale were $4,539 million.

The profile for receipt of proceeds is as follows:

$ million	Gross proceeds	Net proceeds
Financial year		
2012/13	1,689	1,642
2013/14	2,358	2,269
2014/15	628	628
	4,675	**4,539**

Total Crown

In addition to the core Crown's direct investment in the Government Share Offer Programme, a number of Crown Financial Institutions (CFIs) have also invested in the companies as part of their normal investment activities. These investments have the effect of increasing the total Crown investment and therefore reducing the overall minority interest. The total Crown's direct investment in the Government Share Offer Programme, is outlined in note 35.

While the Crown will continue to hold at least 51% of shares, the CFIs' shareholding will vary depending upon their investment strategies.

Historical Financial Information

Year ended 30 June $ million	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual
Statement of financial performance											
Core Crown tax revenue	43,358	47,468	50,973	53,477	56,747	54,681	50,744	51,557	55,081	58,651	61,474
Core Crown other revenue	2,861	3,577	4,762	4,734	5,072	4,801	5,472	5,993	5,484	5,498	5,823
Core Crown revenue	46,219	51,045	55,735	58,211	61,819	59,482	56,216	57,550	60,565	64,149	67,297
Crown entities, SOE revenue and eliminations	13,051	14,322	15,690	16,378	19,660	20,024	18,509	24,013	22,918	22,506	22,099
Total Crown revenue	**59,271**	**65,367**	**71,425**	**74,589**	**81,479**	**79,506**	**74,725**	**81,563**	**83,483**	**86,655**	**89,396**
Social security and welfare	14,252	14,682	15,598	16,768	17,877	19,382	21,185	22,005	22,028	22,741	23,281
Health	8,111	8,813	9,547	10,355	11,297	12,368	13,128	13,753	14,160	14,498	14,898
Education	7,585	7,930	9,914	9,269	9,551	11,455	11,724	11,650	11,654	12,504	12,300
Core government services	2,091	2,567	2,507	4,817	3,371	5,293	2,974	5,563	5,428	4,294	4,502
Other core Crown expenses	9,843	10,903	11,754	12,795	14,901	15,504	15,002	17,479	15,806	16,269	16,486
Core Crown expenses	41,882	44,895	49,320	54,004	56,997	64,002	64,013	70,450	69,076	70,306	71,467
Crown entities, SOE expenses and eliminations	11,816	13,397	15,015	14,725	18,845	19,397	17,027	29,509	23,647	20,701	20,703
Total Crown expenses	**53,698**	**58,292**	**64,334**	**68,729**	**75,842**	**83,399**	**81,040**	**99,959**	**92,723**	**91,007**	**92,170**
OBEGAL (excluding minority interests)	**5,573**	**7,075**	**7,091**	**5,860**	**5,637**	**(3,893)**	**(6,315)**	**(18,396)**	**(9,240)**	**(4,414)**	**(2,933)**
Gains/(losses)	1,736	(1,144)	2,451	2,162	(3,253)	(6,612)	1,806	5,036	(5,657)	11,339	5,741
Operating balance (excluding minority interests)	**7,309**	**5,931**	**9,542**	**8,022**	**2,384**	**(10,505)**	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**	**2,808**
Statement of financial position											
Property, plant and equipment	57,940	67,494	89,141	95,598	103,329	110,135	113,330	114,854	108,584	109,833	116,306
Financial assets	32,654	42,005	66,396	73,718	85,063	93,359	95,971	115,362	116,178	118,779	123,177
Other assets	18,756	19,714	9,503	11,031	12,443	13,657	14,054	14,999	15,556	15,804	16,600
Total assets	**109,351**	**129,212**	**165,040**	**180,347**	**200,835**	**217,151**	**223,355**	**245,215**	**240,318**	**244,416**	**256,083**
Borrowings	37,720	37,728	40,027	41,898	46,110	61,953	69,733	90,245	100,534	100,087	103,419
Other liabilities	32,036	37,243	41,042	41,622	49,211	55,683	58,634	74,083	80,004	74,318	71,885
Total liabilities	**69,756**	**74,972**	**81,069**	**83,520**	**95,321**	**117,636**	**128,367**	**164,328**	**180,538**	**174,405**	**175,304**
Minority interests	139	215	293	369	382	447	402	308	432	1,940	5,211
Net worth attributable to the Crown	**39,456**	**54,025**	**83,678**	**96,458**	**105,132**	**99,068**	**94,586**	**80,579**	**59,348**	**68,071**	**75,568**
Debt Indicators											
Net debt	23,858	19,879	16,163	13,380	10,258	17,119	26,738	40,128	50,671	55,835	59,931
Gross debt	36,017	35,478	33,903	30,647	31,390	43,356	53,591	72,420	79,635	77,984	81,956

Historical Financial Information (continued)

Year ended 30 June as % of GDP	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual
Nominal GDP (revised)	146,387	155,372	163,143	173,297	185,727	185,822	192,435	200,897	209,181	212,521	229,145
Statement of financial performance											
Core Crown tax revenue	29.6%	30.6%	31.2%	30.9%	30.6%	29.4%	26.4%	25.7%	26.3%	27.6%	26.8%
Core Crown other revenue	2.0%	2.3%	2.9%	2.7%	2.7%	2.6%	2.8%	3.0%	2.6%	2.6%	2.5%
Core Crown revenue	31.6%	32.9%	34.2%	33.6%	33.3%	32.0%	29.2%	28.6%	29.0%	30.2%	29.4%
Crown entities, SOE and elimination revenue	8.9%	9.2%	9.6%	9.5%	10.6%	10.8%	9.6%	12.0%	11.0%	10.6%	9.6%
Total Crown revenue	**40.5%**	**42.1%**	**43.8%**	**43.0%**	**43.9%**	**42.8%**	**38.8%**	**40.6%**	**39.9%**	**40.8%**	**39.0%**
Social security and welfare	9.7%	9.4%	9.6%	9.7%	9.6%	10.4%	11.0%	11.0%	10.5%	10.7%	10.2%
Health	5.5%	5.7%	5.9%	6.0%	6.1%	6.7%	6.8%	6.8%	6.8%	6.8%	6.5%
Education	5.2%	5.1%	6.1%	5.3%	5.1%	6.2%	6.1%	5.8%	5.6%	5.9%	5.4%
Core government services	1.4%	1.7%	1.5%	2.8%	1.8%	2.8%	1.5%	2.8%	2.6%	2.0%	2.0%
Other core Crown expenses	6.7%	7.0%	7.2%	7.4%	8.0%	8.3%	7.8%	8.7%	7.6%	7.7%	7.2%
Core Crown expenses	28.6%	28.9%	30.2%	31.2%	30.7%	34.4%	33.3%	35.1%	33.0%	33.1%	31.2%
Crown entities, SOE and elimination expenses	8.1%	8.6%	9.2%	8.5%	10.1%	10.4%	8.8%	14.7%	11.3%	9.7%	9.0%
Total Crown expenses	**36.7%**	**37.5%**	**39.4%**	**39.7%**	**40.8%**	**44.9%**	**42.1%**	**49.8%**	**44.3%**	**42.8%**	**40.2%**
OBEGAL (excluding minority interests)	**3.8%**	**4.6%**	**4.3%**	**3.4%**	**3.0%**	**-2.1%**	**-3.3%**	**-9.2%**	**-4.4%**	**-2.1%**	**-1.3%**
Gains/(losses)	1.2%	-0.7%	1.5%	1.2%	-1.8%	-3.6%	0.9%	2.5%	-2.7%	5.3%	2.5%
Operating balance (excluding minority interests)	**5.0%**	**3.8%**	**5.8%**	**4.6%**	**1.3%**	**-5.7%**	**-2.3%**	**-6.7%**	**-7.1%**	**3.3%**	**1.2%**
Statement of financial position											
Property, plant and equipment	39.6%	43.4%	54.6%	55.2%	55.6%	59.3%	58.9%	57.2%	51.9%	51.7%	50.8%
Financial assets and sovereign receivables	22.3%	27.0%	40.7%	42.5%	45.8%	50.2%	49.9%	57.4%	55.5%	55.9%	53.8%
Other assets	12.8%	12.7%	5.8%	6.4%	6.7%	7.3%	7.3%	7.5%	7.4%	7.4%	7.2%
Total assets	**74.7%**	**83.2%**	**101.2%**	**104.1%**	**108.1%**	**116.9%**	**116.1%**	**122.1%**	**114.9%**	**115.0%**	**111.8%**
Borrowings	25.8%	24.3%	24.5%	24.2%	24.8%	33.3%	36.2%	44.9%	48.1%	47.1%	45.1%
Other liabilities	21.9%	24.0%	25.2%	24.0%	26.5%	30.0%	30.5%	36.9%	38.2%	35.0%	31.4%
Total liabilities	**47.7%**	**48.3%**	**49.7%**	**48.2%**	**51.3%**	**63.3%**	**66.7%**	**81.8%**	**86.3%**	**82.1%**	**76.5%**
Minority interests	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.9%	2.3%
Net worth attributable to the Crown	**27.0%**	**34.8%**	**51.3%**	**55.7%**	**56.6%**	**53.3%**	**49.2%**	**40.1%**	**28.4%**	**32.0%**	**33.0%**
Debt Indicators											
Net debt	16.3%	12.8%	9.9%	7.7%	5.5%	9.2%	13.9%	20.0%	24.2%	26.3%	26.2%
Gross debt	24.6%	22.8%	20.8%	17.7%	16.9%	23.3%	27.8%	36.0%	38.1%	36.7%	35.8%

INDEPENDENT REPORT OF THE AUDITOR-GENERAL

CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

To the Readers of the Financial Statements of the Government of New Zealand for the Year Ended 30 June 2014

I have audited the financial statements of the Government of New Zealand (the Government) for the year ended 30 June 2014 using my staff, resources and appointed auditors and their staff.

The financial statements of the Government on pages 28 to 167 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2014, the statement of financial performance, analysis of expenses by functional classification, statement of comprehensive income, statement of changes in net worth and statement of cash flows for the year ended on that date, a statement of segments and the notes to the financial statements that include accounting policies, a statement of borrowings in note 24, and other explanatory information; and

- the statement of unappropriated expenditure, statement of expenses or capital expenditure incurred in emergencies and statement of trust money.

Opinion

In my opinion, the financial statements of the Government on pages 28 to 167:

- comply with generally accepted accounting practice in New Zealand; and

- fairly reflect the Government's:

  - financial position as at 30 June 2014;

  - financial performance and cash flows for the year ended on that date; and

  - borrowings as at 30 June 2014, and unappropriated expenditure, expenses or capital expenditure incurred in emergencies, and trust monies managed by the Government, for the year ended on that date.

My audit was completed on 30 September 2014. This is the date at which my opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgements of my staff and appointed auditors and their staff. Also the procedures depend on my judgement, including my assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments I consider internal control relevant to the Treasury's preparation of the financial statements that fairly reflect the matters to which they relate. I consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control.

An audit also involves evaluating:

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

My staff and appointed auditors and their staff did not examine every transaction. Therefore, I do not guarantee complete accuracy of the financial statements. Also, I did not evaluate the security and controls over electronic publication of the financial statements of the Government.

I have obtained all the information and explanations I have required and I believe I have obtained sufficient and appropriate audit evidence to provide a basis for my audit opinion.

Responsibilities of the Treasury and the Minister of Finance

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

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

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

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

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

Responsibilities of the Auditor

I am responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on my audit. My responsibility arises from section 15 of the Public Audit Act 2001 and section 30 of the Public Finance Act 1989.

Independence

While carrying out this audit, my appointed auditors and their staff followed my independence requirements, which incorporate the independence requirements of the External Reporting Board.

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.

Lyn Provost
Controller and Auditor-General
Wellington, New Zealand

AUDITED
FINANCIAL STATEMENTS

Statement of Financial Performance

for the year ended 30 June 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Note	Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Revenue			
61,773	61,380	Taxation revenue	2	60,879	58,134
5,296	5,383	Other sovereign revenue	2	5,450	5,172
67,069	**66,763**	**Total sovereign revenue**		**66,329**	**63,306**
17,080	16,432	Sales of goods and services	3	16,472	16,713
3,588	3,160	Interest revenue and dividends	4	3,175	2,939
3,867	3,622	Other revenue	5	3,420	3,697
24,535	**23,214**	**Total revenue earned through operations**		**23,067**	**23,349**
91,604	**89,977**	**Total revenue (excluding gains)**		**89,396**	**86,655**
		Expenses			
23,485	23,394	Transfer payments and subsidies	6	23,360	22,708
20,172	20,488	Personnel expenses	7	20,484	19,935
4,640	4,644	Depreciation and amortisation	8	4,872	4,812
37,608	36,527	Other operating expenses	9	35,553	36,163
4,516	4,461	Interest expenses	10	4,400	4,358
3,215	3,283	Insurance expenses	11	3,501	3,031
461	77	Forecast new operating spending		-	-
(600)	(660)	Top-down expense adjustment		-	-
93,497	**92,214**	**Total expenses (excluding losses)**		**92,170**	**91,007**
(140)	(210)	Minority interests share of operating balance before gains and losses		(159)	(62)
(2,033)	**(2,447)**	**Operating balance before gains and losses (excluding minority interests)**		**(2,933)**	**(4,414)**
1,748	3,604	Net gains/(losses) on financial instruments	12	4,820	7,270
443	1,590	Net gains/(losses) on non-financial instruments	13	540	3,706
2,191	**5,194**	**Total gains/(losses)**		**5,360**	**10,976**
200	259	Net surplus from associates and joint ventures		360	395
-	(33)	Minority interests share of net gains/losses		21	(32)
358	**2,973**	**Operating balance (excluding minority interests)**		**2,808**	**6,925**
		Operating balance allocated between:			
358	2,973	Operating balance (excluding minority interests)		2,808	6,925
140	243	Minority interests share of operating balance	28	138	94
498	**3,216**	**Operating balance (including minority interests)**		**2,946**	**7,019**

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 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Total Crown expenses		
27,510	27,373	Social security and welfare	27,266	26,268
283	300	GSF pension expenses	295	311
14,433	14,382	Health	14,344	13,856
13,180	13,180	Education	13,064	13,366
4,201	4,351	Core government services	4,104	3,935
3,804	3,811	Law and order	3,730	3,670
1,893	1,818	Defence	1,776	1,766
9,036	9,212	Transport and communications	9,137	9,052
8,098	7,538	Economic and industrial services	7,767	8,375
2,532	2,360	Heritage, culture and recreation	2,372	2,351
1,892	1,759	Primary services	1,703	1,579
1,057	1,109	Housing and community development	1,095	989
473	536	Environmental Protection	538	528
728	607	Other	579	603
4,516	4,461	Finance costs	4,400	4,358
461	77	Forecast new operating spending	-	-
(600)	(660)	Top-down expense adjustment	-	-
93,497	**92,214**	**Total Crown expenses (excluding losses)**	**92,170**	**91,007**

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

Forecast 30 June 2014 2013 $m	Forecast 30 June 2014 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Core Crown expenses		
23,595	23,329	Social security and welfare	23,281	22,741
274	282	GSF pension expenses	282	303
14,950	14,889	Health	14,898	14,498
12,389	12,411	Education	12,300	12,504
4,637	4,792	Core government services	4,502	4,269
3,561	3,575	Law and order	3,501	3,456
1,933	1,867	Defence	1,811	1,804
2,162	2,241	Transport and communications	2,237	2,255
2,152	2,100	Economic and industrial services	2,058	1,978
854	838	Heritage, culture and recreation	842	804
818	716	Primary services	676	659
335	377	Housing and community development	347	283
496	534	Environmental Protection	533	530
728	607	Other	579	603
3,622	3,641	Finance costs	3,620	3,619
461	77	Forecast new operating spending	-	-
(600)	(660)	Top-down expense adjustment	-	-
72,367	**71,616**	**Total core Crown expenses (excluding losses)**	**71,467**	**70,306**

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

Statement of Comprehensive Income

for the year ended 30 June 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
498	**3,216**	**Operating balance (including minority interest)**	**2,946**	**7,019**
		Other comprehensive income		
-	(351)	Revaluation of physical assets	5,395	1,367
(21)	(102)	Net change in hedging instruments entered into for cash flow hedges	(34)	280
39	(7)	Foreign currency translation differences for foreign operations	(51)	-
8	(13)	Valuation gains/(losses) on investments available for sale taken to reserves	(36)	36
(38)	3	Other movements	1	7
(12)	**(470)**	**Total other comprehensive income**	**5,275**	**1,690**
486	**2,746**	**Total comprehensive income**	**8,221**	**8,709**
		Attributable to:		
140	243	- minority interests	147	153
346	2,503	- the Crown	8,074	8,556
486	**2,746**	**Total comprehensive income**	**8,221**	**8,709**

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

Statement of Cash Flows

for the year ended 30 June 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Note	Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Cash Flows From Operations			
		Cash was provided from			
60,695	60,442	Taxation receipts	2	59,853	56,413
4,747	4,969	Other sovereign receipts	2	4,974	4,806
17,175	16,460	Sales of goods and services		16,608	16,651
3,175	2,888	Interest and dividend receipts		2,945	2,694
5,443	6,168	Other operating receipts		5,737	5,933
91,235	**90,927**	**Total cash provided from operations**		**90,117**	**86,497**
		Cash was disbursed to			
23,877	23,800	Transfer payments and subsidies		23,447	22,780
62,622	60,717	Personnel and operating payments		59,891	58,450
4,629	4,412	Interest payments		4,312	4,369
461	77	Forecast new operating spending		-	-
(600)	(660)	Top-down expense adjustment		-	-
90,989	**88,346**	**Total cash disbursed to operations**		**87,650**	**85,599**
246	**2,581**	**Net cash flows from operations**		**2,467**	**898**
		Cash Flows From Investing Activities			
		Cash was provided from			
553	591	Sale of physical assets		651	525
73,154	72,893	Sale of shares and other securities		77,916	75,722
-	-	Sale of intangible assets		-	7
1,279	1,574	Repayment of advances		1,953	1,603
47	132	Sale of investments in associates		140	287
75,033	**75,190**	**Total cash provided from investing activities**		**80,660**	**78,144**
		Cash was disbursed to			
7,787	7,378	Purchase of physical assets		6,154	5,694
78,375	78,229	Purchase of shares and other securities		83,641	69,380
516	568	Purchase of intangible assets		658	588
3,308	3,740	Advances made		3,482	3,008
(18)	98	Acquisition of investments in associates		67	7
503	13	Forecast for new capital spending		-	-
(50)	(395)	Top-down capital adjustment		-	-
90,421	**89,631**	**Total cash disbursed to investing activities**		**94,002**	**78,677**
(15,388)	**(14,441)**	**Net cash flows from investing activities**		**(13,342)**	**(533)**
(15,142)	**(11,860)**	**Net cash flows from operating and investing activities**		**(10,875)**	**365**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Note	Actual 30 June 2014 $m	Actual 30 June 2013 $m
(15,142)	**(11,860)**	**Net cash flows from operating and investing activities**		**(10,875)**	**365**
		Cash Flows From Financing Activities			
		Cash was provided from			
141	382	Issue of circulating currency		274	234
1,500	2,216	Government share offer programme	35	2,186	1,547
10,245	7,769	Issue of Government bonds		7,716	15,458
51	621	Issue of foreign currency borrowings		1,524	447
6,010	6,536	Issue of other New Zealand dollar borrowings		6,315	10,278
17,947	**17,524**	**Total cash provided from financing activities**		**18,015**	**27,964**
		Cash was disbursed to			
-	2,046	Repayment of Government bonds		2,196	9,982
570	673	Repayment of foreign currency borrowings		82	3,373
3,363	6,285	Repayment of other New Zealand dollar borrowings		7,147	10,912
120	246	Dividends paid to minority interests		166	20
4,053	**9,250**	**Total cash disbursed to financing activities**		**9,591**	**24,287**
13,894	**8,274**	**Net cash flows from financing activities**		**8,424**	**3,677**
(1,248)	**(3,586)**	**Net movement in cash**		**(2,451)**	**4,042**
16,492	14,924	**Opening cash balance**		14,924	10,686
-	(230)	Foreign-exchange gains/(losses) on opening cash		(585)	196
15,244	**11,108**	**Closing cash balance**		**11,888**	**14,924**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance		
246	**2,581**	**Net Cash Flows from Operations**	**2,467**	**898**
		Items included in the operating balance but not in net cash flows from operations		
		Gains/(losses)		
1,748	3,604	Net gains/(losses) on financial instruments	4,820	7,270
443	1,590	Net gains/(losses) on non-financial instruments	540	3,706
2,191	**5,194**	**Total gains/(losses)**	**5,360**	**10,976**
		Other Non-cash Items in Operating Balance		
(4,640)	(4,644)	Depreciation and amortisation	(4,872)	(4,812)
(723)	(843)	Write-down on initial recognition of financial assets	(789)	(684)
23	(18)	Impairment of financial assets (excl receivables)	(47)	(497)
461	458	Non-cash movement in defined benefit retirement plan liabilities	442	385
2,517	1,730	Non-cash movement in insurance liabilities	1,409	1,106
201	14	Other	223	299
(2,161)	**(3,303)**	**Total other non-cash items in operating balance**	**(3,634)**	**(4,203)**
		Movements in Working Capital		
(1,119)	(1,346)	Increase/(decrease) in receivables	(1,553)	(1,302)
526	222	Increase/(decrease) in accrued interest	143	257
73	18	Increase/(decrease) in inventories	(41)	(94)
(29)	(24)	Increase/(decrease) in prepayments	39	32
26	(87)	Decrease/(increase) in deferred revenue	(248)	(2)
605	(282)	Decrease/(increase) in payables/provisions	275	363
82	**(1,499)**	**Total movements in working capital**	**(1,385)**	**(746)**
358	**2,973**	**Operating balance**	**2,808**	**6,925**

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

Statement of Changes in Net Worth

for the year ended 30 June 2014

Total Net Worth Budget 2013 $m	Budget 2014 $m		Note	Actual Taxpayer funds $m	Reserves $m	Minority interest $m	Total net worth $m
59,780	**59,780**	**Net worth at 30 June 2012**		**3,520**	**55,828**	**432**	**59,780**
1,918	7,019	Operating balance		6,925	-	94	7,019
(29)	1,367	Net revaluations		-	1,335	32	1,367
55	260	Transfers to/(from) reserves		250	(17)	27	260
(4)	(10)	(Gains)/losses transferred to the statement of financial performance		-	(10)	-	(10)
13	73	Other movements		-	73	-	73
1,953	**8,709**	**Total comprehensive income**		**7,175**	**1,381**	**153**	**8,709**
175	167	Gain on Government share offers		167	-		167
1,325	1,371	Increase in minority interest from Government share offers		-	-	1,371	1,371
37	(16)	Transactions with minority interests		-	-	(16)	(16)
63,270	**70,011**	**Net worth at 30 June 2013**		**10,862**	**57,209**	**1,940**	**70,011**
498	3,216	Operating Balance		2,808	-	138	2,946
-	(351)	Net revaluations		-	5,386	9	5,395
(59)	(119)	Transfers to/(from) reserves		229	(229)	(2)	(2)
-	(3)	(Gains)/losses transferred to the statement of financial performance		-	(43)	-	(43)
47	3	Other movements		(22)	(55)	2	(75)
486	**2,746**	**Total comprehensive income**		**3,015**	**5,059**	**147**	**8,221**
175	(542)	Gain/(loss) on Government share offers		(577)	-	-	(577)
1,325	3,300	Increase in minority interest from Government share offers		-	-	3,308	3,308
(74)	(48)	Transactions with minority interests		-	-	(184)	(184)
65,182	**75,467**	**Net worth at 30 June 2014**	28	**13,300**	**62,268**	**5,211**	**80,779**

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

Statement of Financial Position

as at 30 June 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Note	Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Assets			
15,244	11,108	Cash and cash equivalents		11,888	14,924
18,070	17,873	Receivables	14	17,480	19,883
44,713	47,870	Marketable securities, deposits and derivatives in gain	15	48,457	44,000
18,176	19,672	Share investments	16	20,596	17,359
25,312	24,611	Advances	17	24,756	22,613
1,321	1,158	Inventory	18	1,099	1,140
2,061	2,267	Other assets	19	2,510	2,295
112,627	112,264	Property, plant & equipment	20	116,306	109,833
9,642	10,021	Equity accounted investments	21	10,071	9,593
2,837	2,841	Intangible assets and goodwill	22	2,920	2,776
505	13	Forecast for new capital spending		-	-
(330)	(395)	Top-down capital adjustment		-	-
250,178	**249,303**	**Total assets**		**256,083**	**244,416**
		Liabilities			
4,897	5,072	Issued currency		4,964	4,691
12,360	11,952	Payables	23	11,294	11,160
1,553	1,802	Deferred revenue		1,962	1,714
112,201	103,058	Borrowings	24	103,419	100,087
35,902	34,900	Insurance liabilities	25	35,825	37,712
11,766	10,732	Retirement plan liabilities	26	10,885	11,903
6,317	6,320	Provisions	27	6,955	7,138
184,996	**173,836**	**Total liabilities**		**175,304**	**174,405**
65,182	**75,467**	**Total assets less total liabilities**		**80,779**	**70,011**
		Net Worth			
6,230	13,344	Taxpayer funds		13,300	10,862
55,831	56,648	Property, plant and equipment revaluation reserve		62,225	57,068
(64)	40	Other reserves		43	141
61,997	**70,032**	**Total net worth attributable to the Crown**		**75,568**	**68,071**
3,185	5,435	Net worth attributable to minority interests		5,211	1,940
65,182	**75,467**	**Total net worth**	28	**80,779**	**70,011**

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

Statement of Segments

Current Year Actual vs Estimated Actuals

	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2014 $m	Forecast Budget 2014 $m	Actual 2014 $m	Forecast Budget 2014 $m	Actual 2014 $m	Forecast Budget 2014 $m	Actual 2014 $m	Forecast Budget 2014 $m	Actual 2014 $m	Forecast Budget 2014 $m
Revenue										
Taxation revenue	61,474	61,896	-	-	-	-	(595)	(516)	60,879	61,380
Other sovereign revenue	1,201	1,153	5,409	5,319	-	-	(1,160)	(1,089)	5,450	5,383
Revenue from core Crown funding	-	-	24,782	24,812	187	207	(24,969)	(25,019)	-	-
Sales of goods and services	1,488	1,513	1,868	1,904	13,650	13,596	(534)	(581)	16,472	16,432
Interest revenue and dividends	2,295	2,304	1,249	1,156	879	885	(1,248)	(1,185)	3,175	3,160
Other revenue	839	909	2,090	2,284	772	964	(281)	(535)	3,420	3,622
Total Revenue (excluding gains)	**67,297**	**67,775**	**35,398**	**35,475**	**15,488**	**15,652**	**(28,787)**	**(28,925)**	**89,396**	**89,977**
Expenses										
Transfer payments and subsidies	23,360	23,394	-	-	-	-	-	-	23,360	23,394
Personnel expenses	6,232	6,253	11,315	11,302	2,956	2,940	(19)	(7)	20,484	20,488
Other operating expenses	38,255	38,911	22,422	22,510	10,791	10,715	(27,542)	(27,682)	43,926	44,454
Interest expenses	3,620	3,641	219	224	1,161	1,173	(600)	(577)	4,400	4,461
Forecast new operating spending and top down adjustment	-	(583)	-	-	-	-	-	-	-	(583)
Total Expenses (excluding losses)	**71,467**	**71,616**	**33,956**	**34,036**	**14,908**	**14,828**	**(28,161)**	**(28,266)**	**92,170**	**92,214**
Minority interest share of operating balance before gains/losses	-	-	18	16	(173)	(226)	(4)	-	(159)	(210)
Operating Balance before gains and losses (excluding minority interests)	**(4,170)**	**(3,841)**	**1,460**	**1,455**	**407**	**598**	**(630)**	**(659)**	**(2,933)**	**(2,447)**
Gains/(losses) and other items	4,373	3,950	1,414	1,538	21	56	(67)	(124)	5,741	5,420
Operating Balance	**203**	**109**	**2,874**	**2,993**	**428**	**654**	**(697)**	**(783)**	**2,808**	**2,973**
Assets										
Financial assets	80,083	78,270	41,844	40,827	21,151	21,541	(19,901)	(19,504)	123,177	121,134
Property, plant and equipment	30,963	29,971	56,802	53,043	28,541	29,250	-	-	116,306	112,264
Investments in associates, CEs and SOEs	32,543	32,764	8,627	8,479	192	348	(31,291)	(31,570)	10,071	10,021
Other assets	2,816	2,833	1,149	1,100	2,598	2,371	(34)	(38)	6,529	6,266
Forecast adjustments	-	(382)	-	-	-	-	-	-	-	(382)
Total Assets	**146,405**	**143,456**	**108,422**	**103,449**	**52,482**	**53,510**	**(51,226)**	**(51,112)**	**256,083**	**249,303**
Liabilities										
Borrowings	89,090	88,438	5,155	5,107	26,185	26,916	(17,011)	(17,403)	103,419	103,058
Other liabilities	28,442	27,585	43,836	42,651	7,245	7,332	(7,638)	(6,790)	71,885	70,778
Total Liabilities	**117,532**	**116,023**	**48,991**	**47,758**	**33,430**	**34,248**	**(24,649)**	**(24,193)**	**175,304**	**173,836**
Net Worth	**28,873**	**27,433**	**59,431**	**55,691**	**19,052**	**19,262**	**(26,577)**	**(26,919)**	**80,779**	**75,467**
Cost of Acquisition of Physical Assets	**1,664**	2,198	**2,535**	2,880	**1,958**	2,319	(3)	(19)	**6,154**	7,378

Statement of Segments (continued)

	Current Year Actual vs Prior Year Actual									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2014 $m	Actual 2013 $m	Actual 2014 $m	Actual 2013 $m	Actual 2014 $m	Actual 2013 $m	Actual 2014 $m	Actual 2013 $m	Actual 2014 $m	Actual 2013 $m
Revenue										
Taxation revenue	61,474	58,651	-	-	-	-	(595)	(517)	60,879	58,134
Other sovereign revenue	1,201	1,133	5,409	5,295	-	-	(1,160)	(1,256)	5,450	5,172
Revenue from core Crown funding	-	-	24,782	24,096	187	268	(24,969)	(24,364)	-	-
Sales of goods and services	1,488	1,461	1,868	1,856	13,650	14,002	(534)	(606)	16,472	16,713
Interest revenue and dividends	2,295	2,104	1,249	1,270	879	856	(1,248)	(1,291)	3,175	2,939
Other revenue	839	800	2,090	2,547	772	810	(281)	(460)	3,420	3,697
Total Revenue (excluding gains)	**67,297**	**64,149**	**35,398**	**35,064**	**15,488**	**15,936**	**(28,787)**	**(28,494)**	**89,396**	**86,655**
Expenses										
Transfer payments and subsidies	23,360	22,709	-	-	-	-	-	(1)	23,360	22,708
Personnel expenses	6,232	6,037	11,315	10,966	2,956	2,949	(19)	(17)	20,484	19,935
Other operating expenses	38,255	37,940	22,422	21,660	10,791	11,555	(27,542)	(27,149)	43,926	44,006
Interest expenses	3,620	3,620	219	235	1,161	1,248	(600)	(745)	4,400	4,358
Total Expenses (excluding losses)	**71,467**	**70,306**	**33,956**	**32,861**	**14,908**	**15,752**	**(28,161)**	**(27,912)**	**92,170**	**91,007**
Minority interest share of operating balance before gains/losses	-	-	18	10	(173)	(75)	(4)	3	(159)	(62)
Operating Balance before gains and losses (excluding minority interests)	**(4,170)**	**(6,157)**	**1,460**	**2,213**	**407**	**109**	**(630)**	**(579)**	**(2,933)**	**(4,414)**
Gains/(losses) and other items	4,373	6,528	1,414	3,664	21	505	(67)	642	5,741	11,339
Operating Balance	**203**	**371**	**2,874**	**5,877**	**428**	**614**	**(697)**	**63**	**2,808**	**6,925**
Assets										
Financial assets	80,083	75,111	41,844	41,297	21,151	20,058	(19,901)	(17,687)	123,177	118,779
Property, plant and equipment	30,963	29,507	56,802	51,823	28,541	28,503	-	-	116,306	109,833
Investments in associates, CEs and SOEs	32,543	32,611	8,627	8,151	192	187	(31,291)	(31,356)	10,071	9,593
Other assets	2,816	2,646	1,149	1,133	2,598	2,463	(34)	(31)	6,529	6,211
Total Assets	**146,405**	**139,875**	**108,422**	**102,404**	**52,482**	**51,211**	**(51,226)**	**(49,074)**	**256,083**	**244,416**
Liabilities										
Borrowings	89,090	84,873	5,155	5,251	26,185	24,839	(17,011)	(14,876)	103,419	100,087
Other liabilities	28,442	29,339	43,836	45,261	7,245	7,226	(7,638)	(7,508)	71,885	74,318
Total Liabilities	**117,532**	**114,212**	**48,991**	**50,512**	**33,430**	**32,065**	**(24,649)**	**(22,384)**	**175,304**	**174,405**
Net Worth	**28,873**	**25,663**	**59,431**	**51,892**	**19,052**	**19,146**	**(26,577)**	**(26,690)**	**80,779**	**70,011**
Cost of Acquisition of Physical Assets	**1,664**	1,112	**2,535**	2,314	**1,958**	2,281	(3)	(13)	**6,154**	5,694

Notes to the Financial Statements

Note 1: Summary of Accounting Policies

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 New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for public benefit entities.

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

These financial statements were authorised for issue by the Minister of Finance on 30 September 2014.

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

Basis of preparation

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

Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

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

Early adoption of standards and interpretations

From 1 July 2011 no NZ IFRS or amendments to existing NZ IFRS applicable to PBEs have been issued as a consequence of the decision to move to the new Accounting Standards Framework. The Government has adopted all NZ IFRSs and Interpretations applicable to PBEs issued prior to that date, with the exception of *NZ IFRS 9: Financial Instruments*, approved in 2010.

NZ IFRS 9 becomes effective for annual reporting periods commencing on or after 1 January 2015. Under the proposed new accounting framework for public sector entities, the proposed accounting standard for recognition and measurement of financial instruments is based on *IPSAS 29: Financial Instruments: Recognition and Disclosure*. The Crown has not early adopted *NZ IFRS 9* to reduce the risk of unnecessary accounting changes through this period.

The New Zealand Accounting Standards Board has issued a new suite of accounting standards (called Public Sector PBE Accounting Standards) that will apply to the Financial Statements of Government for the financial year beginning 1 July 2014. At the broad level the impact of moving from NZ IFRS to PBE Accounting Standards is not expected to be significant as there is a strong degree of convergence between IFRS and IPSAS, and therefore between the current NZ IFRS (PBE) and the proposed Public Sector PBE Accounting Standards.

Reporting period

The reporting period for these financial statements is the financial year ended 30 June 2014.

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

Significant Accounting Policies

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
- Organisations listed in Schedule 4 and 4A of the Public Finance Act 1989
- Organisations listed in Schedule 5 of the Public Finance Act 1989

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

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

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

Income

Taxation revenue levied through the Crown's sovereign power

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

Tax revenue is recognised when a taxable event has occurred and the tax revenue can be reliably measured. The taxable event is defined as follows:

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax (RWT)	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Provisional tax	When assessed income is earned during the taxation period
Terminal tax	When the assessment is filed
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
Stamp, cheque and credit card duties	When the liability to the Crown is incurred
Exhaustible resources levy	When the resource is extracted
Other indirect taxes	When the debt to the Crown arises
Levies (eg, ACC levies)	When the obligation to pay the levy is incurred

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. Inland Revenue has implemented systems and controls (eg, performing audits of taxpayer records) in order to detect and correct situations where taxpayers are not complying with the various acts it administers.

Revenue earned through operations

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

Interest income

Interest income is accrued using the effective interest method.

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

Dividend income

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

Rental income

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

Donated or subsidised assets

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

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements

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

Grants and subsidies

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

Interest expense

Interest expense is accrued using the effective interest method.

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

Foreign currency

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

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

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

Sovereign receivables and taxes repayable

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

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

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

Financial instruments

Financial assets

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

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

Major financial asset type	Designation
Trade and other receivables	All designated as loans and receivables 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 profit and loss
Marketable securities	Generally designated as fair value through profit and loss
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 income policy). Loans and receivables issued with durations of less than 12 months are recognised at their nominal value. 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 profit and loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance.

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

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

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

Fair values of quoted investments are based on 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.

Financial liabilities

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

Major financial liability type	Designation
Accounts payable	All designated at amortised cost
Government stock	Generally designated at amortised cost
Treasury bills	All designated at amortised cost
Government retail stock	All designated at amortised cost
Other borrowings	Generally designated at amortised cost
Settlement deposits with Reserve Bank	All designated at amortised cost
Issued currency	Not designated: Recognised at face value

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

Other financial liabilities are recognised initially at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest method (refer interest expense policy). Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.

Currency issued for circulation, including demonetised currency after 1 July 2004, is recognised at face value. Currency issued represents a liability in favour of the holder.

Derivative Financial Instruments

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

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

Hedging

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

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

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

(a) Cash flow hedge

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

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

(b) Fair value hedge

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

Inventories

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

Inventories include unissued currency and harvested agricultural produce (eg, logs, wool). The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

Property, plant and equipment

Measurement on initial recognition

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 income in the statement of financial performance.

Capitalisation of borrowing costs

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

Subsequent measurement

Subsequent to initial recognition, classes of PPE are accounted for as set out in the table 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.

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

Revaluation

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.

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 recognised in the statement of comprehensive income and credited to an asset revaluation reserve for that class of asset. To the extent that there is a balance in the asset revaluation reserve for the asset class, any loss on an asset of that class is recognised in the statement of comprehensive income and offset against that reserve. Otherwise, losses are reported in the statement of financial performance.

Depreciation

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.

Typically, the estimated useful lives of different classes of PPE are as follows:

Class of PPE	Estimated useful lives
Buildings	25 to 60 years
Specialist military equipment (SME)	5 to 55 years
State highways: Pavement (surfacing) Pavement (other) Bridges	 7 years 50 years 70 to 105 years
Rail Network: Track and ballast Tunnels and bridges Overhead traction and signalling	 25 to 40 years 60 to 100 years 10 to 40 years
Aircraft (excluding 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

Specified heritage and cultural assets are generally not depreciated.

Impairment

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

Disposal

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

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 in which the private sector partner uses specified assets to supply a public service on behalf of the Government for a specified period of time and is compensated for its services over the period of the arrangement. The costs of the specified assets are financed by the private sector partner, except where existing assets of the Government (generally land) are allocated to the arrangement. Payments made by the Government to a private sector partner over the period of a service concession arrangement cover the costs of the provision of services, interest expenses and repayment of the liability incurred to acquire the specified assets.

The assets in a public private partnership are recognised as assets of the Government. If the assets are progressively constructed, the Government progressively recognises work-in-progress at cost and 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.

Subsequent to initial recognition:

- the assets are accounted for in accordance with Government accounting policy applicable to the classes of property, plant and equipment that the specified assets comprise, and
- the financial liabilities are measured at amortised cost.

Equity accounted investments

Generally accepted accounting practice 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.

However, generally accepted accounting practice is not clear about how the definitions of control and significant influence should be applied in some circumstances in the public sector, for example, where legislation provides public sector entities with statutory autonomy and independence, in particular with Tertiary Education Institutions. Treasury's view is that because the Government cannot determine 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.

Biological assets

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

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

Intangible assets

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

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

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

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

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

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

Goodwill is tested for impairment annually.

Non-current assets held for sale and discontinued operations

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

Investment property

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

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

Employee benefits

Pension liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial estimate of the value of expected future pension benefits arising from employee service up to the reporting date. All movements in the liability, including actuarial gains and losses, are recognised in the statement of financial performance in the period in which they occur.

Other employee entitlements

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

Termination benefits

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

Insurance contracts

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

Reinsurance

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

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims and outstanding claims, are recognised as income in the statement of financial performance.

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

Leases

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

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

Other liabilities and provisions

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

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

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

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 included in the statement of commitments.

Comparatives

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

Comparatives referred to as Budget 13 were forecasts published in the *2013 Budget Economic and Fiscal Update,* while Budget 14 were forecasts published in the *2014 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment analysis

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

- Core Crown: This group, which includes Ministers, 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.

- 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, Mighty River Power, 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).

Related parties

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

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

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

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

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

Note 2: Sovereign Revenue (Accrual)

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Direct Income Tax Revenue (accrual)		
		Individuals		
23,709	23,811	Source deductions	23,738	22,330
5,083	5,161	Other persons	5,216	5,210
(1,488)	(1,531)	Refunds	(1,573)	(1,644)
477	487	Fringe benefit tax	489	480
27,781	**27,928**	**Total individuals**	**27,870**	**26,376**
		Corporate Tax		
9,240	9,195	Gross companies tax	9,020	8,747
(197)	(195)	Refunds	(192)	(151)
447	421	Non-resident withholding tax	428	420
-	2	Foreign-source dividend withholding payments	8	2
9,490	**9,423**	**Total corporate tax**	**9,264**	**9,018**
		Other Direct Income Tax		
1,671	1,642	Resident withholding tax on interest income	1,644	1,631
607	472	Resident withholding tax on dividend income	446	516
2,278	**2,114**	**Total other direct income tax**	**2,090**	**2,147**
39,549	**39,465**	**Total direct income tax**	**39,224**	**37,541**
		Indirect Income Tax Revenue (accrual)		
		Goods and Services Tax		
27,220	27,364	Gross goods and services tax	27,208	25,125
(10,695)	(11,079)	Refunds	(11,191)	(9,920)
16,525	**16,285**	**Total goods and services tax**	**16,017**	**15,205**
		Other Indirect Taxation		
1,164	1,162	Road user charges	1,205	1,066
931	848	Petroleum fuels excise - domestic production	865	855
678	655	Alcohol excise - domestic production	650	663
277	274	Tobacco excise - domestic production	273	281
659	746	Petroleum fuels excise - imports[6]	747	674
267	246	Alcohol excise - imports[6]	242	250
1,043	1,029	Tobacco excise - imports[6]	999	954
172	169	Other customs duty	172	178
223	211	Gaming duties	211	214
187	186	Motor vehicle fees	187	174
62	68	Approved issuer levy and cheque duty	52	45
36	36	Energy resources levies	35	34
5,699	**5,630**	**Total other indirect taxation**	**5,638**	**5,388**
22,224	**21,915**	**Total indirect taxation**	**21,655**	**20,593**
61,773	**61,380**	**Total taxation revenue**	**60,879**	**58,134**
		Other Sovereign Revenue (accrual)		
3,465	3,546	ACC levies	3,600	3,437
338	338	Fire service levies	339	331
269	275	EQC levies	274	242
729	604	Child support	545	590
173	173	Court fines	179	168
322	447	Other miscellaneous items	513	404
5,296	**5,383**	**Total other sovereign revenue**	**5,450**	**5,172**
67,069	**66,763**	**Total sovereign revenue**	**66,329**	**63,306**

6 Customs excise-equivalent duty.

Note 2: Sovereign Receipts (Cash)

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Direct Income Tax Receipts (cash)		
		Individuals		
23,584	23,665	Source deductions	23,621	22,188
5,549	5,655	Other persons	5,466	5,194
(2,222)	(2,149)	Refunds	(2,276)	(2,251)
476	485	Fringe benefit tax	482	465
27,387	**27,656**	**Total individuals**	**27,293**	**25,596**
		Corporate Tax		
9,495	9,390	Gross companies tax	9,374	8,665
(766)	(652)	Refunds	(563)	(597)
446	399	Non-resident withholding tax	405	451
-	2	Foreign-source dividend withholding payments	-	1
9,175	**9,139**	**Total corporate tax**	**9,216**	**8,520**
		Other Direct Income Tax		
1,670	1,641	Resident withholding tax on interest income	1,629	1,635
607	471	Resident withholding tax on dividend income	449	516
2,277	**2,112**	**Total direct other income tax**	**2,078**	**2,151**
38,839	**38,907**	**Total direct income tax**	**38,587**	**36,267**
		Indirect Tax Receipts (cash)		
		Goods and Services Tax		
26,352	26,537	Gross goods and services tax	26,596	24,539
(10,195)	(10,629)	Refunds	(10,948)	(9,783)
16,157	**15,908**	**Total goods and services tax**	**15,648**	**14,756**
		Other Indirect Taxation		
1,164	1,162	Road user charges	1,187	1,064
931	848	Petroleum fuels excise - domestic production	861	865
678	655	Alcohol excise - domestic production	651	666
277	274	Tobacco excise - domestic production	268	287
2,141	2,190	Customs duty	2,179	2,035
223	208	Gaming duties	208	216
187	186	Motor vehicle fees	178	179
62	68	Approved issuer levy and cheque duty	51	44
36	36	Energy resources levies	35	34
5,699	**5,627**	**Total other indirect taxation**	**5,618**	**5,390**
21,856	**21,535**	**Total indirect taxation**	**21,266**	**20,146**
60,695	**60,442**	**Total tax receipts collected**	**59,853**	**56,413**
		Other Sovereign Receipts (cash)		
3,438	3,550	ACC levies	3,579	3,524
338	338	Fire service levies	340	331
267	278	EQC levies	273	274
237	227	Child support	219	230
148	148	Court fines	149	159
319	428	Other miscellaneous items	414	288
4,747	**4,969**	**Total other sovereign receipts**	**4,974**	**4,806**
65,442	**65,411**	**Total sovereign receipts**	**64,827**	**61,219**

Note 3: Sales of Goods and Services

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
9,021	8,236	Sales of goods	8,153	8,536
8,059	8,196	Rendering of services	8,319	8,177
17,080	**16,432**	**Total sales of goods and services**	**16,472**	**16,713**
		By source		
1,397	1,513	Core Crown	1,488	1,461
15,431	15,459	Crown entities	15,539	15,102
14,394	13,699	State-owned enterprises	13,752	14,102
(14,142)	(14,239)	Inter-segment eliminations	(14,307)	(13,952)
17,080	**16,432**	**Total sales of goods and services**	**16,472**	**16,713**

Note 4: Interest Revenue and Dividends

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
600	572	Student loans (interest unwind)[7]	579	590
1,076	1,132	Other financial assets classified as amortised cost or available for sale	1,190	1,073
17	6	Financial assets classified as held for trading	13	48
1,313	845	Financial assets classified as fair value through profit and loss	734	671
3,006	**2,555**	**Total interest revenue**	**2,516**	**2,382**
582	605	Dividends	659	557
3,588	**3,160**	**Total interest revenue and dividends**	**3,175**	**2,939**
		By source		
2,639	2,304	Core Crown	2,295	2,104
1,242	1,156	Crown entities	1,249	1,270
878	885	State-owned enterprises	879	856
(1,171)	(1,185)	Inter-segment eliminations	(1,248)	(1,291)
3,588	**3,160**	**Total interest revenue and dividends**	**3,175**	**2,939**

7 Because student loans are advanced on an interest-free basis, they are discounted to reflect their impaired value. The interest unwind reflects the increase in value as the period to repayment reduces.

Note 5: Other Revenue

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
1,225	1,232	Rental income	1,230	1,175
385	372	Sale of royalties	383	421
29	(155)	EQC insurance claim on reinsurers	(123)	(127)
2,228	2,173	Other revenue	1,930	2,228
3,867	**3,622**	**Total other revenue**	**3,420**	**3,697**

EQC anticipates that a significant proportion of the cost of damage relating to the Canterbury earthquake sequence will be recovered from reinsurers (which is recorded as reinsurance receivables). Actuarial valuations of the reinsurance recoverable resulted in a reversal of income in both the current and previous years. Further information on insurance expenses and underwriting results can be found in note 11.

Note 6: Transfer Payments and Subsidies

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Social Assistance Grants		
10,894	10,903	New Zealand superannuation	10,913	10,235
1,773	1,693	Jobseeker support and emergency benefit	1,691	-
1,392	1,422	Supported living payment	1,422	-
1,288	1,225	Sole parent support	1,222	-
67	63	Domestic purposes benefit	63	1,738
53	52	Invalid's benefit	52	1,330
32	29	Sickness benefit	29	782
29	29	Unemployment benefit	29	812
2,038	1,976	Family tax credit	1,965	2,018
539	556	Other working for families tax credits	462	544
1,191	1,149	Accommodation assistance	1,146	1,177
662	670	Income related rents	726	611
380	379	Disability allowances	379	384
574	542	Student allowances	539	596
1,316	1,354	Other social assistance benefits	1,288	1,321
22,228	**22,042**	**Total social assistance grants**	**21,926**	**21,548**
		Subsidies		
748	822	KiwiSaver subsidies	901	723
		Other transfer payments		
509	530	Official development assistance	533	437
23,485	**23,394**	**Total transfer payments and subsidies**	**23,360**	**22,708**

From 15 July 2013 the benefit categories domestic purposes benefit, invalid's benefit, unemployment and emergency benefit and sickness benefit, as well as widow's benefit, were replaced by new benefit categories. These categories are jobseeker support and emergency benefit, supported living payment and sole parent support.

Note 7: Personnel Expenses

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
18,921	19,064	Salaries and wages	19,108	18,921
296	319	Costs incurred on GSF and other defined benefit plans	310	290
281	339	Costs incurred on defined contribution plans (e.g. KiwiSaver)	424	386
674	766	Other personnel expenses	642	338
20,172	**20,488**	**Total personnel expenses**	**20,484**	**19,935**
		By source		
6,066	6,253	Core Crown	6,232	6,037
11,198	11,302	Crown entities	11,315	10,966
2,919	2,940	State-owned enterprises	2,956	2,949
(11)	(7)	Inter-segment eliminations	(19)	(17)
20,172	**20,488**	**Total personnel expenses**	**20,484**	**19,935**
		Key management personnel compensation		
		Salaries and other short-term employee benefits	9	9
		Post-employment benefits	-	-
		Other long-term benefits	-	-
		Termination benefits	-	-
			9	**9**

Key management personnel are the 28 Ministers of the Crown who are members of the Executive Council (including the Prime Minister).

The Remuneration Authority sets remuneration levels for members of the Executive Council. The Authority takes into account other benefits available to members of the Executive as set out in the Executive Travel, Accommodation, Attendance, and Communication Services Determination (No 2) 2009 (the "Determination"). The Determination was determined by the Minister Responsible for Ministerial Services. Members of Parliament, including Members of the Executive, have access to other non-cash entitlements as determined by the Speaker of the House of Representatives. Details of these entitlements (eg, travel discounts) can be found on the New Zealand Parliament website (www.parliament.nz).

Note 8: Depreciation and Amortisation

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Depreciation expense		
1,195	1,193	Buildings	1,213	1,150
420	457	State highways	460	449
439	416	Electricity generation assets	404	431
208	205	Electricity distribution network	175	152
346	295	Specialist military equipment	282	272
166	226	Aircraft (excluding military)	260	213
177	184	Rail network	20	14
18	20	Specified cultural and heritage assets	25	24
1,043	1,029	Other plant and equipment	966	992
4,012	**4,025**	**Total depreciation expense**	**3,805**	**3,697**
628	619	Amortisation and impairment of non-financial assets	1,067	1,115
4,640	**4,644**	**Total depreciation and amortisation**	**4,872**	**4,812**

Note 9: Other Operating Expenses

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
4,755	4,809	Donations and ex-gratia payments	4,982	4,451
1,122	1,126	Rental and leasing costs	1,122	1,117
1,783	1,567	Impairment of financial assets	1,396	1,755
723	843	Write-down on initial recognition of financial assets	789	684
542	537	Lottery prize payments	526	515
246	215	Inventory expenses	542	565
-	-	Impairment of inventory	8	12
-	40	Bonus share offer expense (refer to note 35)	22	25
5	4	Fees paid to audit firms (refer below)	2	1
28,432	27,386	Other operating expenses	26,164	27,038
37,608	**36,527**	**Total other operating expenses**	**35,553**	**36,163**
		By source		
37,811	37,474	Core Crown	36,777	36,565
17,458	17,580	Crown entities	17,297	17,065
9,743	9,154	State-owned enterprises	9,042	9,689
(27,404)	(27,681)	Inter-segment eliminations	(27,563)	(27,156)
37,608	**36,527**	**Total other operating expenses**	**35,553**	**36,163**

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.

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

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Audit and related expenses		
Auditor-General fees for the audit of financial statements[8]	39	38
Auditor-General fees for assurance and related services	1	1
Fees for other services	-	-
	40	39
Inter-segment eliminations	(40)	(39)
Total audit and related expenses	**-**	**-**
Fees for other work [9]		
Fees for assurance and related services	1	1
Fees for tax services	-	-
Fees for other services	1	-
Fees paid to audit firms	**2**	**1**

8 The audit of financial statements are those of the Government reporting entity and its sub-entities. Audit fees are eliminated because the Office of the Auditor-General is consolidated into these financial statements.

9 External auditing firms carry out other work for entities that they audit on behalf of the Auditor-General.

Note 10: Interest Expenses

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
3,611	4,129	Financial liabilities classified as amortised cost	4,100	4,014
8	-	Financial liabilities classified as held for trading	-	5
846	287	Financial liabilities classified as fair value through profit and loss	260	293
51	45	Interest unwind on provisions	40	46
4,516	**4,461**	**Total interest expenses**	**4,400**	**4,358**
		By source		
3,622	3,641	Core Crown	3,620	3,620
239	224	Crown entities	219	235
1,279	1,173	State-owned enterprises	1,161	1,248
(624)	(577)	Inter-segment eliminations	(600)	(745)
4,516	**4,461**	**Total interest expenses**	**4,400**	**4,358**

Note 11: Insurance Expenses

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By entity		
3,315	3,461	Accident Compensation Corporation (ACC)	3,484	3,133
(19)	(252)	Earthquake Commission (EQC)	(111)	(103)
(95)	61	Southern Response	87	(22)
14	13	Other	17	19
-	-	Inter-segment eliminations	24	4
3,215	**3,283**	**Total insurance expenses**	**3,501**	**3,031**
		By type		
		Property damage claims in relation to Canterbury earthquakes	(281)	(227)
		Personal accident and injury claims	3,484	3,133
		Other insurance expenses	298	125
		Total insurance expenses	**3,501**	**3,031**

Insurance expenses include costs associated with insurance claims arising from the Canterbury earthquakes. Note 30 contains further discussion on total costs of the earthquakes to the Crown.

At 30 June 2014 the total amount paid or payable for damage incurred in relation to Canterbury earthquakes was reassessed and is now expected to be lower than previously expected. This reduction is recognised as a credit in the claims expense. The discount on prior year claims payable was also recalculated to take into account changes in interest rates, payment patterns, and the reduced period to settlement.

The remainder of note 11 provides additional information on the insurance expenses for ACC, EQC, and Southern Response.

An analysis of the insurance liabilities is provided in note 25. Given the uncertainty over insurance claims, it is likely that the final cost will be different from the original liability established.

Note 11: Insurance Expenses (continued)

Analysis of ACC insurance expense	Actual 30 June 2014 $m	30 June 2013 $m
By type		
Claims expense	3,223	1,122
Movement in unexpired risk liability	159	(27)
Other underwriting expenses	99	86
Total ACC claims and other expenses	**3,481**	**1,181**
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss)	479	2,369
Operating costs relating to claims	(476)	(417)
Total ACC insurance expenses (excluding gains/(losses) and operations)	**3,484**	**3,133**

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

	Actual 30 June 2014 $m	30 June 2013 $m
ACC Claims Incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	7,578	7,071
Discount and discount movement	(4,418)	(4,149)
Total current year net claims incurred	**3,160**	**2,922**
Previous years' net ACC claims incurred		
Reassessment of gross claims and expenses – undiscounted	(4,490)	(2,817)
Discount and discount movement	4,553	1,017
Total previous years' net claims incurred	**63**	**(1,800)**
ACC claims expense	**3,223**	**1,122**

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

	Actual 30 June 2014 $m	30 June 2013 $m
Net ACC Underwriting Result		
Premium revenue (refer to note 2)	3,600	3,437
Recoveries revenue (including reinsurance recovery)	-	-
ACC underwriting revenue	**3,600**	**3,437**
Less claims and other expenses	(3,481)	(1,181)
Net ACC underwriting surplus/(deficit)	**119**	**2,256**
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	3,579	3,524
Cash payments	(3,435)	(3,072)
Net ACC operating cash flows	**144**	**452**

Note 11: Insurance Expenses (continued)

	Actual 30 June 2014 $m	30 June 2013 $m
Analysis of EQC insurance expense		
By type		
Claims expense	(271)	(167)
Movement in unexpired risk liability	9	(68)
Other underwriting expenses	151	132
Total EQC claims and other expenses	**(111)**	**(103)**
EQC Claims Incurred		
Current year net EQC claims incurred		
Gross claims incurred and related expenses – undiscounted	112	37
Discount and discount movement	(2)	-
Total current year net claims incurred	**110**	**37**
Previous years' net EQC claims incurred		
Reassessment of gross claims and expenses – undiscounted	(446)	(349)
Discount and discount movement	65	145
Total previous years' net claims incurred	**(381)**	**(204)**
EQC claims expense	**(271)**	**(167)**
Net EQC Underwriting Result		
Premium revenue	274	242
Recoveries revenue (including reinsurance recovery)	(123)	(127)
EQC underwriting revenue	**151**	**115**
Less claims and other expenses	(111)	(103)
Net EQC underwriting surplus/(deficit)	**262**	**218**
EQC operating cash flows associated with the underwriting result are:		
Cash receipts	1,549	1,590
Cash payments	(2,020)	(1,923)
Net EQC operating cash flows	**(471)**	**(333)**
Analysis of Southern Response insurance expense		
By type		
Claims expense	111	2
Movement in unexpired risk liability	-	-
Total Southern Response claims and other expenses	**111**	**2**
less operating costs relating to claims	(24)	(24)
Total Southern Response insurance expenses (excluding operations)	**87**	**(22)**
Net Southern Response Underwriting Result		
Premium revenue	-	-
Recoveries revenue (including reinsurance recovery)	(37)	27
Southern Response underwriting revenue	**(37)**	**27**
Less claims and other expenses	111	2
Net Southern Response underwriting surplus/(deficit)	**(148)**	**25**
Southern Response operating cash flows associated with the underwriting result are:		
Cash receipts	291	452
Cash payments	(386)	(294)
Net Southern Response operating cash flows	**(95)**	**158**

Southern Response Earthquake Services ("Southern Response") manages claims related to the Canterbury earthquakes incurred by AMI Insurance.

Note 12: Gains and Losses on Financial Instruments

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
-	29	Foreign exchange gains on financial assets measured at amortised cost	12	448
(10)	(205)	Foreign exchange losses on financial assets measured at amortised cost	(496)	(13)
1	1	Change in fair value of financial assets classified as held for trading	9	38
(10)	51	Gains/(losses) on disposal of financial assets measured at amortised cost	17	224
488	241	Change in fair value of financial assets classified as fair value through profit and loss	(1,044)	2,651
469	**117**	**Net gains/(losses) on financial assets**	**(1,502)**	**3,348**
3	115	Foreign exchange gain on financial liabilities measured at amortised cost	188	8
-	(18)	Foreign exchange losses on financial liabilities measured at amortised cost	(4)	(14)
-	-	Change in fair value of financial liabilities classified as held for trading	-	-
(5)	(28)	Gains/(losses) on disposal of financial liabilities measured at amortised cost	(30)	55
80	129	Change in fair value of financial liabilities classified as fair value through profit and loss	339	175
78	**198**	**Net gains/(losses) on financial liabilities**	**493**	**224**
1,201	3,289	Net gain/(loss) on derivatives	5,829	3,698
1,748	**3,604**	**Net gains/(losses) on financial instruments**	**4,820**	**7,270**
		By source		
1,663	3,301	Core Crown	4,045	5,081
252	342	Crown entities	702	1,192
11	88	State-owned enterprises	161	354
(178)	(127)	Inter-segment eliminations	(88)	643
1,748	**3,604**	**Net gains/(losses) on financial instruments**	**4,820**	**7,270**

Note 13: Gains and Losses on Non-Financial Instruments

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
498	1,082	Actuarial gains/(losses) on ACC outstanding claims	479	2,369
-	713	Actuarial gains/(losses) on GSF liability	577	1,251
-	(171)	Foreign exchange gains/(losses)	(328)	101
-	24	Other gains/(losses) on non-financial liabilities	14	1
(53)	(61)	Gains/(losses) on disposal or revaluation of property, plant and equipment	(210)	(24)
-	(8)	Gains/(losses) on agricultural assets	(7)	(46)
(2)	11	Other gains/(losses) on non-financial assets	15	54
443	**1,590**	**Net gains/(losses) on non-financial instruments**	**540**	**3,706**
		By source		
(2)	557	Core Crown	220	1,298
446	1,034	Crown entities	477	2,309
(1)	(6)	State-owned enterprises	(156)	100
-	5	Inter-segment eliminations	(1)	(1)
443	**1,590**	**Net gains/(losses) on non-financial instruments**	**540**	**3,706**

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

Note 14: Receivables

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
7,831	8,555	Tax receivables	8,112	8,184
3,953	2,998	Levies, fines and penalty receivables	3,265	3,183
478	501	Social benefit receivables	530	515
12,262	12,054	**Sovereign receivables**	11,907	11,882
1,485	1,366	Reinsurance receivables	1,409	3,135
4,323	4,453	Trade and other receivables	4,164	4,866
18,070	**17,873**	**Total receivables**	**17,480**	**19,883**
		By maturity		
15,334	14,730	Expected to be realised within one year	15,024	15,742
2,736	3,143	Expected to be outstanding for more than one year	2,456	4,141
18,070	**17,873**	**Total receivables**	**17,480**	**19,883**
		By source		
10,260	11,507	Core Crown	11,819	11,924
7,099	6,035	Crown entities	6,379	8,369
2,358	2,077	State-owned enterprises	1,762	2,037
(1,647)	(1,746)	Inter-segment eliminations	(2,480)	(2,447)
18,070	**17,873**	**Total receivables**	**17,480**	**19,883**

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

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

All sovereign receivables are denominated in New Zealand dollars.

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Tax Receivables		
Gross tax receivable	12,589	12,565
Impairment of tax receivables	(4,477)	(4,381)
Total tax receivables	**8,112**	**8,184**
Gross Tax Receivable		
Current	7,118	7,223
Past due	5,471	5,342
Total gross tax receivable	**12,589**	**12,565**
% past due	43%	43%
Impairment of Tax Receivables		
Opening balance	4,381	4,409
Impairment losses recognised during the year	1,030	897
Amounts written off as uncollectible	(934)	(925)
Closing balance	**4,477**	**4,381**

Note 14: Receivables (continued)

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

	Actual	
	30 June 2014 $m	30 June 2013 $m
The estimated recoverable amount of this portfolio and key assumptions underpinning the valuation are:		
Net recoverable amount of tax receivables (current)	6,989	7,185
Net recoverable amount of tax receivables (past due)	1,047	999
Discount rate	6.00%	5.10%
Impact on recoverable amount of a 2% increase in discount rate	(21)	(20)
Impact on recoverable amount of a 2% decrease in discount rate	22	21

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

	Actual	
	30 June 2014 $m	30 June 2013 $m
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	931	904
Between six months and one year	390	363
Between one year and two years	719	788
Greater than two years	3,431	3,287
Tax receivables past due	**5,471**	**5,342**

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

Note 14: Receivables (continued)

	Actual 30 June 2014 $m	30 June 2013 $m
Levies, Fines and Penalty Receivables		
Gross ACC levy receivables	3,063	3,027
Gross other levies, fines and penalty receivables	2,781	2,515
Total gross levies, fines and penalty receivables	**5,844**	**5,542**
Impairment of ACC levy receivables	(84)	(118)
Impairment of other levies, fines and penalty receivables	(2,495)	(2,241)
Total impairment of receivables	**(2,579)**	**(2,359)**
Total levies, fines and penalty receivables	**3,265**	**3,183**
Impairment of ACC Levy Receivables		
Opening balance	118	122
Impairment losses recognised during the year	-	(2)
Amounts written off as uncollectible	1	(2)
Impairment losses reversed	(35)	-
Closing balance	**84**	**118**
Collective impairment allowance	84	118
Individual impairment allowance	-	-
Impairment of ACC Levy Receivables	**84**	**118**
Impairment of other Levies, Fines and Penalty Receivables		
Opening balance	2,241	1,969
Impairment losses recognised during the year	341	363
Amounts written off as uncollectible	-	-
Impairment losses reversed	(87)	(91)
Closing balance	**2,495**	**2,241**
Collective impairment allowance	2,495	2,241
Individual impairment allowance	-	-
Impairment of other Levies, Fines and Penalty Receivables	**2,495**	**2,241**
Ageing of Levies, Fines and Penalty Receivables Past Due But Not Impaired		
Less than six months	-	-
Between six months and one year	-	-
Greater than one year	-	-
Total levies, fines and penalty receivables past due but not impaired	**-**	**-**

The ACC levy receivables are short term, so their carrying amount provides a reasonable approximation of their fair value. Of the other levies, fines and penalty receivables, the majority is in the debtor portfolio administered by the Ministry of Justice (ie, court fines, associated court fees and enforcement fees) with a net book value of $168 million (2013: $175 million). Their carrying amount provides a reasonable approximation of their fair value. The recoverable amount of these Ministry of Justice receivables is calculated using discounted cash flows (net of estimated service costs).

Note 14: Receivables (continued)

	Actual	
	30 June 2014 $m	30 June 2013 $m
Social Benefit Receivables		
Gross social benefit receivables	1,239	1,178
Impairment of social benefit receivables	(709)	(663)
Total social benefit receivables	**530**	**515**
Impairment of Social Benefit Receivables		
Opening balance	663	628
Impairment losses recognised during the year	68	79
Amounts written off as uncollectible	(22)	(44)
Closing balance	**709**	**663**
Collective impairment allowance	709	663
Individual impairment allowance	-	-
Impairment of Social Benefit Receivables	**709**	**663**
Ageing of Social Benefit Receivables Past Due But Not Impaired		
Less than six months	31	30
Between six months and one year	61	67
Greater than one year	-	-
Total social benefit receivables past due but not impaired	**92**	**97**

Social benefit receivables comprise benefit overpayments, advances on benefits and recoverable special needs grants primarily administered by the Ministry of Social Development with a carrying value of $527 million (2013: $502 million). The recoverable amount of social benefit receivables is determined by discounting the expected future cash flows (net of estimated service costs). Their carrying amount provides a reasonable approximation of their fair value.

	Actual	
	30 June 2014 $m	30 June 2013 $m
Reinsurance receivables		
Opening balance	3,135	5,003
Reinsurance recognised/reassessed during the year	(160)	(100)
Reinsurance acquired through business combination	-	-
Reinsurance received during the year	(1,566)	(1,768)
Closing balance	**1,409**	**3,135**

Credit risk associated with reinsurance receivables is managed by ensuring the risk is spread across a number of different reinsurers with appropriate credit ratings.

Note 14: Receivables (continued)

	Actual	
	30 June 2014 $m	30 June 2013 $m
Trade and Other Receivables		
Gross trade and other receivables	4,256	4,954
Impairment of trade and other receivables	(92)	(88)
Total trade and other receivables	**4,164**	**4,866**
Impairment of Trade and Other Receivables		
Opening balance	88	93
Impairment losses recognised during the year	10	7
Amounts written off as uncollectible	(12)	(14)
Impairment losses reversed	6	2
Closing balance	**92**	**88**
Collective impairment allowance	65	64
Individual impairment allowance	27	24
Impairment of Trade and Other Receivables	**92**	**88**
Ageing of Trade and Other Receivables Past Due But Not Impaired		
Less than six months	170	180
Between six months and one year	11	17
Greater than one year	1	2
Total trade and other receivables past due but not impaired	**182**	**199**

The rest of the trade and other receivables are short term, with $3,974 million (2013: $2,214 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

Note 15: Marketable Securities, Deposits and Derivatives in Gain

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
36,314	39,762	Marketable securities	38,307	34,346
2,089	2,407	Long term deposits	3,844	3,588
3,906	3,194	Derivatives in gain	4,164	3,775
2,404	2,507	IMF financial assets	2,142	2,291
44,713	**47,870**	**Total marketable securities, deposits and derivatives in gain**	**48,457**	**44,000**
		By maturity		
30,197	30,316	Expected to be realised within one year	30,433	26,833
14,516	17,554	Expected to be held for more than one year	18,024	17,167
44,713	**47,870**	**Total marketable securities, deposits and derivatives in gain**	**48,457**	**44,000**
		By source		
32,224	34,355	Core Crown	34,178	31,056
19,950	22,712	Crown entities	23,500	20,045
3,167	2,813	State-owned enterprises	2,472	2,586
(10,628)	(12,010)	Inter-segment eliminations	(11,693)	(9,687)
44,713	**47,870**	**Total marketable securities, deposits and derivatives in gain**	**48,457**	**44,000**

Marketable securities comprise bonds, commercial paper, debentures and similar tradable financial assets held by the Government for the purposes of realising capital gains or interest revenue. Marketable securities and derivatives in gain are reported at their fair value. Fair value is either based on quoted market price or using a valuation model if there is no active market. The valuation models used generally calculate the expected cash flows under the terms of each specific contract and then discount these values back to present value.

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

Further information on the management of risks associated with these financial assets is provided in note 33.

Note 16: Share Investments

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By maturity		
7,250	10,695	Expected to be realised within one year	11,428	7,651
10,926	8,977	Expected to be held for more than one year	9,168	9,708
18,176	**19,672**	**Total share investments**	**20,596**	**17,359**
		By source		
7,199	10,778	Core Crown	11,579	7,665
10,664	8,851	Crown entities	8,896	9,496
340	316	State-owned enterprises	483	342
(27)	(273)	Inter-segment eliminations	(362)	(144)
18,176	**19,672**	**Total share investments**	**20,596**	**17,359**

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 on the management of risks associated with these financial assets is provided in note 33.

Note 17: Advances

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
8,989	8,752	Student loans	8,716	8,288
14,544	14,784	Kiwibank mortgages	14,630	13,202
1,779	1,075	Other advances	1,410	1,123
25,312	**24,611**	**Total advances**	**24,756**	**22,613**
		By source		
14,633	13,883	Core Crown	14,280	13,419
130	226	Crown entities	209	248
15,491	15,106	State-owned enterprises	14,860	13,499
(4,942)	(4,604)	Inter-segment eliminations	(4,593)	(4,553)
25,312	**24,611**	**Total advances**	**24,756**	**22,613**

Further information on the management of risks associated with these financial assets is provided in note 33.

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Student Loans		
14,144	14,209	Nominal value	14,235	13,562
(5,155)	(5,457)	Write-down on initial recognition and impairment	(5,519)	(5,274)
8,989	**8,752**	**Total student loans**	**8,716**	**8,288**
		Gross carrying value	10,163	9,723
		Impairment of student loans	(1,447)	(1,435)
		Total student loans	**8,716**	**8,288**
		By maturity		
		Expected to be repaid within one year	1,193	1,049
		Expected to be outstanding for more than one year	7,523	7,239
		Total student loans	**8,716**	**8,288**
		Movement During the Year		
8,528	8,288	Opening balance	8,288	8,291
1,632	1,545	Net new lending (excluding fees)	1,512	1,470
11	11	New lending - establishment fee	11	11
(537)	(644)	Initial write-down to fair value	(630)	(536)
(1,135)	(1,050)	Repayments made during the year	(1,032)	(1,054)
600	572	Interest unwind	579	590
(110)	30	Impairment losses (recognised)/reversed during the year	(12)	(484)
-	-	Other movements	-	-
8,989	**8,752**	**Closing balance student loans**	**8,716**	**8,288**
		Impairment of Student Loans		
		Opening balance	1,435	951
		Impairment losses recognised during the year	12	484
		Amounts written off as uncollectible	-	-
		Impairment losses reversed	-	-
		Closing balance	**1,447**	**1,435**

Note 17: Advances (continued)

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

Fair value on initial recognition of student loans is determined by projecting forward expected repayments required under the scheme and discounting them back at an appropriate discount rate. The difference between the amount lent and the fair value on initial recognition is expensed on initial recognition. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the Crown's interest income across the life of the loan and determines the loan's carrying value at each reporting date.

	Actual	
	30 June 2014	**30 June 2013**
Significant assumptions behind the carrying value are:		
Effective interest rate - weighted average	7.1%	7.1%
Interest rate applied to loans for overseas borrowers	5.1%-6.2%	5.1%-6.2%
CPI	1.8%-2.5%	1.4%-2.5%
Future salary inflation	2.8%-3.5%	2.2%-3.5%

In contrast with the amortised cost approach described above, fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2014. It is determined by discounting the cash flows at an appropriate discount rate.

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
Fair value of the student loan portfolio	8,924	8,298
Impact on fair value of a 1% increase in discount rate	(448)	(423)
Impact on fair value of a 1% decrease in discount rate	501	471

The fair value differs from the carrying value due to changes in market interest rates at reporting date. The carrying value is not adjusted for such changes as it is valued using the effective interest rate determined when the loan was initially drawn. However, the fair value was calculated on a discount rate that was current at 30 June 2014. At that date the fair value was calculated on a discount rate (including expenses) of 6.6% (2013: 7.1%) whereas a weighted average effective interest rate of 7.1% (2013: 7.1%) 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.

Note 17: Advances (continued)

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Kiwibank Mortgages		
		By maturity		
1,209	1,199	Expected to be repaid within one year	1,102	1,071
13,335	13,585	Expected to be outstanding for more than one year	13,528	12,131
14,544	**14,784**	**Total Kiwibank mortgages**	**14,630**	**13,202**
		Impairment of Kiwibank Mortgages		
		Opening balance	72	91
		Impairment losses recognised on mortgages	3	18
		Amounts written off as uncollectible	(9)	(26)
		Impairment losses reversed	(7)	(11)
		Closing balance	**59**	**72**
		Collective impairment allowance	37	44
		Individual impairment allowance	22	28
		Impairment of Kiwibank Mortgages	**59**	**72**
		Ageing of Kiwibank Mortgages Past Due But Not Impaired		
		Less than six months	142	183
		Between six months and one year	-	-
		Greater than one year	-	-
		Total Kiwibank mortgages past due but not impaired	**142**	**183**

Kiwibank mortgages are measured at amortised cost. This fair value is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses. The fair value of Kiwibank mortgages is $14,613 million (2013: $13,210 million).

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 Crown will recover the entire amount owing over the life of the mortgage and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

Note 17: Advances (continued)

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Other Advances		
		By maturity		
689	526	Expected to be repaid within one year	140	391
1,090	549	Expected to be outstanding for more than one year	1,270	732
1,779	**1,075**	**Total other advances**	**1,410**	**1,123**
		Impairment of Other Advances		
		Opening balance	150	148
		Impairment losses recognised during the year	3	10
		Amounts written off as uncollectible	(2)	(6)
		Impairment losses reversed	(2)	(2)
		Closing balance	**149**	**150**
		Collective impairment allowance	146	146
		Individual impairment allowance	3	4
		Impairment of Other Advances	**149**	**150**
		Ageing of Other Advances Past Due But Not Impaired		
		Less than six months	3	9
		Between six months and one year	9	-
		Greater than one year	-	2
		Total other advances past due but not impaired	**12**	**11**
		Measurement Basis for Other Advances		
622	598	Other advances measured at amortised cost	921	791
1,157	477	Other advances measured at fair value	489	332
1,779	**1,075**	**Total other advances**	**1,410**	**1,123**

The NZS Fund, NZDMO, Public Trust and a number of SOEs manage the majority of these advances.

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

In addition to these advances, the Government has entered into commitments to provide advances through two facilities. The Crown has agreed to make available to the Auckland Council, a loan facility to enable the Council to develop the Auckland metro rail network. The loan facility amount is $500 million of which $192 million is undrawn as at 30 June 2014.

The Crown has also agreed to make available to the New Zealand Local Government Funding Agency (NZLGFA) a New Zealand dollar revolving credit facility for 10 years (to February 2022). This facility is only to be utilised to meet exceptional and temporary liquidity shortfalls affecting the NZLGFA. The facility is for $400 million with the possibility for this to be increased to $1 billion by February 2015. As at 30 June 2014 the facility had not been utilised.

Note 18: Inventory

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
		Inventories held for sale	104	105
		Military inventories	308	311
		Other consumables	687	724
1,321	**1,158**	**Total inventory**	**1,099**	**1,140**
		By maturity		
1,036	862	Expected to be sold or consumed within one year	733	783
285	296	Expected to be sold or consumed after one year	366	357
1,321	**1,158**	**Total inventory**	**1,099**	**1,140**
		By source		
393	380	Core Crown	370	382
188	167	Crown entities	174	165
740	611	State-owned enterprises	555	593
-	-	Inter-segment eliminations	-	-
1,321	**1,158**	**Total inventory**	**1,099**	**1,140**

Note 19: Other Assets

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
533	506	Prepayments	570	531
50	264	Investment property	301	201
614	518	Biological assets	587	583
361	361	Investment in supranational organisations	333	368
503	618	Other	719	612
2,061	**2,267**	**Total other assets**	**2,510**	**2,295**
		By maturity		
1,087	1,134	Expected to be realised within one year	1,269	1,188
974	1,133	Expected to be held for more than one year	1,241	1,107
2,061	**2,267**	**Total other assets**	**2,510**	**2,295**
		By source		
1,299	1,317	Core Crown	1,263	1,222
216	435	Crown entities	434	394
579	553	State-owned enterprises	848	708
(33)	(38)	Inter-segment eliminations	(35)	(29)
2,061	**2,267**	**Total other assets**	**2,510**	**2,295**

Note 20: Property, Plant and Equipment

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Net Carrying Value		
		By class of asset		
34,759	34,934	Land	37,138	34,453
25,312	25,969	Buildings	27,396	25,784
18,918	18,875	State highways	19,709	17,930
14,104	13,660	Electricity generation assets	13,941	13,555
4,273	4,167	Electricity distribution network	3,992	3,865
3,330	2,854	Specialist military equipment	2,891	3,094
2,502	2,677	Specified cultural and heritage assets	2,975	2,617
2,498	2,639	Aircraft (excluding military)	2,287	2,296
1,012	1,134	Rail network	936	1,035
5,919	5,355	Other plant and equipment	5,041	5,204
112,627	**112,264**	**Total property, plant and equipment**	**116,306**	**109,833**
		By source		
30,565	29,971	Core Crown	30,963	29,507
52,207	53,043	Crown entities	56,802	51,823
29,855	29,250	State-owned enterprises	28,541	28,503
-	-	Inter-segment eliminations	-	-
112,627	**112,264**	**Total property, plant and equipment**	**116,306**	**109,833**
		By holding		
		Leasehold	1,970	1,858
		Public Private Partnerships	313	110
		Freehold (excluding PPP)	114,023	107,865
112,627	**112,264**	**Total property, plant and equipment**	**116,306**	**109,833**
		Property, plant and equipment pledged to secure borrowing	**1,836**	1,743

Property, plant and equipment pledged to secure borrowing is owned by State-owned enterprises. 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.

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.

Note 20: Property, Plant and Equipment (continued)

For the year ended 30 June 2014	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Aircraft (excluding military) $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2013	**122,796**	34,453	28,277	17,930	13,611	4,930	3,094	3,073	2,312	1,275	13,841
Additions	**6,672**	286	1,669	1,599	839	320	350	65	431	136	977
Disposals	**(1,432)**	(320)	(176)	(83)	(3)	(100)	(4)	(11)	(27)	-	(708)
Net revaluations	**3,038**	3,340	(11)	257	(89)	-	(417)	344	(367)	(20)	1
Other[10]	**(732)**	(621)	86	(1)	(83)	33	6	-	(45)	(27)	(80)
Total gross carrying amount	**130,342**	**37,138**	**29,845**	**19,702**	**14,275**	**5,183**	**3,029**	**3,471**	**2,304**	**1,364**	**14,031**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2013	**12,963**	-	2,493	-	56	1,065	-	456	16	240	8,637
Eliminated on disposal	**(813)**	-	(83)	-	(2)	(49)	-	(9)	(20)	-	(650)
Eliminated on revaluation	**(2,133)**	-	(1,207)	(466)	(129)	-	(144)	24	(211)	-	-
Impairment losses charged to operating balance	**346**	-	4	-	-	-	-	-	-	185	157
Depreciation expense	**3,805**	-	1,213	460	404	175	282	25	260	20	966
Other[10]	**(132)**	-	29	(1)	5	-	-	-	(28)	(17)	(120)
Total accumulated depreciation	**14,036**	**-**	**2,449**	**(7)**	**334**	**1,191**	**138**	**496**	**17**	**428**	**8,990**
Carrying value as at 30 June 2014	**116,306**	**37,138**	**27,396**	**19,709**	**13,941**	**3,992**	**2,891**	**2,975**	**2,287**	**936**	**5,041**
By holding											
Leasehold	**1,970**	-	227	-	2	-	-	-	1,704	-	37
Public Private Partnerships	**313**	13	300	-	-	-	-	-	-	-	-
Freehold (excluding PPP)	**114,023**	37,125	26,869	19,709	13,939	3,992	2,891	2,975	583	936	5,004
	116,306	**37,138**	**27,396**	**19,709**	**13,941**	**3,992**	**2,891**	**2,975**	**2,287**	**936**	**5,041**

10 "Other" mainly includes transfers to/from other asset categories.

Note 20: Property, Plant and Equipment (continued)

For the year ended 30 June 2013	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Aircraft (excluding military) $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2012	**121,717**	33,626	27,551	17,546	14,714	4,453	4,153	3,036	2,266	860	13,512
Additions	**5,779**	465	1,220	1,010	609	657	201	128	175	434	880
Disposals	**(1,471)**	(420)	(228)	-	(17)	(180)	(20)	(9)	(20)	(1)	(576)
Net revaluations	**(2,047)**	942	(204)	(626)	(893)	-	(1,241)	43	(72)	-	4
Other[11]	**(1,182)**	(160)	(62)	-	(802)	-	1	(125)	(37)	(18)	21
Total gross carrying amount	**122,796**	**34,453**	**28,277**	**17,930**	**13,611**	**4,930**	**3,094**	**3,073**	**2,312**	**1,275**	**13,841**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2012	**13,133**	-	2,505	-	314	977	933	398	16	4	7,986
Eliminated on disposal	**(659)**	-	(101)	-	(3)	(48)	(30)	(6)	(14)	-	(457)
Eliminated on revaluation	**(3,587)**	-	(1,125)	(449)	(650)	-	(1,203)	9	(169)	-	-
Impairment losses charged to operating balance	**473**	-	-	-	19	-	-	-	-	222	232
Depreciation expense	**3,697**	-	1,150	449	431	152	272	24	213	14	992
Other	**(94)**	-	64	-	(55)	(16)	28	31	(30)	-	(116)
Total accumulated depreciation	**12,963**	**-**	**2,493**	**-**	**56**	**1,065**	**-**	**456**	**16**	**240**	**8,637**
Carrying value as at 30 June 2013	**109,833**	**34,453**	**25,784**	**17,930**	**13,555**	**3,865**	**3,094**	**2,617**	**2,296**	**1,035**	**5,204**
By holding											
Leasehold	**1,858**	-	228	-	2	-	-	-	1,590	-	38
Public Private Partnerships	**110**	9	101	-	-	-	-	-	-	-	-
Freehold (excluding PPP)	**107,865**	34,444	25,455	17,930	13,553	3,865	3,094	2,617	706	1,035	5,166
	109,833	**34,453**	**25,784**	**17,930**	**13,555**	**3,865**	**3,094**	**2,617**	**2,296**	**1,035**	**5,204**

11 "Other" gross carrying value movements include $623 million reduction in electricity generation assets, relating to costs associated with a wind farm in Macarthur (Australia). The reduction arose from construction costs that were previously capitalised being converted to a finance lease. Subsequently, on 28 June 2013, Meridian disposed of its entire interest in the wind farm.

Note 20: Property, Plant and Equipment (continued)

Revaluation details

Revaluations are carried out for a number of classes of property, plant and equipment as detailed in the accounting policies on page 45. Information about the significant valuations within each of the revalued classes of assets is provided below.

Land and buildings

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

	Land		Buildings		Total	
Breakdown of land and buildings (total valuation over $500m)	**30 June 2014 $m**	**30 June 2013 $m**	**30 June 2014 $m**	**30 June 2013 $m**	**30 June 2014 $m**	**30 June 2013 $m**
Housing stock	11,361	9,580	7,307	6,778	18,668	16,358
School property	3,167	2,887	8,385	7,941	11,552	10,828
State highway corridor land	8,853	8,003	10	11	8,863	8,014
Conservation estate	5,432	5,364	59	60	5,491	5,424
Hospitals	782	707	4,093	4,135	4,875	4,842
Rail network corridor land	3,256	3,256	-	-	3,256	3,256
Defence Force land and buildings	621	631	1,227	1,287	1,848	1,918
Prisons and Department of Corrections office buildings	167	207	1,947	1,681	2,114	1,888
Landcorp farmland and buildings	1,109	1,047	121	125	1,230	1,172
Ministry of Justice land and buildings	423	418	495	461	918	879
Police stations	150	168	522	537	672	705
Other	1,817	2,185	3,230	2,768	5,047	4,953
Land and buildings	**37,138**	**34,453**	**27,396**	**25,784**	**64,534**	**60,237**

Description	Valuer/Reviewer	Approach	Timing
Housing stock	Quotable Value NZ Limited	Valuations based on market evidence or adjusted current rating valuations.	Annual valuation with the latest completed as at 30 June 2014.
School property	Quotable Value Limited or experienced staff (reviewed by Quotable Value Limited)	Valuations based on market evidence where possible, or ODRC.	Annual valuation with the latest completed as at 30 June 2014.
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, or where fair value is not able to be reliably determined using market based evidence, DRC is used to determine fair value. Held properties are valued using opportunity cost based on adjacent use as an approximation to fair value, or a discounted cash flow calculation. Where fair value is not able to be reliably determined using market based evidence the cost approach is used to determine fair value.	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 2014. A full valuation is completed on all held properties every second year. The alternate years valuation uses an indexation method. The latest valuation was completed on 30 June 2013.

Note 20: Property, Plant and Equipment (continued)

Description	Valuer/Reviewer	Approach	Timing
Conservation estate (national parks, forest parks, conservation areas, reserves)	PropertyIQ rateable valuations reviewed 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.	Annual valuation with the latest completed as at 30 June 2014.
Hospitals	Each District Health Board uses an independent valuer	Land values were based on market evidence while buildings were valued at ODRC.	Three to five year cycle with varying valuation dates depending on each DHB.
New Zealand Rail Corporation rail corridor land	Darroch Limited	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 2012.
NZ Defence Force Land and Buildings	Beca Valuations Limited and updated internally by NZ Defence Force for buildings	Valued using a market based approach unless reliable market evidence was unavailable, in which case ODRC was used to calculate fair value.	Valuations completed at least once every five years with the latest independent land and buildings valuation completed as at 30 June 2013 and buildings internally updated valuation completed as at 31 December 2013.
Prisons and Department of Corrections office buildings	Beca Valuations Limited	Valued based on market evidence, except for prison buildings, which were valued at ODRC.	Three-year valuation cycle with the latest full valuation completed as at 30 June 2014.
Landcorp farmland and associated buildings	Rural Value Limited	The valuations based on observed market evidence take into account general factors that influence farm land prices, recent farm sales in the relevant regions and specific encumbrances over the land.	Annual valuation with the latest completed as at 30 June 2014.
Ministry of Justice locations (including courtrooms)	Beca Valuations Limited	Based on market evidence where possible, or ODRC.	The valuations are performed on a rolling basis over three years. The full valuation cycle was completed on 30 June 2013.
Police stations and national headquarters	Valuations undertaken by NZ Police and certified by independent valuers.	The internal valuation performed based on market evidence where possible, or ODRC.	Valuations completed at least once every five years with the latest being as at 30 June 2012.

Note 20: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

There are difficulties associated with obtaining an objective valuation for the specified cultural and heritage assets of the Government. Details of the valuations of the most significant assets within this class are discussed in the following table:

Carrying value of specified cultural and heritage assets

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
National Library	1,005	849
Te Papa	833	830
National Archives	623	449
Conservation	459	442
Parliamentary Library	27	28
Other	28	19
	2,975	**2,617**

Description	Valuer/Reviewer	Approach	Timing
National Library collections	Webb's	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.	Three-year valuation cycle with the latest full valuation completed as at 30 June 2014.
Te Papa collections	History, Photography, Library, Collections: *Webbs Auckland* Natural History Collection: *Webbs Auckland & internal experts*	Photography, History and Library 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 2014.
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.	Three year cycle with the latest full valuation completed as at 30 June 2014.
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. Buildings, structures, campsites and signs were valued at fair value effective as at 30 June 2014.
Parliament Library collection including research (reference) collection and heritage collection.	Internal valuation	A standard unit price is assigned to books, which is used for the valuation. Library reference collections are held at historic standard unit cost and depreciated over the assigned useful economic life. Library heritage collection additions are recorded at their standard unit price as determined at the last valuation and is not depreciated.	Assets are revalued at least once every three years with the latest completed as at 30 June 2013.

Note 20: Property, Plant and Equipment (continued)

Other asset classes subject to revaluation

The details of valuations for each class of property, plant and equipment are in the table below:

Carrying value of other asset classes subject to revaluation

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
State highways	19,709	17,930
Electricity generation assets	13,941	13,555
Specialist military equipment	2,891	3,094
Aircraft (excluding military)	2,287	2,296
Rail network	936	1,035
	39,764	**37,910**

Description	Valuer/Reviewer	Approach	Timing
State highways[12] 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 DRC 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 2014.
Electricity generation assets[13]			
Meridian Energy: Hydro stations, wind and solar farms	Pricewaterhouse Coopers (PwC)	Based on an income approach assessing both the capitalisation of earnings and the discounted cash flow methodology.	A review of the carrying values of Meridian's assets is completed annually. If this indicates the carrying value is a fair representation of fair value a full revaluation is not completed.
Mighty River Power: Hydro and Geothermal stations and gas-fired generation plants	PwC	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 2014.
Genesis Energy: Thermal and Hydro stations and Wind farms	Internal valuation independently reviewed by PwC	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 2013.

12 Additional information regarding state highways assets is provided on page 80.

13 Additional information regarding electricity generation assets is provided on page 81.

Note 20: Property, Plant and Equipment (continued)

Description	Valuer/Reviewer	Approach	Timing
Specialist military equipment	Internal valuations by subject matter experts	Valuations use a market based approach unless reliable market evidence is not available, in which case ODRC is used to calculate fair value.	Valuation completed at least once every five years with the latest valuation being as at 31 December 2013.
Aircraft 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 2014.
Rail network[14] Buildings, bridges, tunnels, tracks, level crossings signals and electrification. All these assets are held on freehold basis.	Buildings – Darroch Limited	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.	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 2014.
	Other Rail Network Assets – Ernst and Young	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. Railway infrastructure not required for freight operations and used for metro has been valued using ODRC reflecting the public benefit nature of these assets.	

Additional information regarding state highways asset valuation

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

The NZTA has identified a few instances where some of the quantities have been understated and some actual costs have not been included in the underlying databases, which have been relied upon by the valuer.

Additional costs associated with urban development are assessed as being the most significant part of the potential undervaluation with the remaining due to incomplete records. The additional costs associated with urban development for the current year have been included, however historic costs are not currently able to be reliably measured.

NZTA has commenced improving the accuracy of the asset databases and identifying all costs able to be capitalised. This is reducing the understatement of the value of the state highway network.

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

14 Additional information regarding the rail network assets is provided on page 82.

Note 20: Property, Plant and Equipment (continued)

Additional information regarding electricity generation assets

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.

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 Mighty River Power 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 Limited

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Future NZ electricity price estimates	\$69/MWh to \$98/MWh by 2033 (in real terms)	+/- \$3/MWh	\$365 million / (\$365 million)
Generation volume	13,052 GWh	+/- 250 GWh	\$261 million / (\$261 million)
Operating expenditure	\$258 million p.a.	+/- \$10 million p.a.	(\$127 million) / \$127 million

Genesis Energy Limited

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Wholesale electricity price path	\$76/MWh to \$137/MWh by 2025 (in nominal terms)	+/- 10%	\$527 million / (\$440 million)
Generation volume	3320 GWh to 6112 GWh	+/- 10%	\$527 million / (\$440 million)
Discount rate	11.3% to 12.8%	+/- 1%	\$466 million / (\$284 million)

Mighty River Power Limited

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Future wholesale electricity price path	\$70/MWh to \$95/MWh (in real terms)	+/- 10%	\$684 million / (\$687 million)
Discount rate	Not publicly available	+/- 0.5%	\$489 million / (\$645 million)
Operational expenditure	\$188 million p.a.	+/- 10%	(\$230 million) / \$230 million

Note 20: Property, Plant and Equipment (continued)

Additional information regarding rail network

Carrying value of rail network

	Recoverable amount $m	ODRC $m	30 June 2014 Carrying value $m
Network required for freight	107	4,128	107
Network not required for freight (including metro)	14	719	719
Total rail infrastructure	**121**	**4,847**	**826**
Buildings			78
Capital work in progress			32
Rail network			**936**

	Recoverable amount $m	ODRC $m	30 June 2013 Carrying value $m
Network required for freight	118	4,151	118
Network not required for freight (including metro)	14	654	654
Total rail infrastructure	**132**	**4,805**	**772**
Buildings			115
Capital work in progress			148
Rail network			**1,035**

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.

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.

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 $204 million (2013: $194 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 $224 million (2013: $213 million) on the rail network during the year.

All valuations have been undertaken in accordance with the standards issued by the New Zealand Property Institute.

Additional information regarding 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 assets in a public private partnership 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. The Crown's obligation to pay for these assets is included in other borrowings.

Carrying value of assets by arrangement

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
Auckland South Corrections Facility	239	62
Other	74	48
	313	**110**
Carrying value of assets by source		
Provided by private sector partner	300	101
Existing government assets	13	9
	313	**110**

Auckland South Corrections Facility

The Department of Corrections has entered into a Project Agreement with Secure Future Wiri Limited for the delivery of a new men's prison at Wiri through a Public Private Partnership. Secure Future will design, build, finance, operate and maintain the prison. Under the agreement, the Department has provided existing Department owned land, adjacent to the Auckland Region Women's Corrections Facility, to the contractor on which to build the prison. As the facility is currently under construction, no depreciation on the asset has been incurred to date.

Responsibility for on-going operation and maintenance will revert to the Government at the end of the 25 year contract period.

Movements in carrying value for Auckland South Corrections Facility

	Actual	
	30 June 2014	**30 June 2013**
Gross carrying amount	**$m**	**$m**
Opening balance 1 July	62	-
Assets provided by private sector partner(s)	174	57
Existing Government assets	-	5
Disposals	-	-
Net revaluations	3	-
Other	-	-
Total Gross Carrying Amount	**239**	**62**

Note 21: Equity Accounted Investments

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
8,179	8,358	Tertiary Education Institutions	8,508	8,060
1,463	1,663	Other	1,563	1,533
9,642	**10,021**	**Total equity accounted investments**	**10,071**	**9,593**

Tertiary Education Institutions (TEIs)

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

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

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

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Operating Results		
2,154	2,251	Revenue from Crown	2,238	2,221
2,290	2,383	Other revenue	2,533	2,388
(4,313)	(4,464)	Expenses	(4,528)	(4,440)
131	**170**	**Net surplus**	**243**	**169**
		Net worth		
		Assets		
1,355	1,392	Financial assets	1,364	1,392
8,288	8,400	Property, plant and equipment	8,535	8,102
307	343	Other assets	480	343
9,950	**10,135**	**Total assets**	**10,379**	**9,837**
		Liabilities		
238	193	Borrowings	222	193
1,533	1,584	Other liabilities	1,649	1,584
1,771	**1,777**	**Total liabilities**	**1,871**	**1,777**
8,179	**8,358**	**Net worth**	**8,508**	**8,060**

New Zealand Local Government Funding Agency (NZLGFA)

The Government holds $5 million of the $25 million paid-up capital of NZLGFA. The investment has been classified as an equity accounted investment as, although the Government does not have direct representation on the NZLGFA Board of Directors, it may solely appoint, remove and replace one member of the Shareholders' Council, which, in turn makes recommendations to Shareholders as to the appointment, removal, re-election, replacement and remuneration of Directors. The investment value has therefore been adjusted to reflect the Crown's share of any changes in the net assets of the NZLGFA. The Government is not a guarantor of the NZLGFA and has no share of any contingent liabilities of the NZLGFA.

For the year ended 30 June 2014, NZLGFA recognised revenue of $149 million (2013: $6 million) and a surplus of $7 million (2013: $1 million). NZLGFA's assets and liabilities were $3,918 million (2013: $2,688 million) and $3,889 million (2013: $2,665 million) respectively. The Crown's share of the net assets is $6 million (2013: $5 million).

Note 22: Intangible Assets and Goodwill

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
		Computer software	1,736	1,517
		Goodwill	628	655
		Other intangible assets	556	604
2,837	**2,841**	**Total intangible assets and goodwill**	**2,920**	**2,776**
		By maturity		
		Expected to be sold or consumed within one year	425	406
		Expected to be sold or consumed after one year	2,495	2,370
		Total intangible assets and goodwill	**2,920**	**2,776**
		By source		
1,175	1,136	Core Crown	1,184	1,041
534	498	Crown entities	542	573
1,128	1,207	State-owned enterprises	1,194	1,162
-	-	Inter-segment eliminations	-	-
2,837	**2,841**	**Total intangible assets and goodwill**	**2,920**	**2,776**

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2014 $m	30 June 2013 $m
Computer Software		
Internally-Generated Computer Software		
Cost		
Opening balance	2,820	2,558
Additions	399	387
Disposals	(47)	(148)
Other movements	9	23
Total cost	**3,181**	**2,820**
Accumulated Amortisation		
Opening balance	1,816	1,696
Eliminated on disposal	(31)	(100)
Impairment losses charged to operating balance	17	22
Amortisation	248	229
Other movements	41	(31)
Total accumulated amortisation	**2,091**	**1,816**
Carrying value of internally-generated computer software	**1,090**	**1,004**
Purchased Computer Software		
Cost		
Opening balance	1,807	1,645
Additions	287	223
Disposals	(53)	(50)
Other movements	(9)	(11)
Total cost	**2,032**	**1,807**
Accumulated Amortisation		
Opening balance	1,294	1,132
Eliminated on disposal	(46)	(41)
Impairment losses charged to operating balance	-	-
Amortisation	177	177
Other movements	(39)	26
Total accumulated amortisation	**1,386**	**1,294**
Carrying value of purchased computer software	**646**	**513**
Total computer software	**1,736**	**1,517**

Note 22: Intangible Assets and Goodwill (continued)

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Goodwill		
Cost		
Opening balance	891	985
Additions	16	7
Disposals	(2)	(66)
Other movements	(41)	(35)
Total cost	**864**	**891**
Accumulated Impairment		
Opening balance	236	239
Eliminated on disposal	-	(2)
Impairment losses charged to operating balance	-	2
Reversals of impairment losses charged to operating balance	-	-
Amortisation charge	-	-
Other movements	-	(3)
Total accumulated impairment	**236**	**236**
Carrying value of goodwill	**628**	**655**

Goodwill in relation to Air New Zealand of $258 million (2012: $258 million) has been tested for impairment at 30 June 2014 based on a value in use discounted cash flow valuation. Cash flow forecasts were prepared for five years using Air New Zealand board reviewed business plans. Key assumptions include exchange rates, jet fuel costs, passenger load factors and route yields. These assumptions have been based on historical data and current market information. The cash flow forecasts are particularly sensitive to fluctuations in fuel prices and exchange rates are extrapolated using an average growth rate of approximately 1.5%. The cash flow projections are discounted using post-tax discount rate scenarios of 10.0-11.0%. The 2014 valuation confirmed that there was no impairment to the goodwill asset required.

Note 23: Payables

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
8,403	7,756	Accounts payable	7,626	7,616
3,957	4,196	Taxes repayable	3,668	3,544
12,360	**11,952**	**Total payables**	**11,294**	**11,160**
		By maturity		
11,747	11,332	Expected to be settled within one year	10,411	10,688
613	620	Expected to be outstanding for more than one year	883	472
12,360	**11,952**	**Total payables**	**11,294**	**11,160**
		By source		
6,860	7,682	Core Crown	7,800	7,873
5,929	5,584	Crown entities	5,382	4,996
5,663	5,003	State-owned enterprises	4,832	4,877
(6,092)	(6,317)	Inter-segment eliminations	(6,720)	(6,586)
12,360	**11,952**	**Total payables**	**11,294**	**11,160**

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

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

Note 24: Borrowings

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
68,469	60,499	Government bonds	60,337	57,377
3,541	3,087	Treasury bills	3,147	4,084
204	190	Government retail stock	183	199
7,183	6,849	Settlement deposits with Reserve Bank	7,758	7,575
1,854	2,099	Derivatives in loss[15]	2,245	3,188
1,475	1,574	Finance lease liabilities	1,501	1,454
29,475	28,760	Other borrowings	28,248	26,210
112,201	**103,058**	**Total borrowings[16]**	**103,419**	**100,087**
		By source		
94,504	88,438	Core Crown	89,086	84,870
5,416	5,107	Crown entities	5,155	5,251
27,733	26,916	State-owned enterprises	26,185	24,839
(15,452)	(17,403)	Inter-segment eliminations	(17,007)	(14,873)
112,201	**103,058**	**Total borrowings**	**103,419**	**100,087**
		By maturity		
42,962	37,299	Expected to be settled within one year	39,072	30,517
69,239	65,759	Expected to be outstanding for more than one year	64,347	69,570
112,201	**103,058**	**Total borrowings**	**103,419**	**100,087**
		By guarantee		
84,580	76,653	Sovereign-guaranteed debt[17]	77,461	75,684
27,621	26,405	Non-sovereign debt	25,958	24,403
112,201	**103,058**	**Total borrowings**	**103,419**	**100,087**

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 (refer note 32).

Further information on the management of risks associated with these financial liabilities is provided in note 33.

Other borrowings includes $3,958 million (2013: $4,115 million) of sovereign-issued debt administered by the Reserve Bank and NZDMO. The remaining borrowings of $24,290 million (2013: $22,095 million) comprise non-sovereign-issued debt of Crown entities and State-owned enterprises.

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

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

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

Note 24: Borrowings (continued)

Government Bonds

	Actual	
	30 June 2014 $m	30 June 2013 $m
Government bonds measured at amortised cost	57,554	55,005
Government bonds measured at fair value	2,783	2,372
Total Government bonds	**60,337**	**57,377**

Government bonds are measured at amortised cost, 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 $58,523 million (2013: $57,513 million). This valuation is based on observable market prices. The reduction in interest rates since the government bonds were issued results in a fair value greater than amortised cost.

The valuation of government bonds reported at fair value is also based on observable market prices.
New Zealand's domestic currency bonds are rated Aaa by Moody's and AA+ by S&P and Fitch. The rating outlook is stable with Moody's and S&P, and positive with Fitch.

	Actual	
	30 June 2014 $m	30 June 2013 $m
Government bonds measured at fair value		
Carrying value	2,783	2,372
Amount payable on maturity	2,630	2,113
Fair value impact from changes in credit risk for the year	-	-
Cumulative fair value impact from changes in credit risk	-	-

Treasury Bills

Treasury bills are reported at 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 24: Borrowings (continued)

Settlement Deposits with Reserve Bank

Settlement deposits with the Reserve Bank represent the level of money deposited with the Reserve Bank by commercial banks. They 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 – refer note 15). 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.

Finance Lease Liabilities

Forecast			Actual	
Budget 2013 $m	Budget 2014 $m		30 June 2014 $m	30 June 2013 $m
		By source		
6	8	Core Crown	7	12
48	44	Crown entities	45	39
1,425	1,522	State-owned enterprises	1,449	1,403
(4)	-	Inter-segment eliminations	-	-
1,475	**1,574**	**Total finance lease liabilities**	**1,501**	**1,454**
		Undiscounted Minimum Lease Payments		
		No later than one year	217	193
		Later than one year and not later than five years	805	774
		Later than five years	646	643
		Total undiscounted minimum lease payments	**1,668**	**1,610**
		Present Value of Minimum Lease Payments		
		No later than one year	188	172
		Later than one year and not later than five years	697	691
		Later than five years	616	591
		Total present value of minimum lease payments	**1,501**	**1,454**
		Future finance charges	**167**	**156**

Finance leases are mainly in relation to aircraft. The Government entities entering into finance leases generally have options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Government's obligations under finance leases are secured by the lessors' title to the leased assets.

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

Note 24: Borrowings (continued)

Other Borrowings

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
21,373	23,670	Other borrowings measured at amortised cost	22,943	21,534
8,102	5,090	Other borrowings measured at fair value	5,305	4,676
29,475	**28,760**	**Total other borrowings**	**28,248**	**26,210**

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

The fair value of other borrowings measured at amortised cost is $22,944 million (2013: $21,458 million). The fair value of financial liabilities with standard terms and conditions traded on active liquid markets are determined by reference to quoted market prices. Where such prices are not available use is made of estimated discounted cash flow models with reference to market interest rates.

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

The following table identifies the difference between the carrying amount and amount payable at maturity as well as the extent that fair value movements have resulted from changes in credit risk of the issuing entity. The carrying value can differ from the amount actually payable on maturity where the effect of discounting cash flows is material.

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Other borrowings measured at fair value		
Carrying value	5,305	4,676
Amount payable on maturity	5,226	4,196
Fair value impact from changes in credit risk for the year	160	(42)
Cumulative fair value impact from changes in credit risk	22	165

Note 25: Insurance Liabilities

Forecast			Actual	
Budget 2013 $m	Budget 2014 $m		30 June 2014 $m	30 June 2013 $m
		By entity		
31,423	29,209	ACC liability	29,948	29,446
3,743	4,308	EQC property damage liability	4,747	6,869
698	1,327	Southern Response liability	1,434	1,744
38	56	Other insurance liabilities	63	67
-	-	Inter-segment eliminations	(367)	(414)
35,902	**34,900**	**Total insurance liabilities**	**35,825**	**37,712**
		By component		
		Outstanding claims liability	33,358	35,225
		Unearned premium liability	2,196	2,384
		Unearned premium liability deficiency	271	103
		Other	-	-
		Total insurance liabilities	**35,825**	**37,712**
		By maturity		
7,306	8,883	Expected to be settled within one year	9,706	10,103
28,596	26,017	Expected to be outstanding for more than one year	26,119	27,609
35,902	**34,900**	**Total insurance liabilities**	**35,825**	**37,712**
		Assets arising from insurance obligations are:		
		Receivables for premiums	2,689	2,917
		Reinsurance claim recoveries	1,409	3,135

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

The 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 (e.g. marketing costs) in respect of insurance obligations at the reporting date.

Analysis of insurance liabilities

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

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

The unearned premium liability represents premiums received to provide insurance cover after 30 June 2014.

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

Note 25: Insurance Liabilities (continued)

Analysis of ACC insurance liability

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

An independent actuarial estimate by PricewaterhouseCoopers, consulting actuaries, has been made of the future expenditure relating to accidents which occurred prior to balance date, whether or not the claims have been reported to, or accepted by, ACC. The PricewaterhouseCoopers actuarial report was signed by Mr Paul Rhodes, Fellow of the Institute and Faculty of Actuaries (UK), Mr Michael Playford and Mr Darryl Frank, Fellows of the Institute of Actuaries of Australia. Mr Rhodes and Mr Playford are also Fellows of the New Zealand Society of Actuaries.

The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
The ACC liability comprises:		
ACC outstanding claims liability	27,696	27,162
ACC unearned premium liability	2,050	2,242
ACC unearned premium liability deficiency	202	42
Total ACC liability	**29,948**	**29,446**
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	76,628	74,809
Discount adjustment	(52,104)	(50,754)
Risk margin	3,172	3,107
Total outstanding ACC claims liability	**27,696**	**27,162**
Discounted central estimate of future payments for outstanding claims	22,898	22,384
Claims handling expenses	1,626	1,671
Outstanding claims liability before risk margin	24,524	24,055
Risk margin	3,172	3,107
Total outstanding ACC claims liability	**27,696**	**27,162**
Movement in Outstanding ACC Claims Liability		
Opening balance	27,162	28,396
Claims incurred for the year	3,642	3,421
Claims paid out in the year	(3,335)	(2,970)
Discount rate unwind	706	684
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	443	(1,195)
- change in discount rate	(93)	(939)
- change in inflation rate	(829)	(235)
Other movements	-	-
Closing outstanding ACC claims liability	**27,696**	**27,162**
Movement in ACC Unearned Premium Liability		
Opening balance	2,242	2,183
Earning of premiums previously deferred	(2,242)	(2,183)
Deferral of premiums on current year contracts	2,050	2,242
Other	-	-
Closing ACC unearned premium liability	**2,050**	**2,242**

Note 25: Insurance Liabilities (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.

	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	30 June 2014 $m
Estimate of ultimate claims costs:								
At the end of the accident year	5,502	7,103	7,035	7,517	6,877	6,794	7,264	
One year later	6,709	6,733	6,739	6,288	6,118	6,608		
Two years later	6,470	6,714	5,939	5,890	5,546			
Three years later	6,412	6,045	5,722	5,310				
Four years later	5,736	5,583	5,274					
Five years later	5,483	5,540						
Six years later	5,332							
Current estimate of cumulative claim costs	5,332	5,540	5,274	5,310	5,546	6,608	7,264	40,874
Cumulative payments	(1,841)	(1,718)	(1,414)	(1,311)	(1,267)	(1,212)	(810)	(9,573)
Outstanding claims undiscounted	**3,491**	**3,822**	**3,860**	**3,999**	**4,279**	**5,396**	**6,454**	**31,301**
Discount								(22,196)
Claims handling costs								1,833
2007 and prior claims (net present value)								16,742
Short tail outstanding claims								16
Total outstanding ACC claims liability								**27,696**

	Actual 30 June 2014 $m	30 June 2013 $m
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	2,050	2,242
Adjusted for unearned premium relating to claims arising from medical misadventure premium liabilities without deficiency	(114)	-
Adjusted ACC unearned premium liability	**1,936**	**2,242**
Discounted central estimate of payments for insured future claims	1,952	1,997
Central estimate of discounted future reinsurance recoveries	-	-
Risk margin	186	287
Present value of expected cash flows for future accident claims	**2,138**	**2,284**
Total ACC unearned premium liability deficiency	**202**	**42**

Note 25: Insurance Liabilities (continued)

Key Assumptions

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

(i) Risk-free discount rates

The projected cash flows were discounted using a series of forward discount rates at the balance date derived from the yield curve for New Zealand government bonds. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is a short term discount rate of 5.01% (2013: 4.86%) and a long term discount rate of 5.50% beyond 19 years (2013: 5.50% beyond 21 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 25: Insurance Liabilities (continued)

	30 June 2014 Next Year	30 June 2014 Beyond Next Year	30 June 2013 Next Year	30 June 2013 Beyond Next Year
Summary of assumptions				
Average weighted term to settlement from reporting date	15 years 8 months		15 years 11 months	
Weighted average risk margin	12.9%		12.9%	
Probability of adequacy of liability	75.0%		75.0%	
Weighted average risk margin for liability adequacy test	12.9%		18.2%	
Probability of adequacy of liability to cover unearned premiums	75.0%		75.0%	
Risk-free discount rate[18]	3.7%	4.0% to 5.50%	2.7%	3.1% to 5.5%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	3.1%	3.1% to 3.5%	3.0%	3.3% to 3.5%
Impairment benefits	1.9%	1.9% to 2.5%	1.1%	2.0% to 2.5%
Social rehabilitation benefits (serious and non serious injury)	2.3%	2.3% to 2.7%	2.2%	2.5% to 2.7%
Hospital rehabilitation benefits	2.3%	2.3% to 2.7%	2.2%	2.5% to 2.7%
Medical costs	2.3%	2.3% to 2.7%	2.2%	2.5% to 2.7%
Superimposed inflation:				
Social rehabilitation benefits (serious injury)	1.8%	2.3% to 5.7%	2.1%	2.3% to 5.4%
Social rehabilitation benefits (non-serious injury)	1.0%	2.0% to 4.3%	0.0%	2.0% to 3.8%
Hospital rehabilitation benefits	5.0%	4.0% to 5.0%	5.0%	4.0% to 5.0%
Medical costs (GP's)	4.0%	3.0% to 4.0%	2.0%	3.0% to 4.0%
Medical costs (Radiology)	5.8%	5.0% to 5.8%	4.3%	5.0% to 5.8%
Medical costs (Physiotherapists)	2.3%	2.0% to 2.3%	1.7%	2.0% to 2.3%
Medical costs others (specialists)	3.3%	2.5% to 3.3%	1.8%	2.5% to 3.3%

18 The risk-free discount rate beyond 19 years is 5.5% (2013: the rate beyond 21 years was 5.5%).

Note 25: Insurance Liabilities (continued)

Sensitivity Analysis

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

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

	Change	Impact on liability Actual 30 June 2014 $m	Impact on liability 30 June 2013 $m
Sensitivity of assumptions			
Average weighted term to settlement from reporting date	+1 year	(826)	(820)
	-1 year	852	846
Risk-free discount rate	+1%	(3,585)	(3,628)
	-1%	4,759	4,823
Inflation rates (including superimposed inflation)	+1%	4,917	4,966
	-1%	(3,754)	(3,788)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	1,053	1,028
	-1%	(792)	(774)
Social rehabilitation benefits - superimposed inflation after two years for serious injury claims	+1%	2,433	2,564
	-1%	(1,792)	(1,875)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $24,524 million (2013: $24,055 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 2014. These estimated cash flows include the effects of assumed future inflation.

	Actual 30 June 2014 $m	30 June 2013 $m
No later than 1 year	1,966	1,834
Later than 1 year and no later than 2 years	1,482	1,364
Later than 2 years and no later than 5 years	3,990	3,628
Later than 5 years and no later than 10 years	6,247	5,769
Later than 10 years and no later than 15 years	5,861	5,693
Later than 15 years and no later than 20 years	5,839	5,767
Later than 20 years and no later than 25 years	5,965	5,898
Later than 25 years and no later than 30 years	6,031	5,981
Later than 30 years and no later than 35 years	6,014	5,967
Later than 35 years and no later than 40 years	5,878	5,829
Later than 40 years and no later than 45 years	5,608	5,556
Later than 45 years and no later than 50 years	5,199	5,142
Later than 50 years	16,548	16,381
Undiscounted outstanding claims liability	**76,628**	**74,809**

Note 25: Insurance Liabilities (continued)

Analysis of EQC insurance liability

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

The actuarial valuation report as at 30 June 2014 was prepared by Craig Lough of Melville Jessup Weaver. Craig Lough is a Fellow of the New Zealand Society of Actuaries. Craig Lough considered that overall the information and data supplied to Melville Jessup Weaver was adequate and appropriate for the purposes of his valuation.

EQC recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. A risk margin is applied to a central estimate to increase to 85% the likelihood that claims will be settled within this amount.

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
The EQC liability comprises:		
EQC outstanding claims liability	4,532	6,666
EQC unearned premium liability	146	142
EQC unearned premium liability deficiency	69	61
Total EQC liability	**4,747**	**6,869**
By type		
Property damage claims in relation to Canterbury earthquakes	4,441	6,634
Other insurance liabilities	306	235
Total EQC liability	**4,747**	**6,869**
Analysis of Outstanding EQC Insurance Liability		
Undiscounted outstanding claims liability	4,302	6,340
Discount adjustment	(62)	(125)
Risk margin	292	451
Total outstanding EQC insurance liability	**4,532**	**6,666**
Discounted central estimate of future payments for outstanding claims	3,998	5,754
Claims handling expenses	242	461
Outstanding claims liability before risk margin	4,240	6,215
Risk margin	292	451
Total outstanding EQC insurance liability	**4,532**	**6,666**
Movement in Outstanding EQC Insurance Liability		
Opening balance	6,666	8,638
Net claims incurred/reassessed for the year - Canterbury earthquakes	(368)	(205)
Claims incurred for the year - other	96	38
Claims paid out in the year	(1,868)	(1,787)
Other movements	6	(18)
Closing outstanding EQC insurance liability	**4,532**	**6,666**

Note 25: Insurance Liabilities (continued)

	Actual 30 June 2014 $m	30 June 2013 $m
Movement in EQC Unearned Premium Liability		
Opening balance	142	110
Earning of premiums previously deferred	(142)	(110)
Deferral of premiums on current year contracts	146	142
Other	-	-
Closing EQC unearned premium liability	**146**	**142**
Analysis of EQC unearned premium liability deficiency		
Unearned premium liability	146	142
Discounted central estimate of payments for insured future claims	228	221
Central estimate of discounted future reinsurance recoveries	(16)	(18)
Risk margin	3	-
Present value of expected cash flows for future claims	**215**	**203**
Total EQC unearned premium liability deficiency	**69**	**61**

Key Assumptions

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

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

(ii) Claims inflation rate
The claims inflation rates have made some allowance for higher levels of claims inflation for the building and land claims due to a demand surge in the Canterbury construction industry. In addition, the risk margin implicitly allows for somewhat higher levels of claims inflation.

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

(iv) Risk margin
The risk margins are derived directly from the claims distributions produced by the net (of reinsurance) incurred claims models. The risk margin is expressed as a percentage of the net (of reinsurance) discounted outstanding claims liability and is intended to achieve a 85% probability of adequacy in meeting the actual amount of liability to which it relates.

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

Note 25: Insurance Liabilities (continued)

Summary of assumptions	30 June 2014	30 June 2013
Weighted average term to settlement	0.45 years	0.72 years
Claims inflation rate - base	2.5%	2.5%
Claims inflation rate - demand surge	16.0%	3.6% to 7.0%
Risk-free discount rate	3.7% to 4.4%	2.7% to 3.6%
Weighted average risk margin - net (of reinsurance) claims	9.2%	11.3%
Weighted average risk margin - gross outstanding claims	6.9%	7.3%
Claims handling expense ratio	7.3%	7.2%

Sensitivity Analysis

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

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

	Change	Impact on liability Actual	
Sensitivity of assumptions		30 June 2014 $m	30 June 2013 $m
Weighted average term to settlement	+ 0.5 years	62	90
	- 0.5 years	(8)	(18)
Claims inflation rate	+1%	6	19
	-1%	(9)	(43)
Risk-free discount rate	+1%	(13)	(33)
	-1%	13	33
Risk margin	+1%	31	40
	-1%	(32)	(40)
Claims handling expense ratio	+1%	24	35
	-1%	(25)	(34)

Note 25: Insurance Liabilities (continued)

Analysis of Southern Response liability

Southern Response Earthquake Services Limited (Southern Response) holds Canterbury earthquake related claims.

Colin Brigstock and Ashish Ahluwalia of Finity Consulting Pty Limited (the Appointed Actuary) have prepared the independent actuarial estimate of the Southern Response claims liability as at 30 June 2014. Mr Brigstock and Mr Ahluwalia are Fellows of the Institute of Actuaries of Australia and the New Zealand Society of Actuaries. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
The Southern Response liability comprises:		
Analysis of Outstanding Southern Response Claims Liability		
Undiscounted outstanding claims liability	1,361	1,659
Discount adjustment	(54)	(65)
Risk margin	127	150
Total outstanding Southern Response claims liability	**1,434**	**1,744**
Expected future claims payments - central estimate	1,244	1,521
Claims handling expenses	63	73
Outstanding claims liability before risk margin	1,307	1,594
Risk margin	127	150
Total outstanding Southern Response claims liability	**1,434**	**1,744**
Movement in Outstanding Southern Response Claims Liability		
Opening balance	1,744	2,062
Net claims incurred/reassessed for the year - Canterbury earthquakes	87	(22)
Claims paid out in the year	(397)	(296)
Closing outstanding Southern Response claims liability	**1,434**	**1,744**

Note 25: Insurance Liabilities (continued)

Key Assumptions

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

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

(ii) Inflation
The actuarial models adopted allows for any inflationary impact which is likely to affect future claims payments. An 5.8% inflation assumption (2013: 8.6%) has been made relating to building costs in Canterbury.

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

(iv) Risk margin
The risk margin is expressed as a percentage of the gross (of reinsurance) discounted outstanding claims liability and intended to achieve a 75% probability of adequacy for the outstanding claims. There continues to be uncertainty attaching to many elements of the likely ultimate cost of the Company's earthquake related outstanding claim liabilities. In particular, there remains uncertainty around the ultimate cost of enhanced foundations for properties with damaged land and the level of future escalation on building costs.

Summary of assumptions	30 June 2014	30 June 2013
Average weighted term to settlement from reporting date		
Earthquake related claims	1.2 years	1.8 years
Inflation		
Building costs	5.8%	8.6%
Other cover types	3.0%	3.0%
Risk-free discount rate	3.6%	2.9%
Weighted average risk margin - gross outstanding claims	10.0%	10.0%
Probability of adequacy of liability	75.0%	75.0%

Note 25: Insurance Liabilities (continued)

Sensitivity Analysis

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

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

	Change	Impact on liability Actual	
		30 June 2014 $m	30 June 2013 $m
Sensitivity of assumptions			
Inflation	+1%	19	29
	-1%	(19)	(28)
Risk-free discount rate	+1%	(14)	(19)
	-1%	14	19
Weighted average risk margin	+1%	13	15
	-1%	(13)	(15)

Note 26: Retirement Plan Liabilities

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
11,767	10,738	Government Superannuation Fund (GSF)	10,886	11,908
(1)	(6)	Other funds	(1)	(5)
11,766	**10,732**	**Total retirement plan liabilities**	**10,885**	**11,903**
		By source		
11,774	10,744	Core Crown	10,889	11,915
2	1	Crown entities	2	1
(10)	(13)	State-owned enterprises	(6)	(13)
-	-	Inter-segment eliminations	-	-
11,766	**10,732**	**Total retirement plan liabilities**	**10,885**	**11,903**

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 2014. A Projected Unit Credit Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from the GSF in respect of past service to be estimated and then discounted back to the valuation date.

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

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Net GSF Obligation		
Present value of defined benefit obligation	14,560	15,290
Fair value of plan assets	(3,674)	(3,382)
Present value of unfunded defined benefit obligation	**10,886**	**11,908**
Present value of defined benefit obligation		
Opening defined benefit obligation	15,290	16,557
Expected current service cost	92	112
Expected unwind of discount rate	404	394
Actuarial losses/(gains)	(365)	(920)
Benefits paid	(861)	(853)
Closing defined benefit obligation	**14,560**	**15,290**
Fair value of plan assets		
Opening fair value of plan assets	3,382	3,018
Expected return on plan assets	183	162
Actuarial gains/(losses)	212	331
Funding of benefits paid by Government	727	683
Contributions from other entities	22	19
Contributions from members	41	47
Benefits paid	(861)	(853)
Other	(32)	(25)
Closing fair value of plan assets	**3,674**	**3,382**

Note 26: Retirement Plan Liabilities (continued)

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

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Personnel Expenses		
		Expected current service cost	92	112
		Expected unwind of discount rate on GSF obligation	404	394
		Expected return on plan assets	(183)	(162)
		Contributions from members and funding employers	(63)	(66)
		Other expenses[19]	32	25
		Past service cost	-	-
274	282	Total included in personnel expenses	282	303
		Net (Gains)/Losses on Non-Financial Instruments		
-	(713)	Actuarial (gains)/losses recognised in the year	(577)	(1,251)
274	**(431)**	**Total GSF expense**	**(295)**	**(948)**

The Government expects to make a contribution of $758 million to GSF in the year ending 30 June 2015.

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 2014 %	Actual 30 June 2013 %
Summary of assumptions		
For following year		
Discount rate	3.7%	2.7%
Expected return on plan assets	6.0%	5.5%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation	2.1%	1.9%
Beyond next year		
Discount rates between 2 and 20 years	4.0% to 5.5%	3.1% to 5.5%
Discount rate from 21 years onwards	5.5%	5.5%
Expected return on plan assets	6.0%	5.5%
Expected rate of salary increases	3.0%	3.0%
Expected rate of inflation from years 2 to 9	2.1%	2.3% to 2.5%

Assumed inflation increases by 0.04% each year from year 10 to year 19, reaching 2.5% in year 19.

The defined benefit obligation decreased in the year to 30 June 2014 by $730 million, mainly due to an increase in the short and medium term discount rates over the year, a reduction in the assumed rate of increase in the Consumer Price Index in the short-term and medium-term.

19 The comparative figure for 2013 personnel expenses includes an adjustment of $25 million to align with a change in accounting treatment of the reimbursement of expenses received by GSF from the Crown and funding employers.

Note 26: Retirement Plan Liabilities (continued)

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

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
Equity instruments	2,228	1,944
Other debt instruments	640	569
Cash and short term investments	282	215
Property	15	14
Other	509	640
Fair value of plan assets	**3,674**	**3,382**

The expected rate of return on the plan assets of 6.0% (2013: 5.50%) has been calculated by taking the expected long term returns from each asset class, reduced by tax and investment expenses (using the current rates of tax and investment expenses).

The actual return on plan assets for the year ended 30 June 2014 was 11.86%, or $395 million (2013: 16.71% or $493 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 2014 $m	**30 June 2013 $m**
Sensitivity of assumptions			
Discount rate (Present value of the obligation)	+ 1%	(1,485)	(1,587)
	- 1%	1,800	1,927
Share price (Fair value of planned assets)	+ 10%	(223)	(194)
	- 10%	223	194

Note 26: Retirement Plan Liabilities (continued)

Historical Analysis

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

			Actual		
	30 June 2014 $m	30 June 2013 $m	30 June 2012 $m	30 June 2011 $m	30 June 2010 $m
Present value of defined benefit obligation	14,560	15,290	16,557	13,311	12,881
Fair value of plan assets	(3,674)	(3,382)	(3,018)	(3,159)	(2,945)
Present value of unfunded defined benefit obligation	**10,886**	**11,908**	**13,539**	**10,152**	**9,936**
Experience adjustment - increase/(decrease) in plan assets	212	331	(210)	159	117
Less experience adjustment - increase/(decrease) in plan liabilities	68	(90)	28	388	286
Total experience adjustments - (losses)/gains	144	421	(238)	(229)	(169)
Changes in actuarial assumptions	433	830	(3,658)	(345)	(1,062)
Actuarial (losses)/gains recognised in the year	**577**	**1,251**	**(3,896)**	**(574)**	**(1,231)**

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $14,560 million (2013: $15,290 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 2014. These estimated cash flows include the effects of assumed future inflation.

	30 June 2014 $m	30 June 2013 $m
No later than 1 year	918	922
Later than 1 year and no later than 2 years	914	915
Later than 2 years and no later than 5 years	2,806	2,819
Later than 5 years and no later than 10 years	4,780	4,863
Later than 10 years and no later than 15 years	4,642	4,811
Later than 15 years and no later than 20 years	4,287	4,490
Later than 20 years and no later than 25 years	3,724	3,928
Later than 25 years and no later than 30 years	3,005	3,188
Later than 30 years and no later than 35 years	2,235	2,383
Later than 35 years and no later than 40 years	1,511	1,619
Later than 40 years and no later than 45 years	917	992
Later than 45 years and no later than 50 years	481	534
Later than 50 years	290	349
Undiscounted defined benefit obligation	**30,510**	**31,813**

Note 27: Provisions

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		By type		
3,233	3,181	Provision for employee entitlements	3,444	3,374
-	351	Provision for ETS credits	521	179
987	987	Provision for National Provident Fund guarantee	910	977
-	-	Provision for Canterbury Red Zone support package	66	222
837	391	Provision for Water Infrastructure costs	394	769
62	123	Provision for weathertight services financial assistance package	112	123
1,198	1,287	Other provisions	1,508	1,494
6,317	**6,320**	**Total provisions**	**6,955**	**7,138**
		By source		
3,905	3,776	Core Crown	4,208	4,492
1,907	1,988	Crown entities	2,076	1,979
963	1,013	State-owned enterprises	1,177	1,151
(458)	(457)	Inter-segment eliminations	(506)	(484)
6,317	**6,320**	**Total provisions**	**6,955**	**7,138**
		By maturity		
3,078	3,079	Expected to be settled within one year	3,487	3,355
3,239	3,241	Expected to be outstanding for more than one year	3,468	3,783
6,317	**6,320**	**Total provisions**	**6,955**	**7,138**

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Provision for employee entitlements		
Opening provision	3,374	3,253
Additional provisions recognised	1,769	1,714
Provision used during the period	(1,543)	(1,469)
Reversal of previous provision	(160)	(122)
Unwind of discount rate	4	(2)
Closing provision	**3,444**	**3,374**

The provision for employee entitlements represents annual leave, accrued long service leave and retiring leave, and sick leave entitlements accrued by employees. Probability assumptions about continued future service affecting entitlements accrued as at reporting date have been made using previous employment data. For entitlements that vest over a period exceeding one year discount rates applied rise from 3.7% next year to 5.5% in later years.

Note 27: Provisions (continued)

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
Provision for ETS credits		
Opening provision	179	375
New provision recognised during the period (ETS expenses)	46	55
Provision used during the period (ETS revenue)	(13)	(40)
Transfer of units to Kyoto provision	24	24
(Gains)/losses on NZ Units	285	(235)
Closing provision	**521**	**179**

The Emissions Trading Scheme (ETS) was established to encourage a reduction in New Zealand's greenhouse gas emissions. The ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate freely. The allocation of NZ Units creates a provision (and an expense if allocated for free). The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters.

The carbon price used to calculate the ETS provision is $NZ4.17 (30 June 2013: $NZ1.80).

The carbon price has been determined by the Ministry for the Environment based on the lower of the quoted NZU spot price at 30 June, and the monthly average NZU spot price as published by Point Carbon. The price methodology will continue to be reviewed as the market for NZ Units develops.

The transfer of 65.3m units equating to NZ$24 million to the Kyoto Provision relates to international units surrendered by participants.

	Actual	
	30 June 2014 $m	**30 June 2013 $m**
Provision for National Provident Fund guarantee		
Opening provision	977	1,076
Additional provisions recognised	-	-
Provision used during the period	(73)	(73)
Reversal of previous provision	26	(16)
Unwind of discount rate and effect of changes in discount rate	(20)	(10)
Closing provision	**910**	**977**

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 $910 million (2013: $977 million), represented by a gross estimated pension obligation of $943 million (2013: $1,011 million) with net investment assets valued at $33 million (2013: $34 million).

Note 27: Provisions (continued)

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Provision for Canterbury Red Zone support package		
Opening provision	222	745
Additional provisions recognised	1	37
Provision used during the period	(164)	(500)
Reversal of previous provision	6	(66)
Unwind of discount rate and effect of changes in discount rate	1	6
Closing provision	**66**	**222**
Net provision		
Provision for Red Zone properties	66	222
Estimated insurance proceeds from Red Zone Properties	(403)	(517)
Net (recoverable)/provision for Red Zone properties	**(337)**	**(295)**

Melville Jessup Weaver has prepared an independent actuarial valuation of both the estimated cost of purchasing the red zone properties and the estimated insurance proceeds from those properties as at 30 June 2014. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine these valuations. The remaining provision represents:

- the estimated value of settlements that have been agreed but not yet paid; and
- the estimated value where the offer has not been accepted and therefore an estimate is required.

Note 27: Provisions (continued)

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Provision for Water Infrastructure costs		
Opening provision	769	530
Additional provisions recognised	-	437
Provision used during the period	(391)	(156)
Reversal of previous provision	-	-
Unwind of discount rate and effect of changes in discount rate	16	(42)
Closing provision	**394**	**769**

The provision represents the Crown's contribution for recovery costs relating to essential three waters infrastructure (waste water, storm water and fresh water) and river management systems. The provision includes recovery costs for Christchurch City Council (CCC), Waimakariri District Council, Selwyn District Council and Environment Canterbury.

The provision has been estimated based on information provided by the Councils. For the Waimakariri District Council, Selwyn District Council and Environment Canterbury the costs are based on estimates of the work programmes provided by these Councils.

In the case of CCC, the Crown has entered into a cost sharing agreement which provides for an active management regime to be implemented and a comprehensive independent assessment (by December 2014) of the work programme to ensure service and rebuild standards are met. This assessment may result in changes to the overall estimate of the cost of the infrastructure rebuild.

The Crown is continuing to work through a process to validate claims and to agree the timing of payments to all councils for these costs. A discount rate of 4.0% has been used to determine the present value of the cash flows over the next three years.

The key risks to the estimate are that the damages to the infrastructure may be more substantial than currently estimated and work scheduling may lead to extended repair timeframes which could result in costs in addition to those covered by the cost sharing agreement.

Note 27: Provisions (continued)

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Provision for weathertight services financial assistance package		
Opening provision	123	189
Additional provisions recognised	-	-
Provision used during the period	(7)	(7)
Reversal of previous provision	(6)	(60)
Unwind of discount rate and effect of changes in discount rate	2	1
Closing provision	**112**	**123**

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

Melville Jessup Weaver has prepared an independent actuarial valuation of the obligation as at 30 June 2014.

The provision assumes that the package will be taken up for 2,867 (2013: 2,619) dwellings.

	Actual 30 June 2014 $m	Actual 30 June 2013 $m
Other provisions		
Opening provision	1,494	1,338
Additional provisions recognised	380	446
Provision used during the period	(241)	(245)
Reversal of previous provision	(91)	(38)
Unwind of discount rate and effect of changes in discount rate	(34)	(7)
Closing provision	**1,508**	**1,494**

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

Note 28: Net Worth

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
6,230	13,344	Taxpayer funds	13,300	10,862
55,831	56,648	Property, plant and equipment revaluation reserve	62,225	57,068
84	94	Investment revaluation reserve	58	107
(142)	(44)	Cash flow hedge reserve	33	58
(6)	(56)	Foreign currency translation reserve	(92)	(49)
-	46	Share based payment reserve	44	25
3,185	5,435	Net worth attributable to minority interests	5,211	1,940
65,182	**75,467**	**Total net worth**	**80,779**	**70,011**
		Taxpayer Funds		
5,601	10,862	Opening taxpayers funds	10,862	3,520
358	2,973	Operating balance (excluding minority interests)	2,808	6,925
175	(542)	Gain/(loss) on Government share offers in SOEs	(577)	167
133	69	Transfers from/(to) property, plant and equipment revaluation reserve	229	268
(37)	(18)	Other movements	(22)	(18)
6,230	**13,344**	**Closing taxpayer funds**	**13,300**	**10,862**
		Property, Plant and Equipment Revaluation Reserve		
55,965	57,068	Opening revaluation reserve	57,068	56,001
-	(351)	Net revaluations	5,386	1,335
(134)	(69)	Transfers from/(to) taxpayer funds	(229)	(268)
55,831	**56,648**	**Closing revaluation reserve**	**62,225**	**57,068**

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

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Investment Revaluation Reserve		
76	107	Opening investment revaluation reserve	107	71
8	(12)	Increase arising on revaluation of available-for-sale financial assets	(42)	39
-	(1)	Cumulative (gain)/loss transferred to the statement of financial performance on sale of available-for-sale financial assets	(7)	(3)
84	**94**	**Closing investment revaluation reserve**	**58**	**107**

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

Note 28: Net Worth (continued)

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Cash Flow Hedge Reserve		
(121)	58	Opening cash flow hedge reserve	58	(195)
(21)	(101)	Transfer into reserve	30	278
-	(4)	Transfer to the statement of financial performance	(36)	(7)
-	3	Transfer to initial carrying value of hedged item	(19)	(18)
(142)	**(44)**	**Closing cash flow hedge reserve**	**33**	**58**

The cash flow hedge reserve reports gains and losses in the value of derivatives entered into to reduce volatility in future cash flows. These gains and losses will either be used to adjust the cash flows as they occur, impacting either on the statement of financial performance if the cash flows relate to revenue or expenses, or the statement of financial position if the cash flows relate to assets or liabilities.

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Foreign currency translation reserve		
(45)	(49)	Opening foreign currency translation reserve	(49)	(49)
39	(7)	Arising from translation of foreign operations	(43)	-
(6)	**(56)**	**Closing foreign currency translation reserve**	**(92)**	**(49)**

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

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Share based payment reserve		
-	25	Opening share based payment reserve	25	-
-	21	Partial share sales	22	25
-	-	Lapses/Forfeitures	(4)	-
-	-	Other movements	1	-
-	**46**	**Closing share based payment reserve**	**44**	**25**

New Zealand retail investors in the Mighty River Power share offer will receive one loyalty bonus share for every 25 shares they hold for two years from the offer, up to a maximum of 200 bonus shares.

New Zealand retail investors in the Genesis Energy share offer will receive one loyalty bonus share for every 15 shares they hold for one year from the offer, up to a maximum of 2,000 bonus shares.

Lapses/Forfeitures relate to shareholders who were eligible to receive bonus shares having forfeited this right by selling the shares before the eligibility period has expired.

Note 28: Net Worth (continued)

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Net Worth Attributable to Minority Interests		
1,794	1,940	Opening minority interest	1,940	432
140	210	Operating balance attributable to minority interests	138	94
1,325	3,393	Increase in minority interest from Government share offers (refer to note 35)	3,305	1,371
(120)	(48)	Transactions with minority interests	(209)	(16)
		Movement in reserves attributable to minority interests	5	59
46	(60)	Other movements	32	-
3,185	**5,435**	**Closing minority interest**	**5,211**	**1,940**
		Consisting of interests in:		
		Mighty River Power	1,430	1,431
		Meridian Energy	2,031	-
		Genesis Energy	847	-
		Air New Zealand	830	468
		Solid Energy[1]	13	-
		Crown Fibre Holdings Limited subsidiaries[1]	60	41
		Other	-	-
		Closing minority interest	**5,211**	**1,940**
		Minority share of Operating Balance		
		Mighty River Power	94	10
		Meridian Energy	69	-
		Genesis Energy	15	-
		Air New Zealand	40	93
		Solid Energy	(62)	-
		Crown Fibre Holdings Limited subsidiaries	(18)	(9)
		Other	-	-
		Operating balance attributable to minority interests	**138**	**94**

Transactions with minority interests include dividend payments and dividend reinvestments.

1 Solid Energy minority interest relates to the redeemable preference shares issued to third parties as part of the recent restructure. The minority interests in Crown Fibre Holdings Limited relates to investments in some local fibre companies involved in the roll-out of ultra-fast broadband.

Note 29: Capital Objectives and Fiscal Policy

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

- reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year
- once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues
- achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future
- managing prudently the fiscal risks facing the Government
- 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 through 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 can be expressed through its long term objectives and short term intentions for fiscal policy.

Long Term Fiscal Objectives - *Fiscal Strategy Report* 2014[20]

Debt

Manage total debt at prudent levels. We will reduce net debt to a level no higher than 20 percent of GDP by 2020. We will work towards achieving this earlier as conditions permit. Beyond 2020, we intend to maintain net debt within a range of around 10% to 20% of GDP over the economic cycle.

Operating balance

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

Operating expenses

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.

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20 The long-term fiscal intentions are stated in the *Fiscal Strategy Report* 2014.

Note 29: Capital Objectives and Fiscal Policy (continued)

Operating revenues

Ensure sufficient operating revenue to meet the operating balance objective.

Net worth

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

Short Term Fiscal Intentions		
Fiscal Strategy Report 2013	**Fiscal Strategy Report 2014**	**Fiscal Position 2014**[21]
Debt Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 38.8% of GDP in 2016/17. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 27.3% of GDP in 2016/17.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 34% of GDP in 2017/18. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 23.8% in 2017/18 and to be 20.0% of GDP in 2019/20.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2014 was 38.6% of GDP (2013: 39.7%). Core Crown net debt (excluding NZS Fund and advances) at 30 June 2014 was 26.2% of GDP (2013: 26.3%).
Operating balance Our intention is to return the operating balance (before gains and losses) to surplus as soon as practical and no later than 2014/15, subject to any significant shocks. Based on the operating allowance for the 2013 Budget, the operating balance (before gains and losses) is forecast to be -0.9% of GDP in 2013/14. The operating balance (before gains and losses) is forecast to be 0.0% of GDP in 2014/15. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 0.2% of GDP in 2013/14.	**Operating balance** Our intention is to return the operating balance (before gains and losses) to surplus as soon as practical and no later than 2014/15, subject to any significant shocks. The operating balance (before gains and losses) is forecast to be -1.1% of GDP in 2013/14. The operating balance (before gains and losses) is forecast to be 0.2% of GDP in 2014/15. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 1.3% of GDP in 2014/15.	**Operating balance** The operating (before gains and losses) deficit for the year ended 30 June 2014 was 1.3% of GDP (2013: 2.1%). The operating surplus for the year ended 30 June 2014 was 1.2% of GDP (2013: 3.3%).

21 GDP for the year ended 30 June 2014 was $229,145 million (2013: $212,521 million). Comparative GDP percentages have been updated to reflect restated Statistics New Zealand nominal GDP.

Note 29: Capital Objectives and Fiscal Policy (continued)

Fiscal Strategy Report 2013	Fiscal Strategy Report 2014	Fiscal Position 2014
Expenses Our intention is to support a return to fiscal surplus by restraining the growth in core Crown expenses – so that they are reduced to around 30% of GDP by 2015/16. Core Crown expenses are forecast to be 30.0% of GDP in 2016/17. Total Crown expenses are forecast to be 39.5% of GDP in 2016/17. This assumes a new operating allowance of $1 billion in Budget 2014, growing at 2% for Budgets thereafter (GST exclusive).	**Expenses** Our intention is to support a return to fiscal surplus by restraining the growth in core Crown expenses – so that they are reduced to around 30% of GDP by 2015/16. Core Crown expenses are forecast to be 29.9% of GDP in 2017/18. Total Crown expenses are forecast to be 38.8% of GDP in 2017/18. This assumes a new operating allowance of $1.5 billion in Budget 2015, growing at 2% for Budgets thereafter (GST exclusive).	**Expenses** Core Crown expenses for the year ended 30 June 2014 were 31.2% GDP (2013: 33.1%). Total Crown expenses for the year ended 30 June 2014 were 40.2% of GDP (2013: 42.8%).
Revenues Total Crown revenues are forecast to be 40.6% of GDP in 2016/17. Core Crown revenues are forecast to be 30.9% of GDP in 2016/17. Core Crown tax revenues are forecast to be 28.3% of GDP in 2016/17.	**Revenues** Total Crown revenues are forecast to be 40.3% of GDP in 2017/18. Core Crown revenues are forecast to be 31.1% of GDP in 2017/18. Core Crown tax revenues are forecast to be 28.5% of GDP in 2017/18.	**Revenues** Total Crown revenues for the year ended 30 June 2014 were 39.0% of GDP (2013: 40.8%). Core Crown revenues for the year ended 30 June 2014 were 29.4% of GDP (2012: 30.2%). Core Crown tax revenues for the year ended 30 June 2014 were 26.8% of GDP (2013: 27.6%).
Net worth Total net worth attributable to the Crown is forecast to be 28.7% of GDP in 2016/17. Core Crown net worth is forecast to be 12.1% of GDP in 2016/17.	**Net worth** Total Crown net worth is forecast to be 34.9% of GDP in 2017/18. Total net worth attributable to the Crown is forecast to be 32.8% of GDP in 2017/18.	**Net worth** Total net worth attributable to the Crown as at 30 June 2014 was 33.0% of GDP (2013: 32.0%). Core Crown net worth as at 30 June 2014 was 12.6% of GDP (2013: 12.1%).

Note 30: Canterbury Earthquakes

These consolidated financial statements include both revenue and expenses for the Government as well as the best estimate of the Government's assets and liabilities in relation to the earthquakes and aftershocks that have occurred in the Canterbury region. While there has been another year's experience in earthquake claims development, inherent uncertainties in estimating the amount of earthquake related assets and liabilities remain. Some of these inherent uncertainties are described in this note.

	Note	30 June 2014 $m	30 June 2013 $m
Canterbury earthquake-related obligations			
EQC property damage liability	25	4,441	6,634
Southern Response property damage liability	25	1,434	1,744
Total insurance liabilities		5,875	8,378
Provision for Canterbury Red Zone support package	27	66	222
Provision for water infrastructure costs	27	394	769
Other provisions		35	-
Total provisions		495	991
Total Canterbury earthquake-related obligations		**6,370**	**9,369**
Canterbury earthquake-related receivables			
EQC reinsurance receivables		1,225	2,623
Southern Response reinsurance receivables		184	512
Total reinsurance receivables	14	1,409	3,135
Red Zone insurance recoveries	27	403	517
Other receivables		11	295
Total other receivables		414	812
Total Canterbury earthquake-related receivables		**1,823**	**3,947**
Net Canterbury earthquake-related obligations		**4,547**	**5,422**

Included within the estimates of the Government's obligations are uncertainties with regard to both the gross liabilities and the estimated insurance recoveries. The largest and most complex valuations have been carried out by independent professional actuaries and represent a best estimate of the costs and income to be settled in the future. Such complex valuations need actuaries and other independent experts to make a number of assessments such as the number of outstanding claims, the amount of claims, the time expected to rebuild or repair damage property or infrastructure and making judgements over the escalation of costs due to building inflation in the Canterbury construction industry.

In particular, significant uncertainty exists for EQC land claims where here has been severe land damage, because of a very complex land claims environment and the fact that relatively few land claims have been settled to date. As claims are settled and the reasonableness of assumptions is tested against emerging experience over time, the level of this uncertainty will reduce.

The final costs of the Canterbury earthquakes will not be known for some time and the actual, ultimate costs may differ from these estimates. As a result, information on key assumptions (along with the sensitivity of those assumptions) has been included in the relevant notes to these financial statements (eg, insurance liabilities).

Note 30: Canterbury Earthquakes (continued)

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

	Note	30 June 2014 $m	Actual 30 June 2013 $m	30 June 2012 $m	30 June 2011 $m	Total to date $m
EQC insurance claims	a	(242)	(107)	662	7,471	7,784
Local Infrastructure	b	109	483	729	195	1,516
Land zoning	c	97	(8)	258	653	1,000
Southern Response support package	d	124	(53)	156	355	582
Christchurch central city rebuild	e	473	115	-	-	588
Other earthquake costs	f	345	45	108	413	911
Net earthquake costs		**906**	**475**	**1,913**	**9,087**	**12,381**
Gross earthquake expenses		918	815	2,823	13,601	18,157
Earthquake related revenue (e.g. reinsurance)		(12)	(340)	(910)	(4,514)	(5,776)
Net earthquake costs		**906**	**475**	**1,913**	**9,087**	**12,381**
Operating expenses		326	266	1,900	9,087	11,579
Capital expenditure		580	209	13	-	802
Net earthquake costs		**906**	**475**	**1,913**	**9,087**	**12,381**

In addition to these net earthquake costs, the Government's assets have suffered damage. In total, approximately $375 million was impaired against the asset revaluation reserve.

These results do not represent the total fiscal impact to the Government of the earthquakes, as some costs will not be determined until further decisions and actions on the recovery from the earthquakes are still to be made.

The costs outlined in this note do not include the secondary impact on tax or other revenues as a result of the earthquakes.

a) Earthquake Commission (EQC) Insurance Claims

EQC covers damage to residential property caused by earthquake, landslip, tsunami, volcanic eruption, hydrothermal activity, storm or flood (land only), and fire following any of these events.

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

EQC's obligation (and reinsurance recoveries) in relation to the earthquakes has been valued by an independent actuary (Melville Jessup Weaver). The key sources of uncertainty in estimating the obligation are:

- the impact of multiple events on the allocation of damage, EQC coverage and EQC's reinsurance coverage
- severe land damage and a very complex land claims environment from both engineering and legal perspectives, and
- the potential for construction cost inflation ("demand surge inflation") to differ from expectations.

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

Note 30: Canterbury Earthquakes (continued)

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

Under the Earthquake Commission Act, if the assets of the EQC are not sufficient to meet its liabilities, the Crown is responsible for funding the deficiency by way of a grant or advance. EQC expects the National Disaster Fund (NDF) will be depleted during the 30 June 2015 financial year. The Crown funding of the deficiency will have no bearing on the overall costs to the total Crown because that funding will represent a transfer within the Government reporting group.

These financial statements include a net EQC recovery of $242 million for the year ended 30 June 2014 relating to the Canterbury earthquakes (2013: $107 million net recovery). This net recovery represents a decrease in EQC's expected cost of settling its outstanding Canterbury earthquake claims. This decrease is due to an actuarial reassessment of previous years' outstanding claims taking into account better information regarding these claims.

During the year, $1.9 billion was paid out taking the total to $7.5 billion for settling approved claims, leaving an outstanding insurance liability estimate of $4.4 billion, some of which is expected to be offset by reinsurance proceeds.

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

b) Local Infrastructure

Under the current government policy settings, as outlined in the National Civil Defence Emergency Management Plan ('the Plan') and Guide to the National Civil Defence Emergency Management Plan ('the Guide'), the Government is committed to a standard financial support package for the four local authorities in Canterbury (Christchurch City Council, Waimakariri District Council, Selwyn District Council and Environment Canterbury) that were adversely affected by the earthquakes. This support package covers certain types of response and recovery costs incurred as a result of the earthquakes.

Last financial year, the Government entered into a cost sharing agreement with the Christchurch City Council (CCC) covering various items including the Crown contribution to three water infrastructure response and rebuild costs and local roading. The agreement set out that the Government will contribute up to $1.8 billion to CCC for response costs and the recovery of Christchurch's essential infrastructure (water and roading).

The cost sharing agreement allows for an independent review of CCC's infrastructure recovery costs and programme (to be carried out by December 2014) with any costs of the rebuild work as the basis of any final discussions on horizontal infrastructure cost sharing. The agreement also acknowledges there is the possibility of unforeseen circumstances, so both parties can review the agreement in the future.

During this financial year, the costs of infrastructure recovery in the Waimakariri and Selwyn districts have been finalised. The Government indemnities that were previously in place for these areas have been removed or are now redundant and replaced with agreements with the relevant territorial authorities. No additional payments to these authorities are expected.

Response Costs

During the year, no additional expenses have been recorded for response costs. The total Canterbury earthquake response costs (primarily temporary repairs to essential infrastructure) were $226 million.

Recovery Costs

During the year, an additional $16 million of expenses has been recorded in relation to the Crown's provision for water infrastructure costs (2013: $395 million). As a result of the cost sharing agreement between the Government and CCC, the Government's share of water recovery costs to date were $965 million.

Note 30: Canterbury Earthquakes (continued)

While best available information has been used to provide the estimate of water infrastructure recovery costs, significant uncertainties remain with regard to:

1 the amount of damage to infrastructure under the ground, and

2 the basis for restoring the infrastructure, whether it is like-for-like, or some other method.

Details of the calculation of the estimate of the water infrastructure costs (including discussion on the sensitivity of assumptions) are provided in note 27 of these financial statements.

In addition, $93 million (2013: $85 million) has been included in the current year for costs associated with the repair of local roadways taking the total costs of local roading repairs to date to $324 million. While costs associated with water infrastructure are recognised upfront, the repair of local roadways is recognised in the year of repair, consistent with the approach taken to all subsidised local roading repairs.

This spreading of costs reflects that the first call for funding these future expenses will be from dedicated ring-fenced revenue in the form of road user charges, fuel excise duties, and registration fees paid to the National Land Transport Fund. The Government and New Zealand Transport Authority (NZTA) have agreed that up to $50 million a year will be made available from the National Land Transport Fund for repairs to Canterbury roads. NZTA have entered into a loan agreement with the Crown to fund the ongoing NZTA contribution above this amount over the next three years.

c) Land Zoning

On the 23 June 2011 the Government announced zones of land damage in Christchurch and parts of the Waimakariri district. This land was mapped into four zones, with “Red Zone” land identified as being unlikely to be suitable for continued residential occupation for a prolonged period of time. For this reason, the Government instigated a process for purchasing insured residential land in the Red Zone on a voluntary basis. Since the initial zoning announcement, further zoning announcements and other land zoning policy decisions were made.

Included within the land zoning costs for 30 June are both costs associated with the red zone support package, and expenses in relation to other land zoning related costs. Melville Jessup Weaver (a firm of consulting actuaries) was engaged to revalue the Crown’s obligation and associated insurance recoveries for the red zone support package as at 30 June 2014. The net effect of the re-estimation of the red zone support package was a reversal of expenses of $73 million in the current year. The actuary has used the best available information, but it is acknowledged that there have been limitations on the data available from insurers particularly in relation to recoveries. Details of the calculation of the estimate are provided in note 27 of these financial statements.

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

d) Southern Response Earthquake Services Support Package

On 7 April 2011 the Government provided a financial support package for AMI to give policyholders certainty and to ensure an orderly rebuild of Christchurch. The financial support to AMI was provided via a Crown Support Deed (CSD) under which the Crown subscribed for $500 million of convertible preference shares which were called but unpaid. The net loss incurred on the acquisition of AMI was $335 million and an operating deficit to the end of 30 June 2011 of $20 million was reported in that year.

On 5 April 2012 IAG purchased the on-going insurance business of AMI. Immediately after completion of the sale, the Crown paid $100 million of the unpaid balance on the preference shares and took ownership of AMI’s residual earthquake business. The earthquake business was renamed Southern Response Earthquake Services Limited (Southern Response). In the 2012 financial year net costs of $401 million were recognised and partly offset by a gain realised on the sale of the ongoing business of AMI of $245 million, resulting in a net cost of $156 million being recorded. During the 2014 financial year an additional $124 million of net expenses was recognised (2013: $53 million net revenues).

Note 30: Canterbury Earthquakes (continued)

The most recent estimate of the total potential cost of the Crown's support is $492 million including a risk margin ($90 million in net revenues are expected beyond the year ended 30 June 2014). The ultimate cost will be dependent on the financial performance of the company and the underlying emerging experience from the earthquake series such as further late notified claims in relation to the liability (and resulting reinsurance recoveries) arising from the Canterbury earthquakes. The liability has been valued by an independent actuary (Finity Consulting Pty Limited).

The uncertainties regarding Southern Response's outstanding claims liability are similar to those of EQC (with the exception of risks associated with land claims). The details of the insurance liability at 30 June 2014 (including discussion on the sensitivity of assumptions) are outlined in note 25.

e) Christchurch Central City Rebuild

The Government has agreed to contribute to certain Anchor Projects in the Christchurch central business district. During the year ended 30 June 2014, $473 million (2013: $115 million) has been recognised relating to the purchase of land and operating costs for these projects.

f) Other Earthquake Costs

Other costs represent various other initiatives raised in support of Canterbury. The 2014 net cost includes $118 million in relation to capital expenditure on Canterbury hospitals, schools, TEIs and the justice and emergency services precinct. In addition, $88 million of net costs (operating and capital) incurred by Crown entities other than EQC, and $19 million in relation to welfare support. The remaining $120 million includes the operating costs of the Canterbury Earthquake Recovery Authority (CERA), welfare support, state highway repairs, emergency and temporary housing and miscellaneous other earthquake-related costs.

Note 31: Commitments

	Actual	
	30 June 2014 $m	30 June 2013 $m
Capital Commitments		
Specialist military equipment	732	549
Land and buildings	878	717
Other property, plant and equipment	5,307	5,478
Other capital commitments	919	790
Tertiary Education Institutions	201	169
Total capital commitments	**8,037**	**7,703**
Operating Lease Commitments		
Non-cancellable accommodation leases	3,059	2,792
Other non-cancellable leases	2,340	2,735
Tertiary Education Institutions	494	466
Total operating lease commitments	**5,893**	**5,993**
Total commitments	**13,930**	**13,696**
By source		
Core Crown	4,916	4,226
Crown entities	5,465	5,296
State-owned enterprises	4,847	5,078
Inter-segment eliminations	(1,298)	(904)
Total commitments	**13,930**	**13,696**
By Term		
Capital Commitments		
One year or less	3,863	3,689
From one year to two years	1,591	1,764
From two to five years	2,107	2,025
Over five years	476	225
Total capital commitments	**8,037**	**7,703**
Operating Lease Commitments		
One year or less	921	1,101
From one year to two years	970	985
From two to five years	1,810	1,900
Over five years	2,192	2,007
Total operating lease commitments	**5,893**	**5,993**
Total commitments	**13,930**	**13,696**

Note 32: Contingent Liabilities and Contingent Assets

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 2014 where they are expected to be material but not remote.

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

		Actual	
	Note	30 June 2014 $m	30 June 2013 $m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	a	222	225
Uncalled capital	b	5,662	6,286
Legal proceedings and disputes	c	604	707
Other contingent liabilities	d	357	432
Total quantifiable contingent liabilities		**6,845**	**7,650**
By source			
Core Crown		6,568	7,350
Crown entities		44	35
State-owned enterprises		233	265
Total quantifiable contingent liabilities		**6,845**	**7,650**

Note 32: Contingent Liabilities and Contingent Assets (continued)

a) 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. Guarantees given under Section 65ZD of the *Public Finance Act 1989* are disclosed in accordance with Section 26Q(3)(b)(i)(B) of the same Act.

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.

		Actual	
	Note	30 June 2014 $m	30 June 2013 $m
New Zealand Export Credit Office guarantees	i	93	76
Air New Zealand letters of credit and performance bonds	ii	52	51
Housing New Zealand Crown mortgage portfolio	iii	26	33
Other guarantees and indemnities		51	65
Total guarantees and indemnities		**222**	**225**

i) New Zealand Export Credit Office guarantees

The New Zealand Export Credit Office (NZECO) 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.

ii) 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.

iii) Housing New Zealand Crown mortgage portfolio

HNZC sold a significant portion of its Crown mortgage portfolio to Westpac Bank between 1996 and 1999. As a condition of the sale, HNZC (on behalf of the Crown) has agreed to indemnify Westpac against any future losses arising from default. The indemnity applies over the life of the loan and is estimated to continue until 2026, this reflects the maximum combined liability of the Crown, being the total outstanding amount owed under the guaranteed mortgages.

Note 32: Contingent Liabilities and Contingent Assets (continued)

b) 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".

		Actual	
	Note	30 June 2014 $m	30 June 2013 $m
Asian Development Bank	i	2,728	2,992
International Monetary Fund - promissory notes	ii	1,013	1,163
International Monetary Fund - arrangements to borrow	iii	937	1,052
International Bank for Reconstruction and Development	iv	968	1,056
Other uncalled capital		16	23
Total uncalled capital		**5,662**	**6,286**

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) 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.

iv) 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.

Note 32: Contingent Liabilities and Contingent Assets (continued)

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.

		Actual	
	Note	30 June 2014 $m	30 June 2013 $m
Tax disputes	i	591	641
Other legal proceedings and disputes		13	66
Total legal proceedings and disputes		**604**	**707**

i) Tax disputes

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 outstanding debt of tax assessments raised against which an objection has been lodged and legal action is proceeding.

d) Other quantifiable contingent liabilities

		Actual	
	Note	30 June 2014 $m	30 June 2013 $m
Transpower capital expenditure recovery	i	90	156
Unclaimed monies	ii	112	101
Air New Zealand partnership	iii	82	47
Other contingent liabilities		73	128
Total other contingent liabilities		**357**	**432**

i) Transpower capital expenditure recovery

Transpower has contingent liabilities relating to capital expenditure that may not be approved by the regulator. If this expenditure is not subsequently approved it cannot be recovered from customers.

ii) 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.

iii) Air New Zealand partnership

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

Unquantifiable Contingent Liabilities

This part of the statement provides details of those contingent liabilities of the Crown which are not quantified, excluding those that are considered remote, reported by the following categories:

a) Indemnities

b) Legal claims and proceedings

c) Other contingent liabilities

a) 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.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993.	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines.
Genesis Energy Limited	Deed between Genesis Power Limited and the Crown.	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.
	Genesis acquisition of Tekapo A & B power stations.	Indemnity against any damage to 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: • any breach of the warranty provided, and • any third-party claims that are a result of acts or omissions prior to 1 November 1992. 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.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Rail Corporation	The Minister of Finance signed the indemnity on 1 September 2004	The directors of NZ Railways Corporation against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities.
	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 Section 4F of the Justices of the Peace Act 1957 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 Contracts	Contracts in respect of which the Crown purchases gas from Maui Mining companies and sells gas downstream to Contract Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited	The contracts provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.
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.	The indemnity relates to 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 9 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.
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.

Note 32: Contingent Liabilities and Contingent Assets (continued)

Party indemnified	Instrument of indemnification	Actions indemnified
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004	The Crown has indemnified Westpac: • In relation to letters of credit issued on behalf of the Crown. • For costs and expenses incurred by reason of third party claims against Westpac relating to indirect instructions, direct debits, third party cheques, departmental credit card merchant agreements, use of online banking products and IRD processing arrangements.
	Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2010	The Crown indemnified Westpac New Zealand Limited against certain costs, damages and losses to third parties resulting from unauthorised, forged or fraudulent payment instructions (excluding costs, damages and losses arising from Westpac's wilful default, negligence or breach of the agreement or other applicable legal obligation.

b) 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

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. Given the stage of proceedings and uncertainty as to outcomes of the cases, no estimate of the financial effect can be made.

ii) Air New Zealand litigation

Air New Zealand is defending two class actions in the United States. One makes allegations of anti-competitive conduct against many airlines in relation to pricing in the air cargo business. Following settlements, seven airlines including Air New Zealand continue to defend the claim. A similar, previously reported class action filed in Australia was discontinued against Air New Zealand in June 2014 resulting in legal costs of $3 million being recovered by Air New Zealand.

The second class action being defended in the United States, alleges that Air New Zealand together with other airlines acted anti-competitively in respect of fares and surcharges on trans-Pacific routes.

Note 32: Contingent Liabilities and Contingent Assets (continued)

The allegations of anti-competitive conduct in the air cargo business in Hong Kong and Singapore are the subject of proceedings by the Australian Competition and Consumer Commission. A defended hearing in the Federal Court concluded in May 2013 and a decision is awaited.

In the event that the Court determined that Air New Zealand had breached competition laws, the Company would have potential liability for damages or (in Australia) pecuniary penalties.

iii) Kiwibank

In June 2013, a group called Fair Play on Fees announced plans for a representative action against banks in New Zealand in relation to certain default fees charged to New Zealand customers. In November 2013, the group issued proceedings against Kiwibank. The potential outcome of the proceedings cannot be determined with any certainty at this stage.

iv) Ministry of Education litigation

Post Primary Teachers Association and several teachers have lodged a claim in the High Court alleging breach of statutory duty in respect of the Novopay system failures. The Ministry is defending this claim.

v) Television New Zealand (TVNZ)

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

vi) 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.

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.

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

Note 32: Contingent Liabilities and Contingent Assets (continued)

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% for Waikato – Tainui and approximately 16% 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, the final amount payable to settle this matter cannot be quantified yet due to uncertainty around when current and future negotiations will be settled and the value of these settlements when reached. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved. A number of these disputed items relating to the relativity mechanism payment are currently subject to an arbitration process.

Contingent Assets

	Note	Actual 30 June 2014 $m	30 June 2013 $m
Contingent assets			
Tax disputes	i	90	169
Suspensory loans issued to integrated schools	ii	31	38
Other contingent assets		12	63
Total contingent assets		**133**	**270**
By source			
Core Crown		129	245
Crown entities		4	4
State-owned enterprises		-	21
Total quantifiable contingent liabilities		**133**	**270**

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.

ii) Suspensory loans to Schools

These loans were issued by the Ministry of Education to integrated schools; however, loan repayments were not due to begin until certain dates in the future. A contingent asset is recorded at the estimated value of payments until the point that the loans are called to be repaid.

Note 33: Financial Instruments

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

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

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

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

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

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

a) Analysis of financial instruments
   - Designation category
   - Fair value hierarchy
   - Fair value movements
   - Derivatives
   - Hedge accounted derivatives

b) Risk management policies

c) Market risk management
   - Interest rate risk management
   - Foreign currency risk management
   - Equity market risk management

d) Credit risk management
   - Concentration of credit risk by credit rating
   - Concentration of credit risk by geographical area
   - Concentration of credit risk by industry

e) Liquidity risk management

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments

Designation Category

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 profit and loss. Changes in the value of an instrument may be reported in the operating balance or directly in other comprehensive income depending on its designation. The following table details the value of financial assets and financial liabilities by class of instrument and by designation category, as defined in the accounting policies in note 1.

Financial Assets

Financial assets as at 30 June 2014		**Designation**				
		Loans and receivables at amortised cost	**Available for sale**	**Held for trading**	**Fair value through P&L**	**Total**
	Note	**$m**	**$m**	**$m**	**$m**	**$m**
Cash and cash equivalents		11,888	-	-	-	**11,888**
Trade and other receivables[22]	14	5,562	-	-	-	**5,562**
Long-term deposits	15	3,762	-	-	82	**3,844**
Derivatives in gain	15	-	-	4,164	-	**4,164**
Marketable securities	15	-	669	52	37,586	**38,307**
IMF financial assets	15	2,142	-	-	-	**2,142**
Share investments	16	22	85	6	20,483	**20,596**
Student loans	17	8,716	-	-	-	**8,716**
Kiwibank mortgages	17	14,630	-	-	-	**14,630**
Other advances	17	921	57	-	432	**1,410**
Total financial assets		**47,643**	**811**	**4,222**	**58,583**	**111,259**

Financial assets as at 30 June 2013		**Designation**				
		Loans and receivables at amortised cost	**Available for sale**	**Held for trading**	**Fair value through P&L**	**Total**
	Note	**$m**	**$m**	**$m**	**$m**	**$m**
Cash and cash equivalents		14,924	-	-	-	14,924
Trade and other receivables[22]	14	7,962	-	-	-	7,962
Long-term deposits	15	3,444	-	-	144	3,588
Derivatives in gain	15	-	-	3,775	-	3,775
Marketable securities	15	-	523	166	33,657	34,346
IMF financial assets	15	2,291	-	-	-	2,291
Share investments	16	28	107	9	17,215	17,359
Student loans	17	8,288	-	-	-	8,288
Kiwibank mortgages	17	13,202	-	-	-	13,202
Other advances	17	778	67	-	278	1,123
Total financial assets		50,917	697	3,950	51,294	106,858

As at 30 June 2014, the carrying value of financial assets that had been pledged as collateral was $1,006 million (2013: $2,016 million). These transactions are conducted under terms that are usual and customary to standard securities borrowing.

22 The trade and other receivables financial assets include reinsurance receivables but exclude deposit guarantee scheme receivables.

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Financial Liabilities

Financial liabilities as at 30 June 2014	Note	**Designation**			
		Amortised cost	**Held for trading**	**Fair value through P&L**	**Total**
		$m	**$m**	**$m**	**$m**
Issued currency[23]		4,964	-	-	**4,964**
Accounts payable	23	7,626	-	-	**7,626**
Borrowings:	24				
Government bonds		57,554	-	2,783	**60,337**
Treasury bills		3,147	-	-	**3,147**
Government retail stock		183	-	-	**183**
Settlement deposits with Reserve Bank		7,758			**7,758**
Derivatives in loss		-	2,245	-	**2,245**
Finance lease liabilities		1,501	-	-	**1,501**
Other borrowings		22,943	-	5,305	**28,248**
Total borrowings		**93,086**	**2,245**	**8,088**	**103,419**
Total financial liabilities		**105,676**	**2,245**	**8,088**	**116,009**

Financial liabilities as at 30 June 2013	Note	**Designation**			
		Amortised cost	**Held for trading**	**Fair value through P&L**	**Total**
		$m	**$m**	**$m**	**$m**
Issued currency[23]		4,691	-	-	4,691
Accounts payable	23	7,616	-	-	7,616
Borrowings:	24				
Government bonds		55,005	-	2,372	57,377
Treasury bills		4,084	-		4,084
Government retail stock		199	-	-	199
Settlement deposits with Reserve Bank		7,575	-	-	7,575
Derivatives in loss		-	3,188	-	3,188
Finance lease liabilities		1,454	-	-	1,454
Other borrowings		21,534	90	4,586	26,210
Total borrowings		89,851	3,278	6,958	100,087
Total financial liabilities		102,158	3,278	6,958	112,394

23 Issued currency is not designated but is recorded at face value. Face value for issued currency is equivalent to amortised cost.

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Hierarchy

The following table details the basis for the valuation of financial assets and financial liabilities measured at fair value. This includes those financial assets and financial liabilities that are available for sale, held for trading, or fair value through profit and loss. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value may be determined using different methods depending on the type of asset or liability. Where possible, assets and liabilities are valued with reference to a quoted market price, or based on other observable current market transactions. Where this is not available, valuation techniques may be used to determine fair value. In these instances, fair value is generally based on the discounted value of future cashflows using applicable yield curves and adjusted for additional risks, including credit risks, where applicable. Maximum use is made of observable market data when selecting variables and developing assumptions for the valuation techniques. There have been no changes in valuation techniques during the year.

As at 30 June 2014	Quoted market price $m	Observable markets $m	Significant non-observable inputs $m	Total $m
Financial assets				
Long-term deposits	-	82	-	**82**
Derivatives in gain	14	3,953	197	**4,164**
Marketable securities	9,736	26,768	1,803	**38,307**
Share investments	19,782	33	759	**20,574**
Kiwibank mortgages	-	-	-	**-**
Other advances	-	128	361	**489**
Total financial assets at fair value	**29,532**	**30,964**	**3,120**	**63,616**
Financial liabilities				
Government bonds	2,783	-	-	**2,783**
Treasury bills	-	-	-	**-**
Government retail stock	-	-	-	**-**
Derivatives in loss	18	2,144	83	**2,245**
Other borrowings	578	4,727	-	**5,305**
Total financial liabilities at fair value	**3,379**	**6,871**	**83**	**10,333**
Net financial instuments at fair value	**26,153**	**24,093**	**3,037**	**53,283**

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Hierarchy (continued)

As at 30 June 2013	Quoted market price $m	Observable markets $m	Significant non-observable inputs $m	Total $m
Financial assets				
Long-term deposits	15	129	-	144
Derivatives in gain	12	3,509	254	3,775
Marketable securities	10,801	21,888	1,657	34,346
Share investments	16,217	42	1,072	17,331
Kiwibank mortgages	-	-	-	-
Other advances	-	128	217	345
Total financial assets at fair value	27,045	25,696	3,200	55,941
Financial liabilities				
Government bonds	2,372	-	-	2,372
Treasury bills	-	-	-	-
Government retail stock	-	-	-	-
Derivatives in loss	17	3,011	160	3,188
Other borrowings	81	4,565	30	4,676
Total financial liabilities at fair value	2,470	7,576	190	10,236
Net financial instruments at fair value	24,575	18,120	3,010	45,705

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Fair Value Movements

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

As at 30 June 2014	**Marketable securities $m**	**Share investments $m**	**Kiwibank mortgages $m**	**Other advances $m**	**Derivatives in gain/ (loss) $m**	**Other borrowings $m**	**Total $m**
Opening balance	1,657	1,072	-	217	94	(30)	**3,010**
Total gains/(losses) recognised in the statement of financial performance	(43)	107	-	16	(87)	29	**22**
Total gains/(losses) recognised in the statement of comprehensive income	(3)	-	-	(1)	63	-	**59**
Purchases	793	151	-	-	3	1	**948**
Sales	(136)	(202)	-	-	(5)	-	**(343)**
Issues	-	-	-	143	-	-	**143**
Settlements	(558)	(306)	-	(2)	44	-	**(822)**
Transfers into and out of level 3	93	(63)	-	(12)	2	-	**20**
Closing balance	**1,803**	**759**	**-**	**361**	**114**	**-**	**3,037**

As at 30 June 2013	**Marketable securities $m**	**Share investments $m**	**Kiwibank mortgages $m**	**Other advances $m**	**Derivatives in gain/ (loss) $m**	**Other borrowings $m**	**Total $m**
Opening balance	1,592	649	44	107	(39)	(41)	2,312
Total gains/(losses) recognised in the statement of financial performance	222	122	-	(18)	13	11	350
Total gains/(losses) recognised in the statement of comprehensive income	9	-	-	-	364	-	373
Purchases	398	253	-	14	(15)	-	650
Sales	(193)	(14)	-	-	(19)	-	(226)
Issues	-	-	-	115	-	-	115
Settlements	(253)	-	(44)	(1)	(216)	-	(514)
Transfers into and out of level 3	(118)	62	-	-	6	-	(50)
Closing balance	1,657	1,072	-	217	94	(30)	3,010

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

	Marketable securities $m	**Share investments $m**	**Kiwibank mortgages $m**	**Other advances $m**	**Derivatives in gain/ (loss) $m**	**Other borrowings $m**	**Total $m**
Year ended 30 June 2014	194	203	-	16	(1)	29	**441**
Year ended 30 June 2013	184	94	-	(18)	83	(11)	**332**

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Derivatives

Derivatives as at 30 June 2014	Carrying Value			Notional Value		
	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m
Foreign exchange contracts	409	169	**240**	22,726	9,835	**32,561**
Foreign exchange options	2	1	**1**	12	85	**97**
Cross currency swaps	2,216	543	**1,673**	13,926	3,950	**17,876**
Interest rate swaps	502	1,104	**(602)**	26,004	43,453	**69,457**
Futures	4	7	**(3)**	2,785	1,674	**4,459**
Other derivatives	1,031	421	**610**	16,607	12,562	**29,169**
Total derivatives	**4,164**	**2,245**	**1,919**	**82,060**	**71,559**	**153,619**

Derivatives as at 30 June 2013	Carrying Value			Notional Value		
	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m
Foreign exchange contracts	538	701	(163)	19,540	22,493	42,033
Foreign exchange options	-	2	(2)	13	202	215
Cross currency swaps	1,863	545	1,318	14,590	6,473	21,063
Interest rate swaps	719	1,274	(555)	21,302	36,995	58,297
Futures	5	7	(2)	2,331	2,169	4,500
Other derivatives	650	659	(9)	14,615	13,207	27,822
Total derivatives	3,775	3,188	587	72,391	81,539	153,930

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 or currencies. The notional value is therefore a reference to the calculation base, not a reflection of the counterparty exposure. Instruments utilised include:

- foreign exchange contracts and options to hedge exchange rate risk arising from foreign investments and liabilities as well as budgeted overseas purchases. Under foreign exchange contracts the Government agrees to exchange one currency for another at a future date using an exchange rate determined when the contract is entered into

- cross currency swaps. Cross currency swaps combine an interest rate swap and a currency swap whereby the interest rate in one currency is fixed, and the interest rate in the other is floating. In doing so, they manage both interest rate and currency risk

- interest rate swaps and options to manage interest rate risk. Under interest rate swap contracts, the Government agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Government to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. They are also used to reduce interest rate risk for a number of Government departments

- other derivatives include electricity derivatives. Electricity derivatives are typically “contracts for differences” entered into by the electricity generation State-owned enterprises to hedge against volatility in electricity prices

- futures. Futures are contracts stipulating the purchase or sale of currencies or securities of a specified quantity, at a specified price and on a predetermined date in the future.

Note 33: Financial Instruments (continued)

(a) Analysis of financial instruments (continued)

Hedge Accounted Derivatives

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

	Carrying value in gain $m	Carrying value in loss $m	Net carrying value $m
Hedge accounted derivatives as at 30 June 2014			
Derivatives hedging fair value	8	58	**(50)**
Derivatives hedging cash flows	173	240	**(67)**
Hedge accounted derivatives as at 30 June 2013			
Derivatives hedging fair value	41	21	**20**
Derivatives hedging cash flows	239	217	**22**

As a result of fair value hedge accounting, the hedged items were adjusted by a loss of $47 million (2013: gain of $4 million), which is included in the statement of financial performance along with the change in fair value of the hedging derivative.

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

	<1 year $m	1-2 years $m	2-5 years $m	>5 years $m	Total $m
As at 30 June 2014					
Timing of cash flows	(38)	3	(131)	(127)	**(293)**
Increase/(decrease) in operating balance	(53)	5	(118)	99	**(67)**
As at 30 June 2013					
Timing of cash flows	62	3	1	1	**67**
Increase/(decrease) in operating balance	32	(5)	(6)	21	**42**

The same types of derivative instruments listed on the previous page are used for hedge accounting.

Note 33: Financial Instruments (continued)

(b) Risk management policies

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

	30 June 2014		30 June 2013	
	Unconsolidated financial assets $m	Unconsolidated financial liabilities $m	Unconsolidated financial assets $m	Unconsolidated financial liabilities $m
ACC	**27,913**	**1,468**	25,278	1,332
Air New Zealand	**2,149**	**2,194**	2,093	2,043
EQC	**3,552**	**37**	5,346	448
Genesis Energy	**255**	**1,209**	302	1,285
Inland Revenue Department	**11,316**	**260**	11,232	301
Meridian Energy	**547**	**1,508**	824	1,606
Mighty River Power	**372**	**1,431**	455	1,601
New Zealand Debt Management Office (NZDMO)	**13,185**	**81,112**	12,713	76,585
NZ Post (including Kiwibank)	**16,856**	**16,310**	15,418	14,990
NZ Superannuation Fund	**26,990**	**1,812**	23,419	1,721
Public Trust	**547**	**511**	626	594
Reserve Bank	**18,849**	**16,405**	19,342	16,659
Southern Response	**1,318**	**4**	1,746	8
Transpower	**594**	**3,863**	576	3,731

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

Manager	Financial Instrument Portfolio	Risk Management
Accident Compensation Corporation	ACC Reserves	The Investment Committee sets Investment Guidelines by requiring investment portfolio managers to manage their portfolios within defined market exposure limits. These include exposure limits such as limits on the percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment companies not represented in the benchmark; limits on the maximum investment in any individual company; ratings related credit limits on both a per-issuer and aggregate basis; duration limits relative to the duration of the benchmark; and maximum credit exposure to single entities. Compliance with the Investment Guidelines is reviewed by ACC's Investments Risk and Compliance group on a daily basis and by the internal auditors on a half-yearly basis.

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
Air New Zealand	Financial instruments arising from its business activity.	The Board of directors approve risk management policies. Compliance with these policies is reviewed and reported monthly to the Board and is included as part of the internal audit programme. Group policy is not to enter, issue, or hold financial instruments for speculative purposes.
Earthquake Commission	Assets in National Disaster Fund (NDF)	The NDF has a short-term time horizon in that the assets are being fully applied to meeting Canterbury earthquake damage claims. The Commission is managing the NDF to ensure both liquidity and stability of asset values. Its assets comprise only New Zealand Government bonds and commercial bank cash instruments.
Genesis Energy	Financial instruments arising from its business activity including: • interest rate swaps and options • foreign currency swaps and options • electricity swaps and options • oil price swaps and options.	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise financial risk to the Group. Trading in financial instruments, including derivatives, for speculative purposes is not permitted by the Board.
Inland Revenue Department	Student Loans	Risk is minimised by the collection of compulsory repayments from NZ-based borrowers through the tax system. In addition, advances are widely dispersed over a large number of borrowers, reducing the concentration of credit risk.
Meridian Energy	Financial instruments arising from its business activity	Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the Group. The Group uses financial instruments to mitigate these risk exposures.
Mighty River Power	Financial instruments arising from its business activity	The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to proactively manage these risks with the aim of protecting shareholder wealth. The Group uses financial instruments to hedge these risk exposures.
NZDMO	Financial assets and liabilities held to: • finance the Government's gross borrowing requirements • provide funds to Government entities, and • provide capital market services and derivative transactions to Government entities.	NZDMO operates within a risk management framework that is approved by the Minister of Finance. The framework specifies NZDMO's policies for managing market risk, credit risk, liquidity risk, funding risk and operational risk. The risk management framework is subject to continuous improvement.

Note 33: Financial Instruments (continued)

(b) Risk management policies (continued)

Manager	Financial Instrument Portfolio	Risk Management
New Zealand Post (including Kiwibank)	Financial instruments from its debt portfolio and investment activity. This includes activities as a financial intermediary and financial market participant.	The Board is responsible for risk management policies and procedures. This includes appointing a finance risk and investment committee to monitor risk management. In addition, Kiwibank's Asset-Liability Committee, Executive Risk Committee and Enterprise Portfolio Management Office have been formed to ensure bank-wide input and appropriate focus on specific risk matters.
The New Zealand Superannuation Fund (NZS Fund)	Investment Fund assets	The Guardians manage the NZS Fund's risks by adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the Fund. The objective is to: • avoid concentration of risk by ensuring there is adequate diversification between and within asset classes and geographically • carefully select and monitor managers to ensure the Guardians have sufficient conviction that each manager will maximise the probability that return expectations will be met • ensure that there are no unintended biases away from the intended investment strategy, and • perform rigorous measurement and management of market risk.
Public Trust	Financial assets and liabilities	The Trust has a Board Investment Committee that sets the investment policies and reviews, procedures, practices and investment performance.
The Reserve Bank of New Zealand	Financial assets and liabilities held for the purpose of effective foreign exchange intervention capability, wholesale banking liquidity and circulating currency.	The main financial risks to which the Bank is exposed include credit risk, foreign currency risk, interest rate risk and liquidity risk. The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risks.
Southern Response	Financial assets	The company's financial risk management activities focus on ensuring that the financial assets are managed in accordance with the investment strategy set out in the Crown Support Deed and that sufficient liquidity is maintained at all times to meet its insurance liabilities.
Transpower	Financial instruments arising from its business activity	The Board has approved policy and guidelines and authorised the use of various financial instruments. The policy adopted by the Board prohibits the use of financial instruments for speculative purposes.

Note 33: Financial Instruments (continued)

(c) Market risk management

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

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

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

Derivative financial instruments are used across the portfolios to manage exposure to interest rate, foreign currency and electricity sector risk. Refer to section on derivatives in note 33(a) for further information on these derivatives.

Interest rate risk management

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

Interest rate sensitivity analysis

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

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

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

- the resulting valuation changes for fixed interest instruments that are measured at fair value through profit and loss will affect the operating balance, while the valuation changes of fixed interest instruments designated as available-for-sale will affect equity reserves

- the resulting changes in interest expense and interest revenue on floating rate instruments will affect the operating balance, and

- where derivatives are designated as cash flow hedges of floating rate instruments, equity reserves will be affected by the resulting changes in the fair value of these derivatives.

Note 33: Financial Instruments (continued)

(c) Market risk management (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 following table. The impact is net of any hedging by way of interest rate derivatives.

Change in New Zealand Interest Rates

	Impact on operating balance		Impact on net worth	
	2014 $m	2013 $m	2014 $m	2013 $m
Increase 1% (100 basis points)	**(455)**	(532)	**(405)**	(493)
Decrease 1% (100 basis points)	**478**	592	**428**	554

The Government's sensitivity to interest rates has not changed significantly 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 25 on page 97, and note 26 on page 107 for sensitivity information for these long-term liabilities).

Foreign currency risk management

The Government undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts 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:

As at 30 June 2014	Note	NZD NZ$m	USD NZ$m	Yen NZ$m	Euro NZ$m	Other NZ$m	Total NZ$m
Cash and cash equivalents		5,648	3,646	1,685	230	679	**11,888**
Trade and other receivables	14	4,642	525	22	52	321	**5,562**
Long-term deposits	15	3,646	60	9	30	99	**3,844**
Derivatives in gain	15	28,926	(14,959)	(1,918)	(4,924)	(2,961)	**4,164**
Marketable securities	15	11,072	15,656	1,364	4,253	5,962	**38,307**
IMF financial assets	15	-	-	-	-	2,142	**2,142**
Share investments	16	3,876	4,746	1,474	3,880	6,620	**20,596**
Student loans	17	8,716	-	-	-	-	**8,716**
Kiwibank mortgages	17	14,630	-	-	-	-	**14,630**
Other advances	17	779	104	-	460	67	**1,410**
Total financial assets		**81,935**	**9,778**	**2,636**	**3,981**	**12,929**	**111,259**
Issued currency		4,964	-	-	-	-	**4,964**
Accounts payable	23	6,702	447	17	12	448	**7,626**
Borrowings:	24						
Government bonds		60,337	-	-	-	-	**60,337**
Treasury bills		3,147	-	-	-	-	**3,147**
Government retail stock		183	-	-	-	-	**183**
Settlement deposits with Reserve Bank		7,758	-	-	-	-	**7,758**
Derivatives in loss		(240)	(3,327)	1,469	989	3,354	**2,245**
Finance lease liabilities		570	714	217	-	-	**1,501**
Other borrowings		20,878	4,392	-	-	2,978	**28,248**
Total financial liabilities		**104,299**	**2,226**	**1,703**	**1,001**	**6,780**	**116,009**
Net financial currency holdings		**(22,364)**	**7,552**	**933**	**2,980**	**6,149**	**(4,750)**

Note 33: Financial Instruments (continued)

(c) Market risk management (continued)

Foreign currency risk management

As at 30 June 2013	Note	NZD NZ$m	USD NZ$m	Yen NZ$m	Euro NZ$m	Other NZ$m	Total NZ$m
Cash and cash equivalents		6,233	3,173	3,092	1,544	882	14,924
Trade and other receivables	14	6,771	693	13	213	272	7,962
Long-term deposits	15	3,254	80	5	86	163	3,588
Derivatives in gain	15	16,065	(1,093)	(3,766)	(3,499)	(3,932)	3,775
Marketable securities	15	8,246	15,506	1,684	3,657	5,253	34,346
IMF financial assets	15	-	-	-	-	2,291	2,291
Share investments	16	4,574	4,450	1,021	1,860	5,454	17,359
Student loans	17	8,288	-	-	-	-	8,288
Kiwibank mortgages	17	13,202	-	-	-	-	13,202
Other advances	17	927	115	-	4	77	1,123
Total financial assets		67,560	22,924	2,049	3,865	10,460	106,858
Issued currency		4,691	-	-	-	-	4,691
Accounts payable	23	6,702	340	399	82	93	7,616
Borrowings:	24						
Government bonds		57,377	-	-	-	-	57,377
Treasury bills		4,084	-	-	-	-	4,084
Government retail stock		199	-	-	-	-	199
Settlement deposits with Reserve Bank		7,575	-	-	-	-	7,575
Derivatives in loss		(14,750)	11,790	1,514	2,048	2,586	3,188
Finance lease liabilities		567	679	207	-	1	1,454
Other borrowings		19,771	3,714	-	-	2,725	26,210
Total financial liabilities		86,216	16,523	2,120	2,130	5,405	112,394
Net financial currency holdings		(18,656)	6,401	(71)	1,735	5,055	(5,536)

Foreign currency sensitivity analysis

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

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

Change in New Zealand exchange rate	Impact on operating balance		Impact on net worth	
	2014 $m	2013 $m	2014 $m	2013 $m
Strengthen by 10%	**(1,332)**	(1,029)	**(1,311)**	(995)
Weaken by 10%	**1,453**	1,160	**1,441**	1,140

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

Note 33: Financial Instruments (continued)

(c) Market risk (continued)

Equity market risk management

The Government is exposed to share price risks arising from its holding of share investments.

Equity market sensitivity analysis

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

The sensitivity analysis below has been determined based on the exposure of the NZS Fund and ACC to share price risks at the reporting date. These portfolios combined make up 97% of the Government's total share investments (2013: 97%).

Change in share prices	**Impact on operating balance**		**Impact on net worth**	
	2014 $m	**2013 $m**	**2014 $m**	**2013 $m**
Strengthen/weaken by 10%	**1,996**	1,681	**1,996**	1,681

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 33: Financial Instruments (continued)

(d) Credit risk management

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

Of the financial assets held by the Government at 30 June 2014, the fair value of collateral held that could be sold or repurchased was $19,233 million (2013: $15,315 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 its contractual obligations.

Concentrations of credit exposure classified by credit rating, geography and industry of the counterparty are provided in the following tables. The credit exposure of financial assets that are neither past due nor impaired is not materially different to the total credit exposure of the Government.

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

As at 30 June 2014	Note	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**	**Total $m**
Cash and cash equivalents		122	10,689	994	27	56	**11,888**
Trade and other receivables	14	-	573	838	-	4,151	**5,562**
Long-term deposits	15	6	2,749	1,074	-	15	**3,844**
Derivatives in gain	15	-	2,068	1,889	59	148	**4,164**
Marketable securities	15	13,108	17,016	1,878	1,474	4,831	**38,307**
IMF financial assets	15	-	-	-	2,142	-	**2,142**
Share investments	16	191	1,286	2,687	10,947	5,485	**20,596**
Student loans	17	-	-	-	-	8,716	**8,716**
Kiwibank mortgages[24]	17	-	-	-	-	14,630	**14,630**
Other advances	17	-	390	176	36	808	**1,410**
Total credit exposure by credit rating		**13,427**	**34,771**	**9,536**	**14,685**	**38,840**	**111,259**

As at 30 June 2013	Note	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**	**Total $m**
Cash and cash equivalents		1,449	10,929	2,434	59	53	14,924
Trade and other receivables	14	-	1,282	1,790	17	4,873	7,962
Long-term deposits	15	-	2,773	806	9	-	3,588
Derivatives in gain	15	-	1,945	1,639	1	190	3,775
Marketable securities	15	9,487	17,112	663	1,418	5,666	34,346
IMF financial assets	15	-	-	-	2,291	-	2,291
Share investments	16	100	539	1,466	10,671	4,583	17,359
Student loans	17	-	-	-	-	8,288	8,288
Kiwibank mortgages[24]	17	-	-	-	-	13,202	13,202
Other advances	17	-	320	134	12	657	1,123
Total credit exposure by credit rating		11,036	34,900	8,932	14,478	37,512	106,858

24 Kiwibank mortgages consist mainly of residential lending. Therefore these financial assets have been classified as non-rated for the purposes of credit risk.

Note 33: Financial Instruments (continued)

(d) Credit risk management (continued)

Concentration of credit exposure by geographical area:

As at 30 June 2014	Note	USA $m	Europe $m	Japan $m	Australia $m	New Zealand $m	Other $m	Total $m
Cash and cash equivalents		3,465	175	1,677	121	6,017	433	**11,888**
Trade and other receivables	14	403	441	18	138	3,762	800	**5,562**
Long-term deposits	15	75	57	25	11	3,667	9	**3,844**
Derivatives in gain	15	718	1,097	15	400	1,778	156	**4,164**
Marketable securities	15	6,931	12,185	1,365	3,261	9,275	5,290	**38,307**
IMF financial assets	15	-	-	-	-	-	2,142	**2,142**
Share investments	16	5,762	4,213	1,205	2,579	4,548	2,289	**20,596**
Student loans[25]	17	-	-	-	-	8,716	-	**8,716**
Kiwibank mortgages	17	-	-	-	-	14,630	-	**14,630**
Other advances	17	-	379	-	70	951	10	**1,410**
Total credit exposure by geography		**17,354**	**18,547**	**4,305**	**6,580**	**53,344**	**11,129**	**111,259**

As at 30 June 2013	Note	USA $m	Europe $m	Japan $m	Australia $m	New Zealand $m	Other $m	Total $m
Cash and cash equivalents		3,126	2,064	3,092	116	6,409	117	14,924
Trade and other receivables	14	1,151	1,253	9	302	3,977	1,270	7,962
Long-term deposits	15	101	45	5	69	3,324	44	3,588
Derivatives in gain	15	615	854	14	170	2,012	110	3,775
Marketable securities	15	7,595	9,115	1,683	2,398	7,772	5,783	34,346
IMF financial assets	15	-	-	-	-	-	2,291	2,291
Share investments	16	4,296	3,434	1,021	2,134	4,523	1,951	17,359
Student loans[25]	17	-	-	-	-	8,288	-	8,288
Kiwibank mortgages	17	-	-	-	-	13,202	-	13,202
Other advances	17	-	119	-	76	915	13	1,123
Total credit exposure by geography		16,884	16,884	5,824	5,265	50,422	11,579	106,858

25 At 30 June 2014, 15.2% (2013: 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.

Note 33: Financial Instruments (continued)

(d) Credit risk management (continued)

Concentration of credit exposure by industry:

As at 30 June 2014	Note	Sovereign issuers $m	Supra-national $m	NZ banking sector $m	Foreign banking sector $m	Individuals $m	Other $m	Total $m
Cash and cash equivalents		4,769	2	5,931	1,096	1	89	**11,888**
Trade and other receivables	14	-	-	-	-	-	5,562	**5,562**
Long-term deposits	15	6	-	3,582	253	-	3	**3,844**
Derivatives in gain	15	-	-	1,663	2,293	-	208	**4,164**
Marketable securities	15	12,689	2,214	3,286	7,365	-	12,753	**38,307**
IMF financial assets	15	-	2,142	-	-	-	-	**2,142**
Share investments	16	-	6	79	2,075	104	18,332	**20,596**
Student loans	17	-	-	-	-	8,716	-	**8,716**
Kiwibank mortgages[26]	17	-	-	-	-	14,630	-	**14,630**
Other advances	17	-	-	63	171	680	496	**1,410**
Total credit exposure by industry		**17,464**	**4,364**	**14,604**	**13,253**	**24,131**	**37,443**	**111,259**

As at 30 June 2013	Note	Sovereign issuers $m	Supra-national $m	NZ banking sector $m	Foreign banking sector $m	Individuals $m	Other $m	Total $m
Cash and cash equivalents		7,641	3	6,388	840	1	51	14,924
Trade and other receivables	14	-	-	-	-	-	7,962	7,962
Long-term deposits	15	2	-	3,320	263	-	3	3,588
Derivatives in gain	15	-	-	1,621	1,724	-	430	3,775
Marketable securities	15	12,534	3,718	2,993	4,235	-	10,866	34,346
IMF financial assets	15	-	2,291	-	-	-	-	2,291
Share investments	16	-	6	55	1,013	151	16,134	17,359
Student loans	17	-	-	-	-	8,288	-	8,288
Kiwibank mortgages[26]	17	-	-	-	-	13,202	-	13,202
Other advances	17	-	-	149	133	199	642	1,123
Total credit exposure by industry		20,177	6,018	14,526	8,208	21,841	36,088	106,858

In addition to the above financial assets, the Crown has entered into various financial guarantees and indemnities totalling $222 million (2013: $225 million) which expose the Crown to credit risk. These guarantees are classified as contingent liabilities and are set out in note 32. The amount included is the maximum credit exposure the Crown is exposed to should the guarantee be called upon.

26 Kiwibank mortgages consist mainly of residential lending. Therefore these financial assets have been classified as individuals for the purposes of credit risk.

Note 33: Financial Instruments (continued)

(e) Liquidity risk management

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

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

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

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

As at 30 June 2014	Note	Carrying value $m	Contractual Cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Issued currency		4,964	4,964	4,964	-	-	-	-
Accounts payable	23	7,626	7,640	6,902	238	408	42	50
Borrowings:	24							
Government bonds		60,337	76,714	7,713	4,213	29,908	25,437	9,443
Treasury bills		3,147	3,175	3,175	-	-	-	-
Government retail stock		183	187	124	45	18	-	-
Settlement deposits with Reserve Bank		7,758	7,758	7,758	-	-	-	-
Finance lease liabilities		1,501	1,756	217	236	569	646	88
Other borrowings		28,248	30,311	19,576	3,726	2,677	3,337	995
Total non-derivative liabilities		**113,764**	**132,505**	**50,429**	**8,458**	**33,580**	**29,462**	**10,576**
Derivatives in loss settled net			3,138	723	394	469	769	783
Derivatives settled gross								
- inflow			45,139	33,208	3,449	5,672	2,042	768
- outflow			41,842	32,091	2,618	4,911	1,505	717
Other cashflows								
Loan commitments			2,281	2,281	-	-	-	-

Note 33: Financial Instruments (continued)

(e) Liquidity risk management (continued)

As at 30 June 2013	Note	Carrying value $m	Contractual cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Issued currency		4,691	4,691	4,691	-	-	-	-
Accounts payable	23	7,616	7,649	7,429	67	54	45	54
Borrowings:	24							
Government bonds		57,377	76,073	3,271	13,648	20,288	38,270	596
Treasury bills		4,084	4,121	4,121	-	-	-	-
Government retail stock		199	203	135	27	41	-	-
Settlement deposits with Reserve Bank		7,575	7,575	7,575	-	-	-	-
Finance lease liabilities		1,454	1,611	193	208	566	643	1
Other borrowings		26,210	25,206	16,267	3,070	2,169	3,553	147
Total non-derivative liabilities		109,206	127,129	43,682	17,020	23,118	42,511	798
Derivatives in loss settled net			2,457	984	463	490	519	1
Derivatives settled gross								
- inflow			55,430	41,758	4,197	6,995	1,656	824
- outflow			53,207	41,177	3,710	6,217	1,510	593
Other cashflows								
Loan commitments			1,490	1,490	-	-	-	-

In addition to the above financial liabilities, the Crown has entered into various financial guarantees and indemnities totalling $222 million (2013: $225 million) which expose the Crown to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 32. 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 2014 was $771 million (2013: $1,448 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

Note 34: Related Parties

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

Related parties of the Government include:

- Ministers of the Crown, who are key management personnel because they have authority and responsibility for planning, directing and controlling the activities of the Government, directly or indirectly
- Ministers' spouses, children and dependants who are close family members of key management personnel, and
- private-sector entities owned or jointly controlled by Ministers, their spouses, children and dependants.

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

Other transactions with these related parties can include the employment of Ministers' spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and State-owned enterprises, receipt of grants from, or the purchase or sale of goods and services to, a Government entity by Ministers, their spouses, children and dependants, or private-sector entities they own or jointly control. These transactions have not been separately disclosed in this note, unless they have taken place within a Minister's portfolio.

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

Note 35: Government Share Offer Programme

Meridian Energy Limited

On 23 October 2013 the price and allocations in relation to Meridian Energy Limited (Meridian) instalment receipts that were sold were confirmed (settled on 30 October for the NZX portion and 31 October for the ASX portion). The Government sold instalment receipts representing 48.98% of its shares in Meridian and will receive gross cash proceeds of $1.883 billion once the final instalment is paid. The Crown has received $1.255 billion cash proceeds from the first instalment with the final instalment of $627.5 million payable on 15 May 2015.

The table below outlines the net assets of Meridian and the summary core Crown results of the partial share sale:

Meridian	At date of share issue $m
Property, plant and equipment	6,790
Financial assets	519
Other assets	130
Borrowings	(1,297)
Other liabilities	(1,546)
Net Assets	4,596
Carrying amount of minority interests (48.98%)	**2,251**
Gross proceeds	1,883
Present value discounting for the deferral of final instalment[27]	(34)
Estimated direct costs[28]	(22)
Net proceeds	1,827
Estimated loss on disposal to minority interests	424
Carrying amount of minority interests (48.98%)	**2,251**

27 The present value discount represents the difference between the present value of the receivable in today's dollars of $593.5 million and the nominal value of $627.5 million to be received in May 2015.

28 Direct costs are the costs that were deducted from the share sale proceeds received by the Crown.

Note 35: Government Share Offer Programme (continued)

Genesis Energy Limited

On 16 April 2014 the allocations of Genesis Energy Limited (Genesis) shares that were sold were confirmed. The Government sold 47.61% of its shares in Genesis (with a further 1.39% of shares held back for transfer to eligible investors as loyalty bonus shares in 12 months) and received gross cash proceeds of $738 million.

The table below outlines the net assets of Genesis and the summary core Crown results of the partial share sale:

Genesis	At date of share issue $m
Property, plant and equipment	3,117
Financial assets	261
Other assets	281
Borrowings	(1,034)
Other liabilities	(776)
Net assets	1,849
Carrying amount of minority interests (47.61%)	**880**
Calculation of minority interest	
Gross proceeds	738
Estimated direct costs[29]	(11)
Net proceeds	727
Loyalty bonus shares[30]	(22)
Estimated loss on disposal to minority interests	175
Carrying amount of minority interests (47.61%)	**880**

Air New Zealand Limited

In addition to the Initial Public Offerings of Meridian Energy and Genesis Energy the Government reduced its shareholding in Air New Zealand (completed on 25 November 2013). The Government sold around 221 million of the shares (20.05%) it owned in Air New Zealand at a sale price of $1.65. The sale raised approximately $365 million in gross proceeds for the Government and resulted in an estimated loss on disposal of $4 million. The Government has 54.96% shareholdings in Air New Zealand after the sale.

Impact of the sales on fiscal indicators

Overall, the estimated impact of the partial sales (of Meridian, Genesis and Air New Zealand) for this financial year on the Government's key fiscal indicators as at 30 June 2014 was as follows:

Indicator	Excluding proceeds from sales $m	Impact of sales $m	Including proceeds from sales $m
Core Crown residual cash	(6,434)	2,325	(4,109)
Net debt	62,256	(2,325)	59,931

[29] Direct costs are the costs that were deducted from the share sale proceeds received by the Crown.

[30] This is an estimate of the maximum cost of the loyalty bonus shares. While the bonus share will be transferred to eligible investors one year from now, the expected costs are recognised upfront. There is no cash impact in issuing the loyalty bonus shares so there is no residual cash or net debt impact.

Note 35: Government Share Offer Programme (continued)

Total Crown Investment

In addition to the core Crown's direct investment in these entities a number of Crown Financial Institutions (CFIs) have also invested in the companies as part of their normal investment activities. These investments have the effect of increasing total Crown investment and therefore reducing the overall minority interest. While the core Crown cashflow is $2,325 million, after removing the CFIs investments total Crown cashflow is $2,186 million.

Company	% minority interest before CFI investment	% minority interest after CFI investment
Air New Zealand	47.20%	45.04%
Genesis Energy	47.61%	45.03%
Meridian Energy	48.98%	46.62%

Note 36: Subsequent Events

The following significant policy decisions and events occurred after 30 June 2014 and prior to the financial statements being signed. No adjustments have been made to these financial statements. The nature and estimated financial commitment (where known) is noted below.

Solid Energy

Subsequent to reporting date, the Solid Energy Group has signed a Deed of Indemnity and Bond Facility with the Crown. The Deed of Indemnity creates an asset for Solid Energy and a liability for the Crown, recognised on signing, of $103 million. Under this Deed the Crown will reimburse the costs of the rehabilitation expenses of Solid Energy, Pike River (2012) Ltd and Spring Creek Mining Company to the extent of $103 million in present value terms. This transaction strengthens Solid Energy's equity position, but does not directly impact on the consolidated financial statements of the Government as the transaction is between Government Reporting Entities.

New Zealand Transport Agency

On 29 July 2014 the New Zealand Transport Agency (the Agency) signed the Transmission Gully Public Private Partnership contract where the Wellington Gateway Partnership will design, construct, finance, operate and maintain the new Transmission Gully highway for the 25 years that follow the expected five-year construction. Transmission Gully should be open for traffic by 2020. Total financial commitments for the Agency in relation to this contract are $3.8 billion over 25 years.

Ministry for Primary Industries

In September 2014 the Ministry for Primary Industries (MPI) was advised that Kiwifruit growers would be commencing legal action alleging that MPI's negligence resulted in the outbreak of the kiwifruit vine disease, Psa-V, in New Zealand. The Kiwifruit growers have advised they will be seeking $885 million in damages. MPI has not received the particulars of the claim yet, this is expected to be at the end of October, but it will be defending the claim and believes it has acted appropriately.

Statement of Unappropriated Expenditure

for the year ended 30 June 2014

An appropriation is a statutory authorisation by Parliament for the incurring of expenses or capital expenditure. This statement reports all expenses and capital expenditure that were incurred without, in excess, or outside the scope, of existing appropriations. This statement also reports breaches of projected net asset balance limits set by section 22(3) of the Public Finance Act 1989 ("the Act").

The table below details the different categories of unappropriated expenditure for the year ended 30 June 2014.

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) In excess of appropriation but with authority of an Imprest Supply Act	Where the unappropriated items exceed the limits available for approval under Section 26B, they fall into one of five categories of unappropriated expenditure. All such instances are unlawful unless validated by Parliament through an Appropriation Act (Section 26C of the Act). The validating legislation will be accompanied by a report to the House of Representatives that sets out each unappropriated item together with an explanation made by the Minister responsible for the appropriation.
(C) Without appropriation but with authority of an Imprest Supply Act	
(D) In excess of appropriation and without authority of an Imprest Supply Act	
(E) Outside scope of an appropriation and without authority of an Imprest Supply Act	
(F) Without appropriation and without authority of an Imprest Supply Act	

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

(A) Expenses and capital expenditure incurred in excess of existing appropriation and approved by the Minister of Finance under Section 26B of the Public Finance Act 1989

Ministry of Education			
Education	*Non-Departmental Output Expense* School Transport	176,383	297
	Non-Departmental Other Expense Early Childhood Education	1,515,337	21,482

(B) Expenses and capital expenditure incurred in excess of appropriation but with authority of an Imprest Supply Act

None this year

Statement of Unappropriated Expenditure (continued)

Department Vote	Nature of expense or capital expenditure	Amount without appropriation $000
(C) Expenses and capital expenditure incurred without appropriation but with authority of an Imprest Supply Act		
Canterbury Earthquake Recovery Authority		
Canterbury Earthquake Recovery	Reimbursement of interest costs incurred by the Christchurch City Council for interest costs	9,095

Department Vote	*Expense type* Appropriation name	Authority at time of breach $000	Amount without or exceeding appropriation $000
(D) Expenses and capital expenditure incurred in excess of appropriation and without authority of an Imprest Supply Act			
Department of Internal Affairs			
Internal Affairs	*Non-Departmental Other Expenses*		
	Digital Literacy and Connection	2,123	1,600
Ministry for Culture and Heritage			
Arts, Culture and Heritage	*Non-Department Output Expense*		
	Protection of Taonga Tūturu	279	126
Ministry of Business, Innovation and Employment			
Labour	*Departmental Output Expense*		
	Health and Safety Services	38,568	2,982
Economic Development	*Non-Departmental Capital Expenditure*		
	Venture Investment Fund	10,519	4,481
Ministry of Pacific Island Affairs			
Pacific Island Affairs	*Departmental Output Expense* Policy Advice and Ministerial Servicing MCOA	6,452	175
Ministry for Primary Industries			
Food Safety	*Departmental Output Expense*		
	Standards	18,309	123
	Assurance	56,148	1,384
The Treasury			
Finance	*Non-Departmental Other Expense*		
	Impairment of Loans to Taitokerau Forest Limited	200	61

Statement of Unappropriated Expenditure (continued)

Department Vote	*Expense type* Appropriation name	Amount without or exceeding appropriation $000
(E) Expenses and capital expenditure outside of scope of an existing appropriation and without authority of an Imprest Supply Act		
Crown Law		
Attorney General	*Departmental Output Expense*	
	Supervision and Conduct of Crown Prosecutions and Appeals MCOA	
	1 July 2012 – 30 June 2013	225
	1 July 2013 – 30 June 2014	747
Ministry of Business, Innovation and Employment		
Employment	*Departmental Output Expense*	
	Policy Advice and Related Outputs MCOA	
	1 July 2012 – 30 June 2013	230
	1 July 2013 – 30 June 2014	656
Ministry of Maori Development		
Maori Affairs	*Non-Departmental Other Expense*	
	Orakei Act 1991	
	1 July 2012 – 30 June 2013	7
	1 July 2013 – 30 June 2014	7

Statement of Unappropriated Expenditure (continued)

Department Vote	Nature of expense or capital expenditure	Amount without appropriation $000
(F) Expenses and capital expenditure incurred without appropriation and without authority of an Imprest Supply Act		
Canterbury Earthquake Recovery Authority		
Canterbury Earthquake Recovery	Movement in provision for anchor project land and concessionary leases	35,454
	Loss on valuation of land	62,463
	Transaction and demolition costs of anchor project land	24,956
	Movement in demolition debtor provision	4,003
	Christchurch bus interchange	3,093
	Loss on valuation of land held for sale	606
Inland Revenue Department		
Revenue	Paid Parental Leave Payments	67,689
Ministry of Business, Innovation and Employment		
Commerce	Write down of debts owed to the Crown	1,994

Net Assets

Section 22 of the Public Finance Act 1989 requires that the net asset holding of a department must not exceed the most recent projected balance of net assets for that department as set out in an Appropriation Act, except where Ministers agree a surplus may be retained or where assets or liabilities have been remeasured. The following schedule discloses those departments that have breached this requirement during the year.

Department	Net asset authority at time of breach $000	Amount in excess of net asset balance $000
Excess departmental net asset holding, without authority of an Imprest Supply Act		
New Zealand Customs Service	136,780	38
New Zealand Defence Force	5,279,585	259,252

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2014

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 2014

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

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

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

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

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

Amounts in this statement are expressed in thousands of dollars.

Statement of Trust Money (continued)

for the year ended 30 June 2014

Department Trust Account	**As at 30 June 2013 $000**	Contributions $000	Distributions $000	Revenue $000	Expenses $000	**As at 30 June 2014 $000**
Department of Conservation						
Bonds/Deposits Trust	7,743	147	(327)	216	-	7,779
Conservation Project Trust	1,112	718	(534)	19	-	1,315
National Parks Trust	90	60	(30)	1	-	121
Walkways Trust	10	1	-	-	-	11
Wildlife and Reserves Trusts [31]	-	-	-	-	-	-
Department of Corrections						
Prisons Trust	1,756	15,646	(15,048)	-	-	2,354
Crown Law Office						
Legal Claims Trust	206	848	(772)	2	-	284
Ministry of Business, Innovation and Employment						
Certifiers Bond Trust	81	-	(81)	-	-	-
Licensed Building Practitioners Trust	20	242	(230)	-	(4)	28
Residential Tenancies Bond Trust	390,715	195,935	(165,900)	20,132	(20,132)	420,750
Residential Tenancies Bond Trust No. [31]	4	-	-	-	-	4
Weathertight Services Financial Assistance Trust	-	3,764	(3,764)	-	-	-
Employment Relations Service Trust	-	-	-	-	-	-
Employment Relations Act Security of Costs Trust	-	-	-	-	-	-
New Zealand Immigration Service Trust	1,692	566	(740)	27	(2)	1,543
Coal and Minerals Deposits Trust	107	-	(40)	10	-	77
Criminal Assets Management and Enforcement Regulators Association Trust	12	3	-	-	-	15
Official Assignee's Office Trust	17,558	69,644	(53,662)	750	(10,514)	23,776
Patent Co-operation Treaty Fees Trust	99	1,137	(1,142)	5	-	99
Petroleum Deposits Trust	91	1	(11)	-	-	81
Proceeds of Crime Trust	32,382	47,255	(25,850)	1,054	(6,737)	48,104
Radio Frequencies Tender Trust	226	-	-	-	-	226
Ministry of Culture and Heritage						
New Zealand Oral History Awards Trust	1,176	-	(151)	44	-	1,069
Dictionary of New Zealand Biography Trust	14	-	-	-	-	14
New Zealand Historical Atlas Trust	137	-	-	5	-	142
New Zealand History Research Trust	1,527	-	(80)	65	-	1,512
War History Trust	1,054	-	-	24	(604)	474
New Zealand Customs Services						
Alcohol Liquor Advisory Council Trust	765	14,467	(13,917)	-	-	1,315
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	5,913	41,527	(37,823)	-	-	9,617
Heavy Engineering Research Association Trust	73	1,505	(1,415)	-	-	163
Maritime Safety Authority Trust [31]	-	-	-	-	-	-
New Zealand Customs Service Multiple Deposit Scheme Release Trust	74	38,014	(37,976)	-	-	112
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	16	41,573	(41,577)	-	-	12

Statement of Trust Money (continued)

for the year ended 30 June 2014

Department Trust Account	As at 30 June 2013 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2014 $000
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	2,314	3,717	(2,756)	193	(42)	3,426
Conferences Trust	2	-	-	-	-	2
Ministry of Foreign Affairs and Trade						
Cook Island Trust	220	2,069	(2,070)	12	-	231
Fred Hollows Foundation New Zealand - Pacific Regional Blindness Prevention Programme Trust	9	798	-	1	-	808
Government Administration Building, Niue Trust	284	-	-	4	-	288
Niue Primary School Infrastructure Project Trust	5,314	-	-	84	-	5,398
Kiribati Sustainable Towns Programme Trust	5	-	(5)	-	-	-
New Zealand/France Friendship Trust	12	180	(164)	-	(12)	16
Afghanistan New Zealand Aid Programme Trust	684	2,642	(2,730)	13	-	609
Tuvalu Ship to Shore Transport Project Trust	-	1,514	-	-	-	1,514
Ministry of Health						
Health Benefits Offices Trust	883	6,768,710	(6,768,705)	-	(13)	875
Medicines Review Objectors Deposit Trust [31]	-	-	-	-	-	-
Inland Revenue Department						
Child Support Agency Trust	22,000	235,378	(239,984)	-	-	17,394
KiwiSaver Employer Trust [31]	-	-	-	-	-	-
KiwiSaver Returned Transactions Trust	273	(229)	-	-	-	44
Reciprocal Child Support Agreement Trust	337	11,802	(11,743)	-	-	396
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust	54,944	1,867	(47,845)	1,991	(1,842)	9,115
Interloan Billing System Trust	58	-	-	404	(422)	40
Macklin Bequest Fund Trust	290	13	-	11	(28)	286
New Zealand 1990 Scholarship Trust	743	-	-	20	-	763
Vogel House Trust [31]	-	-	-	-	-	-
Ministry of Justice						
Courts Law Trust	10,558	18,321	(14,393)	-	-	14,486
Election Candidates Deposit Trust [31]	-	-	-	-	-	-
Employment Court Trust	176	822	(303)	-	-	695
Fines Trust	33,552	347,672	(340,634)	-	-	40,590
Foreign Currency Euro Fund Trust [31]	-	-	-	-	-	-
Foreign Currency United States Dollar Trust	-	-	-	-	-	-
Legal Complaints Review Officer Trust	335	2	(331)	-	-	6
Maori Land Court Trust	61	3	(4)	-	-	60
Supreme Court Trust	62	81	(42)	-	-	101
Victims' Claims Trust	43	-	(43)	-	-	-

Statement of Trust Money (continued)

for the year ended 30 June 2014

Department Trust Account	**As at 30 June 2013 $000**	Contributions $000	Distributions $000	Revenue $000	Expenses $000	**As at 30 June 2014 $000**
Land Information New Zealand						
Crown Forestry Licences Trust	453	9,495	(9,840)	-	-	108
Deposits Trust	-	-	-	-	-	-
Endowment Rentals Trust	1	138	(138)	-	-	1
Hunter Gift for the Settlement of Discharged Soldiers Trust	55	-	-	-	-	55
New Zealand Police						
Bequests, Donations and Appeals Trust	70	1	(1)	-	-	70
Found Money Trust	95	200	(158)	-	-	137
Money in Custody Trust	10,896	5,375	(4,732)	-	-	11,539
Reparation Trust	11	1	(4)	-	-	8
Rewards Monies Trust [31]	-	-	-	-	-	-
Ministry for Primary Industries						
MAF Overfishing Account Trust	2,858	6,561	(6,463)	79	-	3,035
MAF Fish Forfeit Property Trust	1,233	641	-	39	-	1,913
Meat Board Levies Trust	56	64,027	(64,084)	1	-	-
Seized Timber Trust	1	-	-	-	-	1
National Animal Identification Tracing Trust	223	4,091	(4,030)	-	-	284
Ministry of Social Development						
Australian Recovery Debt Trust	3	13	(14)	-	-	2
Australian Dollar Embargoed Arrears Trust	379	5,943	(5,296)	-	-	1,026
Maintenance Trust	54	533	(338)	2	-	251
Netherlands Recovery Debt Trust	1	108	(105)	-	-	4
Overseas Debt Recovery Trust [31]	-	-	-	-	-	-
WR Wallace Trust	410	-	(57)	52	-	405
Ministry of Transport						
Rena Settlement Proceeds Trust	27,954	-	(28,206)	252	-	-
Treasury						
Trustee Act 1956 Trust	2,961	1,920	(106)	90	(85)	4,780
Mighty River Share Offer Trust	1,025	44	(1,065)	-	-	4
Meridian Share Offer Trust [32]	-	850,435	(850,369)	-	-	66
Genesis Share Offer Trust [32]	-	1,039,603	(1,039,436)	-	-	167
Total	**646,551**	**9,857,544**	**(9,847,264)**	**25,602**	**(40,437)**	**641,996**

31 Inoperative trust account.

32 New trust account.

ADDITIONAL FINANCIAL INFORMATION

Fiscal Indicator Analysis

for the year ended 30 June 2014

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 28 to 167) and the fiscal indicators used to measure the Government's performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

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

Core Crown Residual Cash

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

Debt

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

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

Net debt is debt after deducting financial assets of the core Crown from gross debt. Net debt provides information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country. However, as some financial assets are held for public policy rather than treasury management purposes (eg, student loans), they are excluded from the calculation of net debt.

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Core Crown Cash Flows from Operations		
62,056	61,892	Tax receipts	61,321	57,808
644	732	Other sovereign receipts	747	651
1,660	1,546	Interest, profits and dividends	1,627	1,553
2,641	2,917	Sale of goods & services and other receipts	2,397	2,385
(23,877)	(23,800)	Transfer payments and subsidies	(23,447)	(22,780)
(42,800)	(42,417)	Personnel and operating costs	(41,989)	(40,412)
(3,680)	(3,664)	Finance costs	(3,642)	(3,729)
(461)	(77)	Forecast for future new operating spending	-	-
600	660	Top-down expense adjustment	-	-
(3,217)	**(2,211)**	**Net core Crown operating cash flows**	**(2,986)**	**(4,524)**
(2,560)	(2,370)	Net purchase of physical assets	(1,867)	(1,231)
(990)	(877)	Net increase in advances	(716)	(342)
(1,166)	(1,153)	Net purchase of investments	(865)	(1,308)
1,500	2,315	Government share offer programme	2,325	1,663
(503)	(13)	Forecast for future new capital spending	-	-
50	395	Top-down capital adjustment	-	-
(3,669)	**(1,703)**	**Net Core Crown capital cash flows**	**(1,123)**	**(1,218)**
(6,886)	**(3,914)**	**Residual cash deficit**	**(4,109)**	**(5,742)**
		The residual cash deficit is funded as follows:		
		Debt programme cash flows		
		Market:		
10,245	7,769	Issue of government bonds	7,716	15,458
-	(2,046)	Repayment of government bonds	(2,196)	(9,982)
90	(795)	Net issue/(repayment) of short-term borrowing[33]	(935)	(5,404)
10,335	4,928	Total market debt cash flows	4,585	72
		Non market:		
-	-	Issue of government bonds	-	-
(757)	-	Repayment of government bonds	-	(499)
(219)	-	Net issue/(repayment) of short-term borrowing	-	100
(976)	-	Total non-market debt cash flows	-	(399)
9,359	**4,928**	**Total debt programme cash flows**	**4,585**	**(327)**
		Other borrowing cash flows		
724	(440)	Net (repayment)/issue of other New Zealand dollar borrowing	(674)	4,494
(512)	(118)	Net (repayment)/issue of foreign currency borrowing	1,083	(3,047)
212	**(558)**	**Total other borrowing cash flows**	**409**	**1,447**
		Investing cash flows		
(2,826)	(2,644)	Other net sale/(purchase) of marketable securities and deposits	(1,510)	5,699
141	382	Issues of circulating currency	274	234
-	1,806	Decrease/(increase) in cash	351	(1,311)
(2,685)	**(456)**	**Total investing cash flows**	**(885)**	**4,622**
6,886	**3,914**	**Residual cash deficit funding**	**4,109**	**5,742**

33 Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper.

Fiscal Indicator Analysis – Debt

as at 30 June 2014

Forecast Budget 2013 $m	Forecast Budget 2014 $m		Actual 30 June 2014 $m	Actual 30 June 2013 $m
		Gross and net debt analysis:		
112,201	**103,058**	Total borrowings	**103,419**	**100,087**
		Net debt:		
94,504	88,442	Core Crown borrowings[34]	89,090	84,873
(1,027)	(640)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(622)	(587)
93,477	**87,802**	**Gross sovereign-issued debt[35]**	**88,468**	**84,286**
65,786	66,764	Less core Crown financial assets[36]	68,047	62,984
27,691	**21,038**	**Net core Crown debt (including NZS Fund)[37]**	**20,421**	**21,302**
22,700	24,598	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[38]	25,757	21,407
50,391	**45,636**	**Net core Crown debt (excluding NZS Fund)[37]**	**46,178**	**42,709**
14,374	13,785	Advances	13,753	13,126
64,765	**59,421**	**Net core Crown debt (excluding NZS Fund and advances)[39]**	**59,931**	**55,835**
28.4%	*25.8%*	*As a percentage of GDP*	*26.2%*	*26.3%*
		Gross debt:		
93,477	87,802	Gross sovereign-issued debt[35]	88,468	84,286
(7,391)	(7,245)	Less Reserve Bank settlement cash and bank bills	(8,112)	(7,902)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash[40]	1,600	1,600
87,686	**82,157**	**Gross sovereign-issued debt excluding settlement cash and bank bills**	**81,956**	**77,984**
38.5%	*35.6%*	*As a percentage of GDP*	*35.8%*	*36.7%*

34 Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts payable in the statement of financial position).

35 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.

36 Core Crown financial assets exclude receivables.

37 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.

38 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.

39 Net core Crown Debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.

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

Information on State-owned Enterprises and Crown Entities

Accounting Policies

The Crown's financial interest in State-owned enterprises ("SOEs") and Crown entities ("CEs") is reported in accordance with the Crown's accounting policies. Adjustments have been made to restate the financial position and financial performance of certain entities, as reported in their own financial statements, to a basis consistent with the Crown's accounting policies.

With the exception of Tertiary Education Institutions ("TEIs") the Crown has line-by-line combined all SOEs and CEs.

The Crown has equity accounted 100% of the net assets of TEIs on the basis that, in the event of disestablishment of a TEI (which is subject to a resolution of the House of Parliament), 100% of the net assets revert to the Crown in the absence of a decision to transfer the assets to a new or existing institution and, in the meantime, the Crown enjoys the benefits of the provision of a higher education to the public of New Zealand (refer note 21).

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 Mighty River Power) a number of Crown Financial Institutions (CFIs) have invested in the company 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	47.58%	44.78%
Genesis Energy	47.61%	45.05%
Meridian Energy	48.96%	43.83%
Mighty River Power	47.36%	44.44%

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 2014:

SOEs	Balance date	Information reported to
AsureQuality Limited	30 September	30 June 2014
Crown entities		
New Zealand Symphony Orchestra	31 December	30 June 2014
School boards of trustees	31 December	31 December 2013
TEIs	31 December	30 June 2014

Annual Reports

The results presented in the following tables use Crown accounting policies and classifications. These may differ from those used by the company in their own reporting. As a consequence the results may differ from those published in individual annual reports and profit announcements.

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

	30 June 2014				30 June 2013			
	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions $m	Revenue (excl gains) $m	Expenses (excl losses) $m	Operating balance $m	Distri-butions $m
State-owned enterprises								
Airways Corporation of New Zealand Limited	181	169	12	3	183	161	22	2
AsureQuality Limited	173	162	13	10	160	151	10	8
Landcorp Farming Limited	246	232	55	5	195	190	(18)	20
Meteorological Service of New Zealand Limited	46	42	3	2	42	39	3	1
New Zealand Post Limited	2,176	2,073	107	14	2,212	2,171	121	14
KiwiRail Holdings Limited	836	1,005	(174)	-	912	971	(45)	-
Solid Energy New Zealand Limited	467	652	(182)	-	634	972	(334)	-
Transpower New Zealand Limited	1,004	799	216	197	917	693	264	363
Kordia Group Limited	303	312	(9)	4	309	306	4	2
Animal Control Products Limited	6	5	1	1	4	4	-	1
Learning Media Limited	1	4	(3)	-	19	19	(1)	-
Quotable Value New Zealand	41	38	5	8	43	44	1	6
New Zealand Railways Corporation	-	1	(1)	-	-	1	(1)	-
Total State-owned enterprises	**5,480**	**5,494**	**43**	**244**	**5,630**	**5,722**	**26**	**417**
Air New Zealand Limited	4,695	4,444	152	105	4,650	4,404	344	71
Genesis Energy Limited	1,961	1,948	50	121	2,007	1,993	100	57
Meridian Energy Limited	2,517	2,311	230	261	2,714	2,614	295	100
Mighty River Power Limited	1,258	1,085	213	173	1,372	1,345	115	112
Less minority interests	-	-	(173)	(166)	-	-	(75)	(20)
Total mixed ownership companies	**10,431**	**9,788**	**472**	**494**	**10,743**	**10,356**	**779**	**320**
Intra-segmental eliminations	(423)	(374)	(87)		(437)	(326)	(191)	
Total SOE segment	**15,488**	**14,908**	**428**	**738**	**15,936**	**15,752**	**614**	**737**
Crown Entities								
Accident Compensation Corporation	5,679	4,649	2,145	-	5,687	4,246	4,929	-
Crown Asset Management	9	4	21	67	27	10	77	-
Crown Fibre Holdings Limited	16	171	(154)	-	11	109	(98)	-
Crown Research Institutes	647	633	22	2	638	620	18	-
Callaghan Innovation	179	176	1	-	144	139	3	-
District Health Boards	12,793	12,796	(4)	-	12,725	12,457	267	-
Earthquake Commission	222	(67)	289	-	160	(35)	175	-
Housing New Zealand Corporation	1,146	1,000	182	90	1,125	974	178	77
Museum of New Zealand Te Papa	53	61	(8)	-	53	59	(6)	-
New Zealand Fire Service Commission	354	349	5	-	355	327	29	-
New Zealand Lotteries Commission	943	715	226	-	901	698	202	-
New Zealand Transport Agency	2,163	1,974	189	-	2,056	2,003	57	-
Public Trust	69	68	5	-	78	82	10	-
Schools	6,759	6,714	40	-	6,640	6,597	36	-
Southern Response Earthquake Services	(3)	111	(116)	-	61	20	52	-
Tertiary Education Commission	2,819	2,816	2	-	2,759	2,749	6	6
TEIs	-	-	242	-	-	-	169	-
Television New Zealand	353	336	15	-	361	342	14	11
Other Crown entities	1,911	1,902	18	4	1,692	1,689	24	4
Total Crown entities	**36,112**	**34,408**	**3,120**	**163**	**35,473**	**33,086**	**6,142**	**98**
Intra-segmental eliminations	(714)	(452)	(246)	-	(409)	(225)	(265)	-
Total Crown entities segment	**35,398**	**33,956**	**2,874**	**163**	**35,064**	**32,861**	**5,877**	**98**

The results presented in the table above use Crown accounting policies and classifications. These may differ from those used by the company in their own reporting. As a consequence the results may differ from those published in individual annual reports and profit announcements.

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

	30 June 2014 Purchase of PPE $m	Total PPE $m	Total assets $m	Borrow-ings $m	Total liabilities $m	Equity $m	30 June 2013 Equity $m
State-owned enterprises							
Airways Corporation of New Zealand Limited	34	130	162	37	85	77	68
AsureQuality Limited	6	29	80	14	40	40	38
Landcorp Farming Limited	49	1,277	1,748	285	320	1,428	1,318
Meteorological Service of New Zealand Limited	3	23	43	17	25	18	17
New Zealand Post Limited	23	157	17,557	16,133	16,512	1,045	943
KiwiRail Holdings Limited	331	1,416	1,628	235	446	1,182	1,207
Solid Energy New Zealand Limited	13	240	636	320	623	13	92
Transpower New Zealand Limited	445	4,644	5,696	3,781	4,240	1,456	1,438
Kordia Group Limited	15	84	206	66	126	80	93
Animal Control Products Limited	-	2	8	-	2	6	5
Learning Media Limited	-	-	-	-	-	-	3
Quotable Value New Zealand	-	1	24	3	10	14	18
New Zealand Railways Corporation	-	3,272	3,272	-	-	3,272	3,273
Total State-owned enterprises	**919**	**11,275**	**31,060**	**20,891**	**22,429**	**8,631**	**8,513**
Air New Zealand Limited	597	3,003	5,836	1,790	3,983	1,853	1,881
Genesis Energy Limited	68	3,101	3,629	1,025	1,749	1,880	1,949
Meridian Energy Limited	293	6,929	7,570	1,306	2,936	4,634	4,688
Mighty River Power Limited	81	5,095	5,688	1,273	2,469	3,219	3,182
Total mixed ownership companies	**1,039**	**18,128**	**22,723**	**5,394**	**11,137**	**11,586**	**11,700**
Intra-segmental eliminations	-	(862)	(1,301)	(100)	(136)	(1,165)	(1,067)
Total SOE segment	**1,958**	**28,541**	**52,482**	**26,185**	**33,430**	**19,052**	**19,146**
Crown Entities							
Accident Compensation Corporation	72	33	31,399	202	31,508	(109)	(2,254)
Crown Asset Management	4	-	48	-	4	44	117
Crown Fibre Holdings Limited	78	247	371	18	47	324	240
Crown Research Institutes	47	440	708	-	180	528	511
Callaghan Innovation	4	29	105	-	61	44	43
District Health Boards	334	5,455	7,017	2,352	4,510	2,507	2,765
Earthquake Commission	6	20	3,660	-	4,741	(1,081)	(1,417)
Housing New Zealand Corporation	286	18,678	19,593	1,932	4,031	15,562	13,327
Museum of New Zealand Te Papa	9	1,226	1,251	-	7	1,244	1,193
New Zealand Fire Service Commission	49	614	684	6	91	593	557
New Zealand Lotteries Commission	7	15	136	3	114	22	29
New Zealand Transport Agency	1,369	28,580	29,059	(14)	381	28,678	26,115
Public Trust	1	6	559	505	516	43	39
Schools	185	1,388	2,817	122	889	1,928	1,884
Southern Response Earthquake Services	1	1	1,323	-	1,434	(111)	5
Tertiary Education Commission	-	2	59	20	35	24	22
TEIs	-	-	8,508	-	-	8,508	8,060
Television New Zealand	8	84	251	-	53	198	186
Other Crown entities	94	250	1,936	663	1,128	808	693
Total Crown entities	**2,554**	**57,068**	**109,484**	**5,809**	**49,730**	**59,754**	**52,115**
Intra-segmental eliminations	(19)	(266)	(1,062)	(654)	(739)	(323)	(223)
Total Crown entities segment	**2,535**	**56,802**	**108,422**	**5,155**	**48,991**	**59,431**	**51,892**

The results presented in the table above use Crown accounting policies and classifications. These may differ from those used by the company in their own reporting. As a consequence the results may differ from those published in individual annual reports and profit announcements.

Government Reporting Entity as at 30 June 2014

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

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

Offices of Parliament

Controller and Auditor-General
The Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises segment

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
Kiwirail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Learning Media Limited (in liquidation)
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act schedule 5 companies)

Genesis Energy Limited
Meridian Energy Limited
Mighty River Power Limited

Others

Air New Zealand Limited

Crown entities segment

Accident Compensation Corporation
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Careers New Zealand
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Families Commission
Financial Markets Authority
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,409)
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary education institutions (29)
Testing Laboratory Registration Council
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown entities segment continued

Organisations listed in schedule 4 of the Public Finance Act 1989	**Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act schedule 4A companies)**
Agricultural and Marketing Research and Development Trust	Crown Asset Management Limited
Asia New Zealand Foundation	Crown Fibre Holdings Limited
Fish and Game Councils (12)	Fairway Resolution Limited
Game Animal Council	Health Benefits Limited
Leadership Development Centre Trust	Research and Education Advanced Network New Zealand Limited
Māori Trustee	Southern Response Earthquake Services Limited
National Pacific Radio Trust	Tāmaki Redevelopment Company Limited
New Zealand Fish and Game Council	The Network for Learning Limited
New Zealand Game Bird Habitat Trust Board	
New Zealand Government Property Corporation	
New Zealand Lottery Grants Board	
Ngai Tahu Ancillary Claims Trust	
Pacific Co-operation Foundation	
Pacific Island Business Development Trust	
Reserves Boards (21)	
Sentencing Council	
Te Ariki Trust	

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

Glossary of Terms

Comparatives (Budget 2013 and Budget 2014)

Comparatives referred to as Budget 2013 were forecasts published in the *2013 Budget Economic and Fiscal Update* while comparatives referred to as Budget 2014 were forecasts published in *the 2014 Budget Economic and Fiscal Update*.

Contingent assets

Income 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 176 to 178).

Core Crown expenses

The day-to-day spending (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 income, sales of goods and services and other revenue of the Core Crown.

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).

Forecast new capital spending

An amount provided in the forecasts to represent the balance sheet impact 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 core Crown debt

Net core Crown debt provides information about the sustainability of the Government's accounts, and is used by some international rating agencies when determining the creditworthiness of a country. It 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.

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

New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)

The reporting and measurement framework under which these forecast financial statements are prepared. These standards are approved by the External Reporting Board in New Zealand, based on requirements of the international financial reporting standards issued by the International Accounting Standards Board, adjusted where appropriate for entities that are not profit oriented.

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).

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.

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 176 and 178).