Financial Statements of the Government of New Zealand

for the year ended 30 June 2016

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Contents

Ministerial Statement

The New Zealand economy continues to grow, with real GDP increasing by 3.6 per cent in the year ended 30 June 2016. Despite international turbulence and global uncertainty, New Zealand is in the unusual position of enjoying solid growth, rising employment and real wages at the same time as low inflation.

The Government's programme to build a more productive economy is also delivering dividends in terms of the Crown's finances which have turned around markedly in recent years.

In the wake of the global financial crisis and the Canterbury earthquakes, the total Crown's annual operating balance excluding gains and losses (OBEGAL) was a deficit of $18.4 billion in the year ended 30 June 2011, equivalent to 8.9 per cent of national income.

The Government's strategy has been to restrain growth in spending while focusing on getting better results from existing spending, particularly for the most vulnerable New Zealanders. This strategy has led to an OBEGAL surplus of $1.8 billion being recorded for the year ended 30 June 2016, building on the $414 million surplus achieved last year.

Core Crown tax revenue was $70.4 billion, up 5.7 per cent from the previous year with all major tax types increasing, reflecting the growth in the economy over the year.

Core Crown expenses grew at a somewhat slower pace, up 2.2 per cent to $73.9 billion bringing expenses to 29.4 per cent of GDP, below the Government's long-term fiscal objective of 30 per cent. This is the first time since 2006 that core Crown expenses have been below 30.0 per cent of GDP.

In line with the positive OBEGAL result, the residual cash position improved to a deficit of $1.3 billion, down from $1.8 billion last year. As a result, while net debt rose in dollar terms, it fell as a percentage of GDP to 24.6 per cent, down from 25.1 per cent last year and 25.5 per cent in 2014.

The size of the Crown's balance sheet grew over the year, with assets growing by $13.5 billion to $292.7 billion driven mainly by increases in social sector assets. Total Crown liabilities were $197.2 billion, an increase of $10.2 billion from the previous year. Net worth attributable to the Crown, which is a key measure of balance sheet strength, increased by $2.9 billion to $89.4 billion.

Changes in the Crown's balance sheet can also have a significant impact on operating results. For example, net losses of $5.7 billion in the year to 30 June 2012 were followed by net gains of $11.3 billion the following year. In year ended 30 June 2016 net losses were $7.2 billion which led to an operating deficit (including gains and losses) of $5.4 billion.

On the asset side, volatility of markets following the Brexit referendum and a strengthening New Zealand dollar adversely affected investment returns.

On the liability side, the Government's long term liabilities (ACC claims liability and Government Superannuation Fund retirement plan) are particularly sensitive to changes in the risk-free discount rate used to value long-dated cash flows in present day dollars. Reductions in the discount rate (reflecting persistently low interest rates) led to valuation losses of $7.1 billion.

The Government will continue to focus on responsible fiscal management and repaying debt while investing in public services to get better results for New Zealanders, meet its net capital requirements and improve infrastructure.

Hon Bill English
Minister of Finance
30 September 2016

Statement of Responsibility

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

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

Gabriel Makhlouf
Secretary to the Treasury
30 September 2016

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 2016 and its operations for the year ended on that date.

Hon Bill English
Minister of Finance
30 September 2016

COMMENTARY

Fiscal Overview

FISCAL STRATEGY

Operating revenue

Ensure sufficient operating revenue to meet the operating balance objective

Operating expenses

To control the growth in government spending so that core Crown expenses are below 30% of GDP

Operating balance

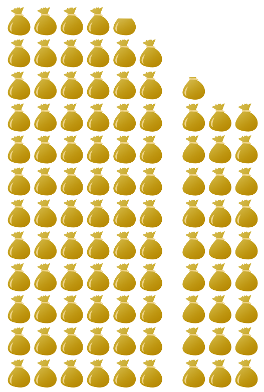
Deliver operating balances sufficient to meet the Government's net capital requirements, including contributions to the NZS Fund, and ensure consistency with the debt objective

Total Crown

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

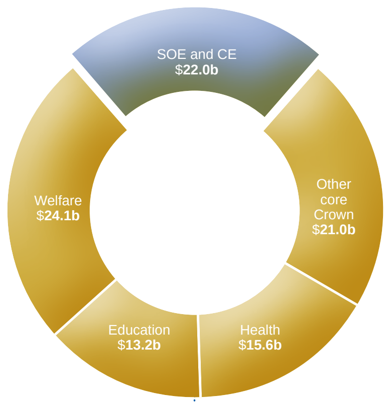
FINANCIAL RESULTS

$98.2b Total Crown revenue – **$95.9b Total expenses** = – minority interests $0.5b **$1.8b OBEGAL** (excluding minority interests)



Core Crown tax revenue (28.0% of GDP)

Other revenue



- SOE and Crown Entities
- Core Crown expenses (29.4% of GDP)

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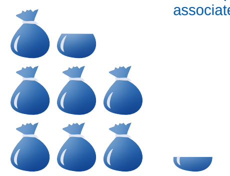
($7.5b) Gains and losses

$0.3b Net surpluses from associates and JV's



($5.4b) Operating balance deficit (excluding minority interests)

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Fiscal strategy

- Note 26 (pg 97)

Revenue

- Tax revenue (pg 9)
- Other revenue (pg 10)

Expenses

- Functional classification tables (pg 35)
- Detailed expense notes (pgs 55–58)
- SOE and Crown entities (CE) results (pgs 157–159)
- Unappropriated expenditure (pgs 141–146)

Net result

- Operating statement (pg 35)
- Gains and losses notes (pg 59)
- ACC insurance liability (pgs 85–89)
- GSF note (pgs 90–93)

FISCAL STRATEGY

Debt

Manage net debt within a range of 0% to 20% of GDP

FINANCIAL RESULTS

Core Crown

Moving from total Crown accrual measure to core Crown cash measure

Movement in net debt

$1.8b OBEGAL + $1.5b Non-residual cash items – **$4.6b Capital items** = **($1.3b) Residual cash deficit**

$1.2b
Non-cash expenses (eg, depreciation)

$0.3b
SOE, CE and NZSF OBEGAL

$3.3b
Core Crown operating cash flows

Core Crown investing cash flows

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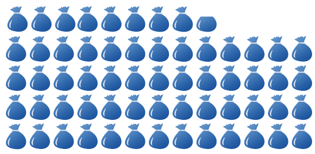
$60.6b
Opening net debt



$61.9b
Closing net debt

24.6% of GDP

WHERE TO FIND THESE IN THE FINANCIAL STATEMENTS

Non-residual cash movements

- SOE and CE results (pgs 157–159)

Other impacts on cash

- Property, plant and equipment (pgs 66–78)
- Advances (pgs 63–65)
- Core Crown residual cash (pg 155)

Debt

- Debt calculation (pg 156)
- Borrowings note (pg 157)

Introduction

These financial statements[1] contain the audited results for the financial year ended 30 June 2016. The results are compared against previous years and against two sets of forecasts for the 2015/16 year:

- Budget 2015 refers to the *2015 Budget Economic and Fiscal Update*, and
- Budget 2016 refers to the *2016 Budget Economic and Fiscal Update*.

This commentary should be read in conjunction with the financial statements on pages 34 to 140.

At a Glance

Table 1 – Financial results

Year ended 30 June	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Forecast 30 June 2016 Budget 2015	Forecast 30 June 2016 Budget 2016
$ million							
Core Crown tax revenue	55,081	58,651	61,563	66,636	70,445	68,868	69,682
Core Crown expenses	68,939	69,962	71,174	72,363	73,929	74,531	74,382
OBEGAL (excluding minority interests)	(9,240)	(4,414)	(2,802)	414	1,831	176	668
Operating balance (excluding minority interests)	(14,897)	6,925	2,939	5,771	(5,369)	2,990	(2,565)
Residual cash	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	(4,166)	(2,115)
Gross debt[1]	79,635	77,984	81,956	86,125	86,928	87,162	86,783
as a percentage of GDP	*37.0%*	*35.6%*	*34.9%*	*35.6%*	*34.5%*	*34.9%*	*34.7%*
Net debt[2]	50,671	55,835	59,931	60,631	61,880	65,597	62,272
as a percentage of GDP	*23.5%*	*25.5%*	*25.5%*	*25.1%*	*24.6%*	*26.3%*	*24.9%*
Net worth attributable to the Crown	59,348	68,071	75,486	86,454	89,366	77,812	83,547
as a percentage of GDP	*27.6%*	*31.1%*	*32.1%*	*35.8%*	*35.5%*	*31.1%*	*33.4%*

[1] Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills.
[2] Net core Crown debt excluding the NZS Fund and advances.

Headlines:

- Tax revenue up $3.8 billion from a year earlier and higher than forecast (page 9).
- Core Crown expenses were $1.6 billion higher than the year before, but less than expected (page 11).
- The OBEGAL surplus of $1.8 billion continued its upwards trend, with an improvement of $1.4 billion from last year (page 13).
- However, revaluations of the Crown's liabilities led to actuarial losses (caused by a reduction in the discount rate) and losses on the revaluation of Emission Trading Scheme units (caused by an increase in the carbon price) resulted in an operating balance deficit for the year of $5.4 billion (page 13).
- While operating cash flows were positive, capital payments of $4.6 billion resulted in a residual cash deficit of $1.3 billion (page 15).
- To fund the residual cash deficit, core Crown net debt increased in nominal terms by $1.2 billion, although it fell as a percentage of GDP (to 24.6%) (page 15).
- Offsetting the operating balance deficit, revaluation uplifts on the Crown's property plant and equipment resulted in an increase in net worth attributable to the Crown of $2.9 billion (page 17).

A comparison of the year end results to *Budget 2016* is included on page 20.

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[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 (including mixed ownership model companies) and Crown entities.

Summary

The Crown's OBEGAL surplus continued to grow...

The operating balance before gains and losses (OBEGAL) continued to increase. The improved result was due to further growth in nominal GDP (leading to a higher tax take) combined with lower expenditure growth.

The OBEGAL surplus was $1.8 billion this year (0.7% of GDP), compared to $0.4 billion for the previous year (0.2% of GDP).

... as nominal GDP rose...

Nominal GDP grew by 4.2% in the year to June 2016 to $251.8 billion. Total wage and salary income grew strongly during the year, with average wages and employment both up by more than 2% on average over the year, and total hours worked increased by an estimated 3%. The robust GDP growth was reflected in private consumption growth of 3.5%, plus strong contributions to economic growth from residential construction and inbound tourist spending, up by 16% and 17% respectively. The total population grew by 2%, boosted by a net influx of nearly 70,000 migrants in the year to June.

... leading to an increase in tax revenue...

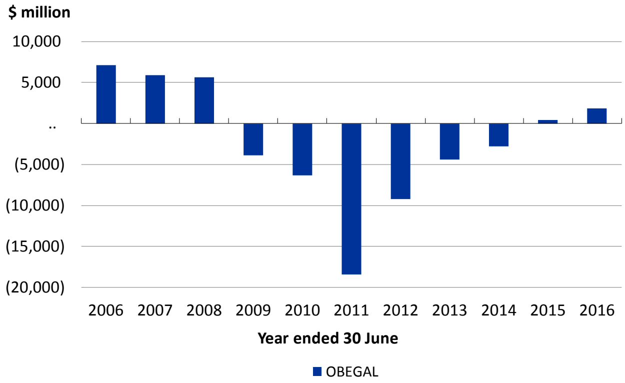
This nominal GDP growth contributed to core Crown tax revenue being $3.8 billion (5.7%) higher than a year earlier with most major tax types increasing to reach $70.4 billion. As a share of the economy, core Crown tax revenue was 28.0% of GDP (compared to 27.6% last year).

... which continued to outpace growth in core Crown expenses ...

As a share of the nominal economy, core Crown expenses were equal in value to 29.4% of GDP (30.0% of GDP in 2015); in nominal terms however, core Crown expenses increased $1.6 billion (2.2%) to $73.9 billion.

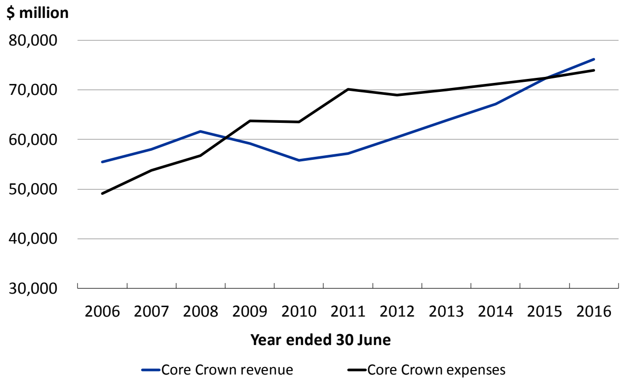
The largest drivers of growth in nominal core Crown expenditure were New Zealand Superannuation benefits (as a result of indexation and an increase in the number of recipients), along with new spending allocated in *Budget 2015*, primarily in the areas of health and education.

Figure 1 – OBEGAL (excluding minority interests)



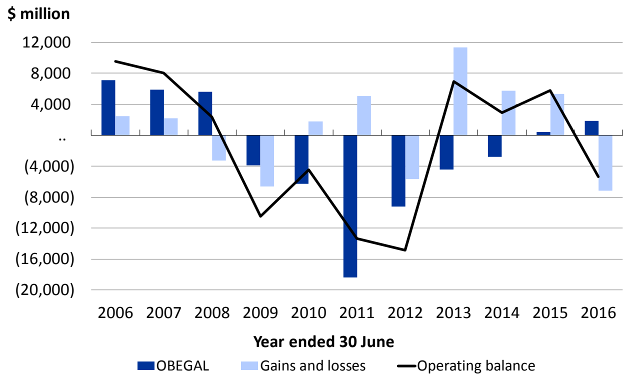
Source: The Treasury

Figure 2 – Core Crown revenue and expenses



Source: The Treasury

Figure 3 – Operating balance (excluding minority interests)



Source: The Treasury

… although liability valuations resulted in losses...

The Crown's operating balance is particularly sensitive to changes in some key assumptions used to value assets and liabilities. For example, a 1% decrease in discount rates can add $9.1 billion to the ACC and Government Superannuation Fund (GSF) liabilities. Note 2 of the financial statements (page 48) discusses the key assumptions and judgements underpinning these financial statements.

Actuarial losses in relation to updated long-term liability valuations for ACC and GSF liabilities resulted in a combined actuarial loss of $7.1 billion (page 59). In addition, a loss of $1.5 billion was recorded on the valuation of outstanding units in the Emissions Trading Scheme (page 14). Offsetting these valuation losses, ACC made gains of $1.4 billion on its investment portfolio.

When these results are combined with the OBEGAL surplus the operating balance (after gains and losses) was a deficit of $5.4 billion ($11.2 billion lower than the 2015 surplus of $5.8 billion).

... that partially offset positive revaluations of Crown assets ...

Although the Government recorded an operating balance deficit of $5.4 billion, the Crown's property, plant and equipment revaluation reserve increased by $8.5 billion (mostly attributable to revaluation uplifts), resulting in net worth attributable to the Crown increasing by $2.9 billion to reach $89.4 billion.

Total assets increased by $12.9 billion to $292.2 billion, while liabilities reached $197.2 billion (up $10.2 billion from last year).

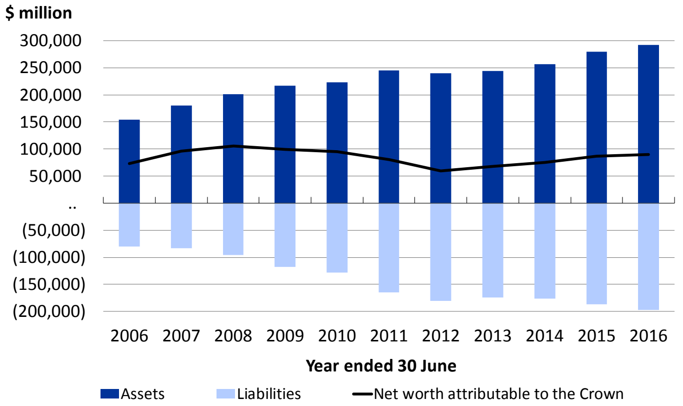
Increases in property, plant and equipment and financial assets such as Kiwibank loans contributed to the growth in assets while the valuation increases to liabilities discussed above (ACC, GSF and Emissions Trading Scheme) contributed to the growth in liabilities.

...while core Crown cash deficits reduced and net debt flattens

While the operating cash flow continued to improve this year (in line with the OBEGAL result), capital spending of $4.6 billion resulted in a residual cash deficit of $1.3 billion. The capital spend consisted of the net purchase of physical and intangible (eg, software) assets ($2.0 billion), new capital investment in Crown entities ($2.1 billion) and net advances ($0.5 billion).

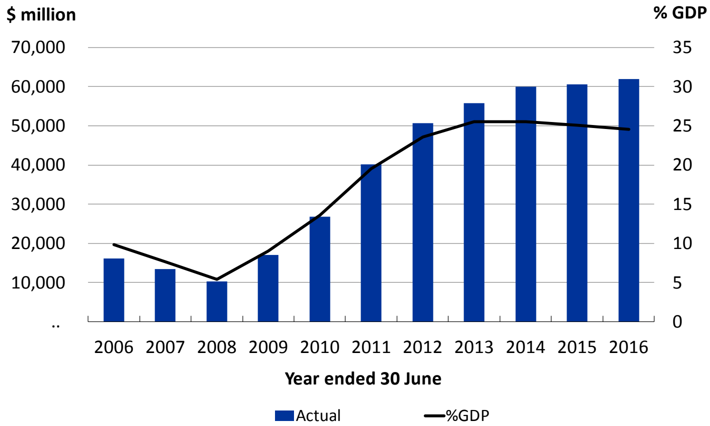
Core Crown net debt increased by $1.2 billion from last year to reach $61.9 billion, largely a result of the residual cash deficit. However, as a percentage of GDP, net debt has fallen from 25.1% to 24.6%.

Figure 4 – Net worth attributable to the Crown



Source: The Treasury

Figure 5 – Net debt



Source: The Treasury

Revenue

Table 2 – Breakdown of revenue

Year ended 30 June	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Forecast 30 June 2016 Budget 2015	Forecast 30 June 2016 Budget 2016
$ million							
Core Crown tax revenue	55,081	58,651	61,563	66,636	70,445	68,868	69,682
Core Crown other revenue	5,347	5,154	5,530	5,577	5,676	5,843	5,647
Core Crown revenue	60,428	63,805	67,093	72,213	76,121	74,711	75,329
Crown entities, SOEs and eliminations	22,918	22,506	22,106	22,299	22,038	22,681	22,185
Total Crown revenue	**83,346**	**86,311**	**89,199**	**94,512**	**98,159**	**97,392**	**97,514**
% of GDP							
Core Crown tax revenue	25.6%	26.8%	26.2%	27.6%	28.0%	27.6%	27.9%
Core Crown other revenue	2.5%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%
Core Crown revenue	28.1%	29.2%	28.5%	29.9%	30.2%	29.9%	30.1%
Crown entities, SOEs and eliminations	10.6%	10.3%	9.4%	9.2%	8.8%	9.1%	8.9%
Total Crown revenue	**38.7%**	**39.4%**	**38.0%**	**39.1%**	**39.0%**	**39.0%**	**39.0%**

Total Crown revenue was $98.2 billion, an increase of $3.6 billion from a year earlier mostly due to higher core Crown tax revenue.

Core Crown Tax Revenue

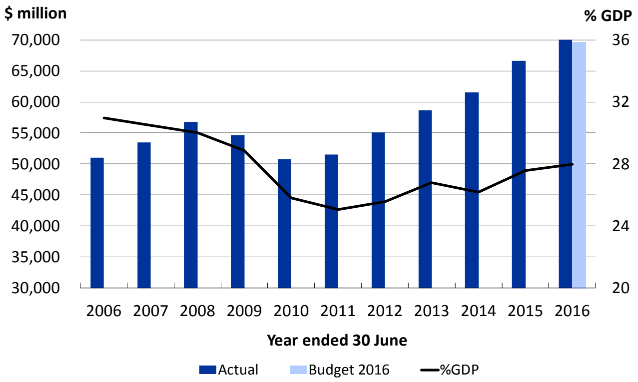
Core Crown tax revenue was $70.4 billion, up $3.8 billion (5.7%) from the year before, mostly owing to an increase in the level of economic activity and the composition of that activity.

Total nominal GDP grew by 4.2% in the year to June 2016. However, not all components of GDP grew at the same rate. For example, total salaries and wages are estimated to have increased by 5%, owing to a mixture of employment growth and salary and wage rate growth, and the corporate tax result indicates that profit growth was also strong. On the other hand, growth in nominal domestic consumption was somewhat lower at around 3.5%.

As a result, all major tax types increased over the year, with three tax types making up most of the increase (Table 3):

- Source deductions increased by $1.7 billion (6.8%). Total employment and salary and wages rates both grew by more than 2% on average over the year, and average hours worked also increased.
- Goods and Services Tax (GST) increased by $1.0 billion (6.1%), largely owing to growth in domestic consumption of 3.5%, but boosted by strong growth in both residential investment (up 16%) and inbound tourist spending (up 17%).
- Corporate tax increased by $0.9 billion (8.7%), mostly in relation to growth in taxable profits from the 2016 tax year.

Figure 6 – Core Crown tax revenue



Source: The Treasury

Table 3 – Increase in core Crown tax revenue

Year ended 30 June ($ billion)	
2015 core Crown tax revenue	**66.6**
Source deductions	1.7
GST	1.0
Corporate tax	0.9
Customs and excise duties	0.3
Other movements	(0.1)
2016 core Crown tax revenue	**70.4**

Source: The Treasury

As a share of the economy, core Crown tax revenue was 28.0% of GDP, compared to 27.6% last year (Table 4). Approximately half of the total 0.4% of GDP increase was a result of corporate tax growing at more than double the rate of growth of nominal GDP. Fiscal drag, ie, additional PAYE tax generated by the progressive personal income tax scale (higher marginal tax rates applying to higher incomes), added an estimated 0.1% of GDP to tax revenue. A 50% decline in Portfolio Investment Entity (PIE) tax slowed the tax revenue growth rate.

Table 4 – Increase in core Crown tax revenue

Year ended 30 June (% of GDP)	
2015 core Crown tax revenue	**27.6**
Composition of GDP	0.4
Fiscal drag	0.1
PIE tax	(0.1)
2016 core Crown tax revenue	**28.0**

Source: The Treasury

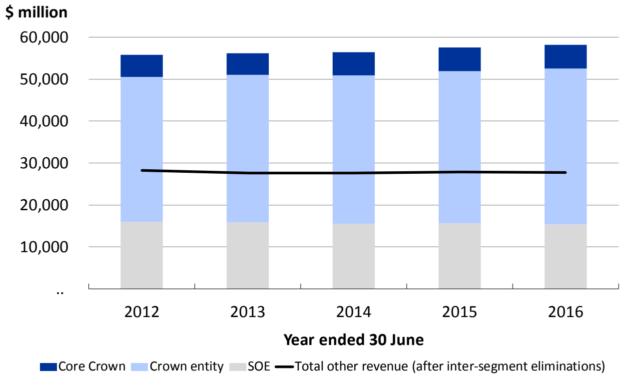
Other Revenue

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

Core Crown other revenue, at $5.7 billion increased by $0.1 billion, while the SOE and CE sectors (including eliminations) recorded revenue of $22.0 billion, $0.3 billion less than a year earlier (Table 2).

The decrease in the SOE sector was mostly attributable across multiple SOEs which recorded lower revenue which was largely offset by lower operating expenses. Within the CE sector, ACC had decreased revenue due to the reduction of ACC levies, but this was offset by increased revenue spread over the rest of the sector.

Figure 7 – Other revenue



Source: The Treasury

Expenses

Table 5 – Breakdown of expenses

Year ended 30 June	Actual	Actual	Actual	Actual	Actual	Forecast 30 June 2016	
	2012	2013	2014	2015	2016	Budget 2015	Budget 2016
$ million							
Social security and welfare	21,956	22,459	23,026	23,523	24,081	24,275	24,296
Health	14,160	14,498	14,898	15,058	15,626	15,581	15,635
Education	11,654	12,504	12,300	12,879	13,158	13,134	13,215
Core government services	5,428	4,294	4,502	4,134	4,102	4,811	4,446
Law and order	3,338	3,394	3,463	3,515	3,648	3,582	3,691
Other core Crown expenses	12,403	12,813	12,985	13,254	13,314	13,148	13,099
Core Crown expenses	**68,939**	**69,962**	**71,174**	**72,363**	**73,929**	**74,531**	**74,382**
Crown entities, SOEs and eliminations	23,647	20,701	20,668	21,408	21,951	22,244	21,961
Total Crown expenses	**92,586**	**90,663**	**91,842**	**93,771**	**95,880**	**96,775**	**96,343**
% of GDP							
Social security and welfare	10.2%	10.3%	9.8%	9.7%	9.6%	9.7%	9.7%
Health	6.6%	6.6%	6.3%	6.2%	6.2%	6.2%	6.3%
Education	5.4%	5.7%	5.2%	5.3%	5.2%	5.3%	5.3%
Core government services	2.5%	2.0%	1.9%	1.7%	1.6%	1.9%	1.8%
Law and order	1.6%	1.6%	1.5%	1.5%	1.4%	1.4%	1.5%
Other core Crown expenses	5.8%	5.9%	5.5%	5.5%	5.3%	5.3%	5.2%
Core Crown expenses	**32.0%**	**32.0%**	**30.3%**	**30.0%**	**29.4%**	**29.8%**	**29.7%**
Crown entities, SOEs and eliminations	11.0%	9.5%	8.8%	8.9%	8.7%	8.9%	8.8%
Total Crown expenses	**43.0%**	**41.4%**	**39.1%**	**38.8%**	**38.1%**	**38.7%**	**38.5%**

Total Crown expenses were $95.9 billion in the latest year, $2.1 billion more than the year earlier. SOE expenditure decreased in line with decreases in SOE revenue while the core Crown and CE segments recorded expenditure increases. The core Crown segment recorded the largest increase of $1.6 billion.

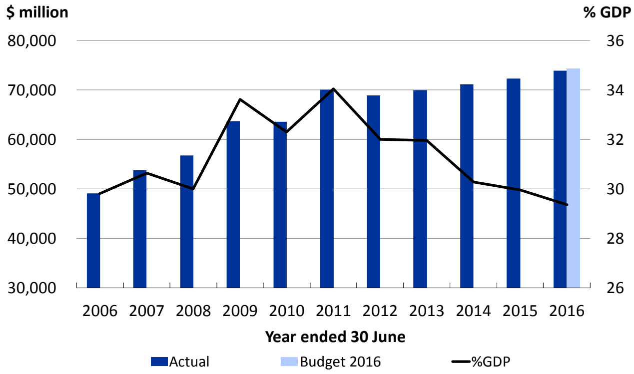
Core Crown Expenses

Despite the nominal expenditure increase of $1.6 billion, core Crown expenses fell as a share of the economy to 29.4% of GDP (Figure 8).

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

- New Zealand Superannuation benefits increased $0.7 billion, mostly a result of indexation and an increase in recipients of New Zealand Superannuation, from around 665,100 to 690,600.
- Health expenses were $0.6 billion higher mainly as a result of additional funding going to District Health Boards for increased demand for services (both hospital and community based) and to help meet cost pressures and population changes.
- Education expenses were $0.3 billion higher than the previous year mainly as a result of new allocations in *Budget 2015* for schools operations (teacher salaries and operating grants), special education and early childhood education funding.

Figure 8 – Core Crown expenses



Source: The Treasury

Table 6 – Movement in core Crown expenses

Year ended 30 June ($ billion)	
2015 core Crown expenses	**72.4**
New Zealand Superannuation	0.7
Health expenditure	0.6
Education expenditure	0.3
Other movements	(0.1)
2016 core Crown expenses	**73.9**

Source: The Treasury

Other Expenses

The SOE and CE sectors (including eliminations) also recorded expenses that were $0.5 billion (2.5%) higher than the previous year, this result was mainly attributable to higher insurance expenses in ACC and EQC, which together increased $0.8 billion, mostly reflecting additional claims.

Offsetting this, SOE expenditure was lower and matched with a reduction in income as mentioned above.

Operating Balance

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

Year ended 30 June $ million	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Forecast 30 June 2016 Budget 2015	Forecast 30 June 2016 Budget 2016
Total Crown OBEGAL	**(9,240)**	**(4,414)**	**(2,802)**	**414**	**1,831**	**176**	**668**
Gains and losses:							
ACC actuarial gain/(loss)	(2,942)	2,369	479	(1,352)	(5,099)	-	(3,065)
GSF actuarial gain/(loss)	(3,896)	1,251	577	(322)	(2,028)	-	(898)
ETS/Kyoto net position	350	103	(324)	(366)	(1,503)	-	(558)
Investment portfolios:							
NZS Fund	(204)	4,374	3,735	3,156	(76)	2,025	(573)
ACC	944	1,796	730	2,397	1,420	285	1,192
Earthquake Commission	(53)	1	-	-	-	-	-
Other gains/(losses)[1]	144	1,445	544	1,844	86	504	669
Total Crown gains/(losses)	**(5,657)**	**11,339**	**5,741**	**5,357**	**(7,200)**	**2,814**	**(3,233)**
Total Crown operating balance	**(14,897)**	**6,925**	**2,939**	**5,771**	**(5,369)**	**2,990**	**(2,565)**
% of GDP							
Total Crown OBEGAL	(4.3)%	(2.0)%	(1.2)%	0.2%	0.7%	0.1%	0.3%
Total Crown gains/(losses)	(2.6)%	5.2%	2.4%	2.2%	(2.9)%	1.1%	(1.3)%
Total Crown Operating balance	**(6.9)%**	**3.2%**	**1.3%**	**2.4%**	**(2.1)%**	**1.2%**	**(1.0)%**

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

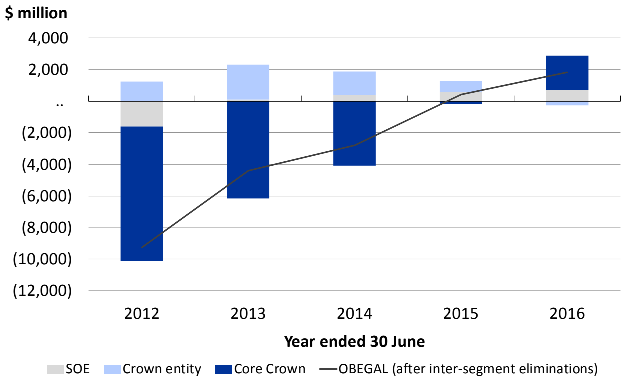
OBEGAL

The OBEGAL surplus continued to grow, increasing $1.4 billion from the previous year to $1.8 billion.

Figure 9 shows the composition of OBEGAL from the different segments of the Government. For the year ended 30 June 2016, the core Crown continued its upwards trend and was in surplus for the first time since 2008 (compared to a deficit of $0.1 billion last year), with higher tax revenue (5.7%) outpacing higher expenses (2.2%) compared to last year.

The SOE segment remained relatively stable, achieving a surplus of $0.7 billion, compared with a surplus of $0.6 billion last year.

Figure 9 – Components of OBEGAL by segment



Source: The Treasury

Offsetting these results, the Crown entity segment reported a deficit of $0.3 billion which compares to the previous year's surplus of $0.7 billion. Within this result, EQC's OBEGAL decreased by $0.7 billion mainly due to increased claims following the 14 February 2016 earthquake in Christchurch, in comparison in 2015 there was a large decrease in insurance expense following a re-estimation of the outstanding claims liability that was not repeated this year.

In addition to EQC's result, ACC's surplus reduced by $0.4 billion, mainly due to decreased levy revenue and increased insurance expenses.

Operating Balance

Net gains and losses were a loss of $7.2 billion for the year. These losses more than offset the OBEGAL surplus and resulted in the Crown's operating balance was a deficit of $5.4 billion, $11.2 billion lower than last year.

The current year saw significant volatility in financial markets and exchange rates. Gains on financial

Table 8 – NZS Fund results

Year ended 30 June ($ million)	Actual 2016	Actual 2015
OBEGAL result	**102**	**516**
Gains and losses	(76)	3,156
Operating Balance	**26**	**3,672**

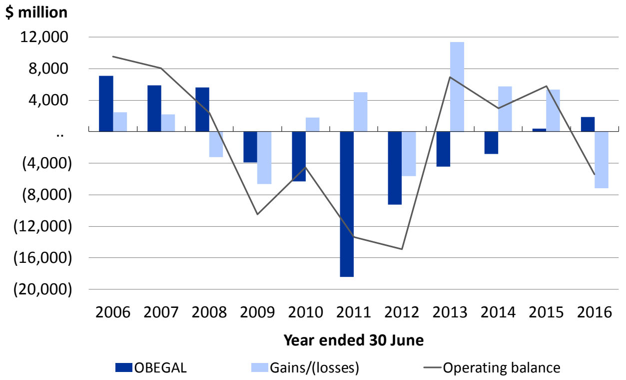
Source: The Treasury

instruments were $1.1 billion ($5.1 billion less than the previous year). ACC's investment portfolio recorded a gain of $1.4 billion while NZS Fund recorded a small net loss on financial instruments and associates of $0.1 billion. Overall the NZSF Fund recorded an operating balance surplus of $26 million (Table 8). Investment performance was generally lower than the previous year across all markets and the Brexit referendum result on 23 June 2016 resulted in unstable markets right before the end of the year. Additionally, the strengthening New Zealand dollar led to foreign exchange losses on marketable securities and cash held.

While gains on investments were positive, the current year was adversely impacted by actuarial losses of $7.1 billion in relation to long-term liability valuations for ACC insurance claims and Government Superannuation Fund (GSF) pensions. A decrease in discount rates, partially offset by lower inflation rates resulted in actuarial losses of $5.1 billion for ACC and $2.0 billion for GSF. In addition to the actuarial losses, losses in relation to the Emissions Trading Scheme provision were $1.5 billion largely as a result of increased carbon prices from $6.80 to $17.75 over the course of the current year (refer below).

The operating balance is particularly sensitive to balance sheet movements. Note 2 (page 48) of the financial statements discusses the key judgements and assumptions underpinning these financial statements.

Figure 10 – Operating balance



Source: The Treasury

New Zealand Emissions Trading Scheme (NZ ETS)

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

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

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

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

The number of units outstanding at 30 June 2016 was 126.8 million (2015: 125.8 million). Over the year the carbon price increased by $10.95 going from NZD$6.80 at 30 June 2015 to NZD$17.75 at 30 June 2016, accounting for most of the $1.5 billion loss.

Table 9 – Movement in NZ ETS provision

Year ended 30 June	**Actual Units million**	**Price per unit NZD**	**Actual $million**
Opening provision	**125.8**	**6.80**	**855**
New provision recognised	12.2		163
Provision used during the period	(11.2)		(271)
Movement in carbon price			1,503
Closing provision	**126.8**	**17.75**	**2,250**

Debt

Table 10 – Net debt[2] and Gross debt[3]

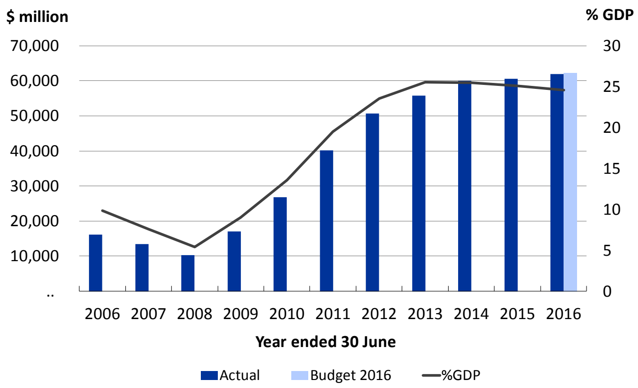
Year ended 30 June	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Forecast 30 June 2016 Budget 2015	Budget 2016
Net debt ($m)	50,671	55,835	59,931	60,631	61,880	65,597	62,272
Net debt (% GDP)	23.5%	25.5%	25.5%	25.1%	24.6%	26.3%	24.9%
Gross debt ($m)	79,635	77,984	81,956	86,125	86,928	87,162	86,783
Gross debt (% GDP)	37.0%	35.6%	34.9%	35.6%	34.5%	34.9%	34.7%
Residual cash ($m)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	(4,166)	(2,115)
Residual cash (% GDP)	(4.9%)	(2.6%)	(1.7%)	(0.8%)	(0.5%)	(1.7%)	(0.8%)

Net Debt

After increasing over the past four years, net debt has flattened while falling as a share of the economy (24.6% of GDP versus 25.1% of GDP a year earlier). Net debt in nominal terms was similar to last year, with an increase of $1.2 billion this June year, as the core Crown continued to run a residual cash deficit albeit reduced from recent years.

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 11 – Net debt



Source: The Treasury

Residual Cash

The residual cash deficit was $1.3 billion, $0.5 billion less than last year. Table 11 summarises the contributors to the reduction in the residual cash deficit over the year.

Tax receipts were $3.4 billion higher than last year, in line with the improvement in core Crown tax revenue as discussed on page 9.

Tax receipts grew faster than operating payments, leading to an operating cash surplus of $3.3 billion. Offsetting the operating cash surplus, capital spending totalled $4.6 billion, resulting in an overall cash deficit. Capital spending included:

Table 11 – Decrease in residual cash deficit

Year ended 30 June ($ billion)	
2015 core Crown residual cash deficit	**(1.8)**
Increase in tax receipts	3.4
Increase in operating payments	(1.2)
Decrease in proceeds from share offer	(0.6)
Increase in net purchase of investments	(0.6)
Other movements	(0.5)
2016 core Crown residual cash deficit	**(1.3)**

Source: The Treasury

- Net purchase of physical assets of $2.0 billion, including $0.6 billion for the Ministry of Education in relation to school property, $0.4 billion for defence equipment and $0.2 billion for both the Ministry of Justice and the Ministry of Health, mostly related to Canterbury rebuild projects.

- Net investments of $2.1 billion, the largest of which was the Crown's investment in state highways of $1.1 billion, with $0.4 billion also paid to Southern Response following a call on the Crown Support Deed (for more information refer to Note 28 on page 103).

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

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

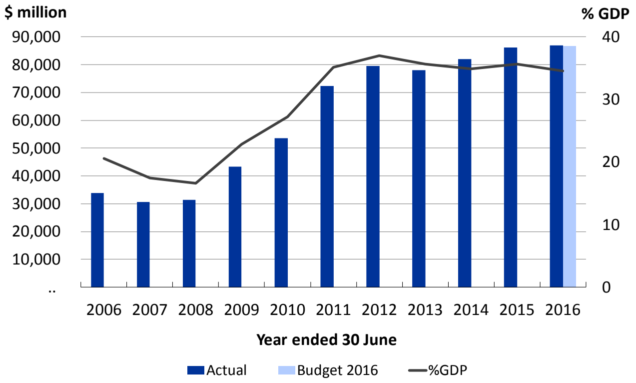
- Net increase in advances of $0.5 billion, which included $0.3 billion for student loans.
- Last year's capital spend was reduced by the receipt of $0.6 billion from the Meridian Energy final instalment of the Government's share offer programme.

Gross Debt

Gross debt, which reflects the borrowings of the core Crown, was $0.8 billion higher than a year earlier at $86.9 billion (Figure 12). As a percentage of the economy, gross debt dropped 1.1% to 34.5% of GDP (35.6% of GDP a year earlier).

The increase in nominal gross debt was predominantly the result of an increase in the issuance of Government Stock more than offsetting the Crown's bond and bill repurchasing programme, and a reduction in derivatives in loss and other financial liabilities.

Figure 12 – Gross debt



Source: The Treasury

Crown's Borrowing Programme

The debt programme (Table 12) during the current year raised cash from the market of $2.8 billion. The Crown continued to issue bonds ($7.9 billion face value) while Treasury Bill issuance has returned to normal levels after being increased in the previous year to fund the April 2015 bond maturity. The proceeds of the programme are used for working capital requirements.

Overall, once the non-market cash flows (debt issued directly to agencies within the Crown) were included, net cash proceeds from borrowing were $2.5 billion.

Table 12 – Cash proceeds from debt programme

Year ended 30 June $ million	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Forecast 30 June 2016 Budget 2015	 Budget 2016
Issue of government bonds	15,146	15,458	7,716	8,058	8,079	8,462	8,343
Repayment of government bonds	(7,602)	(9,982)	(2,196)	(8,684)	(1,779)	(1,777)	(1,779)
Net issue/(repayment) of short-term borrowing[4]	2,139	(5,404)	(935)	4,179	(3,513)	(2,400)	(3,653)
Total market debt cash flows	**9,683**	**72**	**4,585**	**3,553**	**2,787**	**4,285**	**2,911**
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	(1,501)	(499)	-	(482)	(139)	(303)	(138)
Net issue/(repayment) of short-term borrowing	430	100	-	(480)	(100)	(100)	(100)
Total non-market debt cash flows	**(1,071)**	**(399)**	**-**	**(962)**	**(239)**	**(403)**	**(238)**
Total debt programme cash flows	**8,612**	**(327)**	**4,585**	**2,591**	**2,548**	**3,882**	**2,673**

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

Net Worth Attributable to the Crown

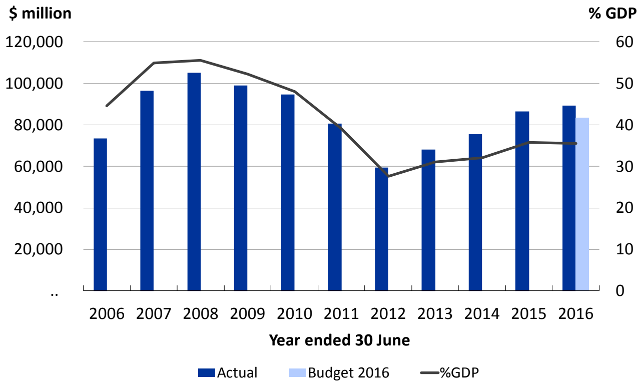
Table 13 – Net worth

Year ended 30 June $ million	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Forecast 30 June 2016 Budget 2015	Forecast 30 June 2016 Budget 2016
Net worth attributable to the Crown	59,348	68,071	75,486	86,454	89,366	77,812	83,547
Net worth attributable to minority interests	432	1,940	5,211	5,782	6,155	5,223	5,755
Total net worth	**59,780**	**70,011**	**80,697**	**92,236**	**95,521**	**83,035**	**89,302**
Net worth attributable to the Crown % of GDP	**27.6**	**31.1**	**32.1**	**35.8**	**35.5**	**31.1**	**33.4**

Net worth attributable to the Crown was $89.4 billion as at 30 June 2016, an increase of $2.9 billion from a year earlier, continuing the upward trend. As a share of the economy, net worth attributable to the Crown was 35.5% of GDP, which was 0.3% lower than a year earlier.

While the Crown's operating balance was a deficit, revaluation uplifts of the Crown's property plant and equipment (details on the next page) resulted in an increase in the Crown's net worth.

Figure 13 – Net worth attributable to the Crown



Source: The Treasury

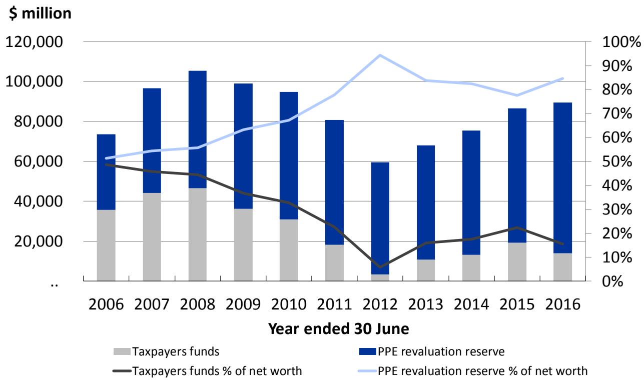
Composition of Net Worth Attributable to the Crown

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

Figure 14 shows that, while the level of NWAC has recovered from the decline which began in 2008, the composition of net worth is quite different. From 2006 the PPE revaluation reserve has gone from being 51% of NWAC to 85% in 2016, after peaking at 94% in 2012. On a nominal basis the PPE revaluation reserve has remained fairly stable, with larger growth in the last two years mainly as a result of increases in land prices.

Taxpayers' funds however, which is directly affected by the operating balance, decreased sharply since deficits began to be recorded in 2009, before increasing in the last few years. However, the $5.4 billion operating balance deficit recorded this year has resulted in a further decline.

Figure 14 – Composition of Net worth attributable to the Crown



Source: The Treasury

This change in composition suggests that the NWAC is currently more reliant on property prices than operating results.

Total Crown Balance Sheet

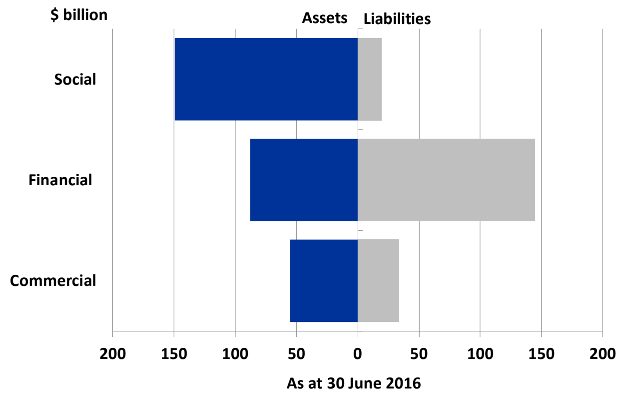
Table 14 – Composition of the statement of financial position[5]

Year ended 30 June $ million	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Forecast 30 June 2016 Budget 2015	Forecast 30 June 2016 Budget 2016
Social assets	121,218	124,348	133,158	139,706	149,419	137,066	141,254
Financial assets	72,500	72,378	74,636	87,039	87,921	83,200	85,739
Commercial assets	46,600	47,690	49,030	52,469	55,339	52,510	53,400
Total assets	**240,318**	**244,416**	**256,824**	**279,214**	**292,679**	**272,776**	**280,393**
Social liabilities	17,600	16,140	17,015	17,625	19,223	17,546	17,769
Financial liabilities	134,838	130,052	129,589	137,218	144,354	138,183	139,959
Commercial liabilities	28,100	28,213	29,523	32,135	33,581	34,012	33,364
Total liabilities	**180,538**	**174,405**	**176,127**	**186,978**	**197,158**	**189,741**	**191,091**
Net worth	**59,780**	**70,011**	**80,697**	**92,236**	**95,521**	**83,035**	**89,302**
Minority interests	(432)	(1,940)	(5,211)	(5,782)	(6,155)	(5,223)	(5,755)
Net worth attributable to the Crown	**59,348**	**68,071**	**75,486**	**86,454**	**89,366**	**77,812**	**83,547**

Total Crown assets were $292.7 billion as at 30 June 2016, a $13.5 billion increase since last year. This growth was largely in social sector assets ($9.7 billion), commercial assets grew by $2.8 billion and financial assets by $0.9 billion.

Total Crown liabilities were $197.2 billion, an increase of $10.2 billion from the previous year. The growth was largely in relation to financial sector ($7.1 billion), social sector liabilities grew by $1.6 billion and commercial liabilities grew by $1.5 billion.

Figure 15 – Total Crown balance sheet



Source: The Treasury

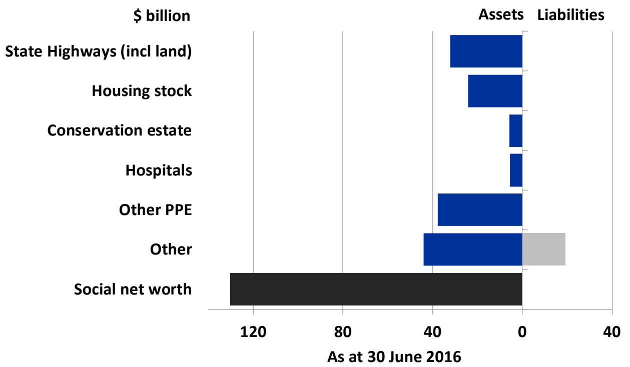
Social Balance Sheet

Social sector net worth at $130.2 billion was $8.1 billion higher than last year, driven largely by an increase in assets.

The Crown's social assets were valued at $149.4 billion, a $9.7 billion increase since last year, and made up just over 50% of the Crown's total assets. The largest uplifts related to the following:

- The state housing portfolio increased by $3.3 billion of which $2.7 billion relates to land. The land increase mostly related to Auckland stock reflecting the strength of this market.
- The value of state highways (including land) increased by $1.8 billion, mainly due to development of new and improvement of state highway assets.

Figure 16 – Social balance sheet



Source: The Treasury

Social liabilities were $19.2 billion, a $1.6 billion increase compared to last year mainly driven by an increase in the New Zealand ETS provision (refer page 14).

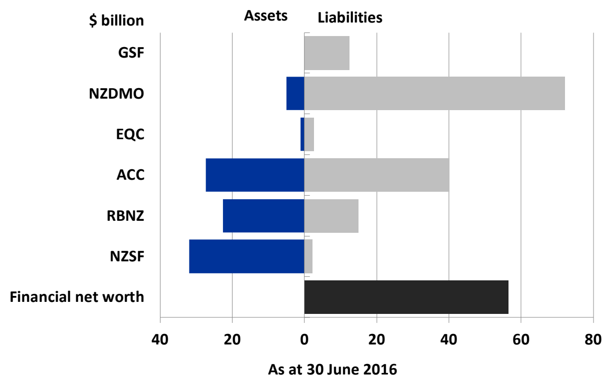
5 Based on three different sectors as examined in the 2014 Investment Statement. The glossary on page 160 explains the definition of these three sectors.

Financial Balance Sheet

Financial sector net worth at -$56.4 billion was $6.6 billion weaker than last year. The financial sector includes the Treasury's New Zealand Debt Management Office (NZDMO) which manages the Crown's bond programme and therefore holds the majority of the Crown's debt (while the assets funded by the debt are largely in the social sector).

The value of financial assets and financial liabilities are particularly sensitive to changes in market prices. Note 2, on pages 48 to 52, sets out some of the sensitivities of the key assumptions regarding these assets and liabilities.

Figure 17 – Financial balance sheet



Source: The Treasury

The Crown's financial sector assets were valued at $87.9 billion, a $0.9 billion increase compared to last year. New Zealand equities held by the large investment portfolios (eg, NZSF and ACC) saw growth over the year while international equities held had poor results given concerns around weak global growth, continued effectiveness of quantitative easing programmes and geopolitical events such as Brexit.

Financial sector liabilities were $144.4 billion, an increase of $7.1 billion from the previous year. The main drivers of growth in financial liabilities were the following:

- ACC's insurance liability increased this year by $6.6 billion from $32.5 billion to $39.1 billion. The key drivers of this increase were the discount rate reduction, partly offset by various inflation rates being lower than expected. For further information on ACC's inflation assumptions see Note 22 insurance liabilities.
- Earthquake-related insurance liabilities of EQC and Southern Response were $0.5 billion and $0.4 billion lower respectively as insurance claims were paid out during the year.

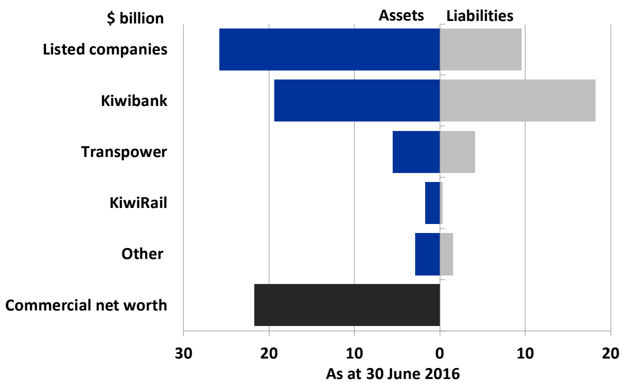
Commercial Balance Sheet

Commercial sector net worth at $21.8 billion increased by $1.4 billion compared to last year.

The Crown's commercial assets were valued at $55.3 billion, a $2.9 billion increase over the year. A large component of this increase related to Kiwibank loans ($1.1 billion increase), along with increases due to property, plant and equipment valuation uplifts and additions across the sector.

Commercial liabilities valued at $33.6 billion were $1.5 billion higher than the previous year, primarily due to an increase in deposits held by Kiwibank ($1.1 billion), matched by an increase in its lending.

Figure 18 – Commercial balance sheet



Source: The Treasury

Year End Results Compared to Budget 2016

The *Budget Economic and Fiscal Update 2016* (*Budget 2016*) was published on 26 May 2016 and is the most recent set of forecasts. *Estimated Actuals* refers to the latest forecasts published shortly before year end, for any given year.

Table 15 – Comparison to *Budget 2016*

Year ended 30 June	Actual	Budget 2016	Variance to Budget 2016	Variance to Budget 2016
	2016	30 June 2016	$m	%
$ million				
Core Crown tax revenue	70,445	69,682	763	1.1
Core Crown expenses	73,929	74,382	453	0.6
OBEGAL (excluding minority interests)	1,831	668	1,163	174.1
Operating balance (excluding minority interests)	(5,369)	(2,565)	(2,804)	(109.3)
Residual cash	(1,322)	(2,115)	793	37.5
Gross debt	86,928	86,783	(145)	(0.2)
as a percentage of GDP	*34.5%*	*34.7%*		
Net debt	61,880	62,272	392	0.6
as a percentage of GDP	*24.6%*	*24.9%*		
Net worth attributable to the Crown	89,366	83,547	5,819	7.0
as a percentage of GDP	*35.5%*	*33.4%*		

The 2016 results were mostly favourable compared to *Budget 2016,* with the notable exception of operating balance.

Core Crown Tax Revenue

Tax revenue was stronger than expected, as the economy grew in nominal terms by 0.7% more than forecast. In addition, net migration and labour force participation were slightly higher than expected.

Core Crown tax revenue was $0.8 billion (1.1%) higher than expected, with the largest differences being:

- Source deductions: $0.4 billion (1.7%) higher than forecast due mainly to higher than expected growth in total employment, and salaries and wages.

- Customs and excise duties: $0.2 billion (3.5%) higher than forecast due mainly to a temporary change in the monthly pattern of tobacco duty revenue, which has brought forward an estimated $0.1 billion of revenue from 2016/17 to 2015/16, and higher than forecast fuel duty, mainly from higher than expected petrol consumption.

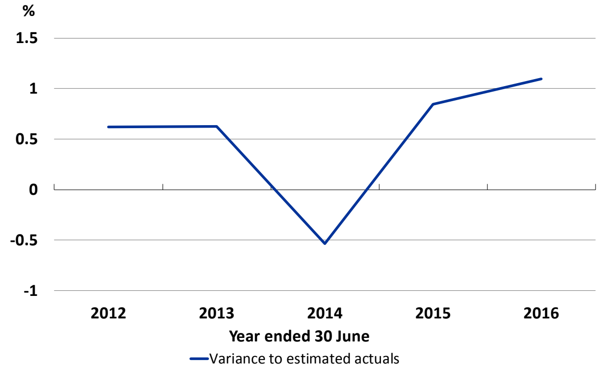
- Corporate tax: $0.1 billion (1.0%) higher than forecast mainly owing to above forecast terminal tax revenue. This was partly offset by lower than forecast tax from Portfolio Investment Entities.

Table 16 – Core Crown tax revenue compared to *Budget 2016*

Year ended 30 June ($ billion)	
Budget 2016 core Crown tax revenue	**69.7**
Source deductions	0.4
Customs and excise duties	0.2
Corporate tax	0.1
GST	0.1
Interest RWT	(0.1)
Actual 2016 core Crown tax revenue	**70.4**

Source: The Treasury

Figure 19 – Core Crown tax revenue variance to *Estimated Actuals*



Source: The Treasury

- Goods and services tax: $0.1 billion (0.4% higher than forecast, related to broad-based and above-forecast growth in private consumption, in-bound tourist spending and residential investment.

- Resident withholding tax was $0.1 billion (3.7%) lower than forecast, mainly owing to lower than forecast interest rates.

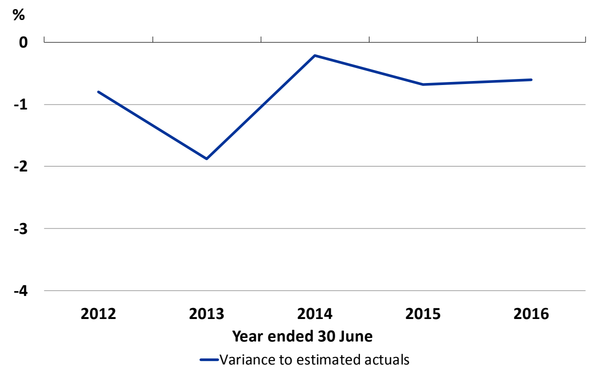
Overall the tax variance to forecast is not significantly larger than recent forecasts (Figure 19).

Core Crown Expenses

Core Crown expenses were $0.5 billion (0.6%) lower than expected. As with core Crown tax revenue, the forecast variance is reasonable, at a similar level to the previous year (Figure 20).

The lower than forecast result was largely due to lower than forecast impairment of tax receivables by Inland Revenue of $328 million partly offset by higher than forecast impairment on student loans of $91 million as well as lower than forecast Ministry of Social Development expenses of $174 million mainly due to a reversal of impairment of social benefit receivables.

Figure 20 – Core Crown expenses variance to *Estimated Actuals*



Source: The Treasury

OBEGAL

The OBEGAL surplus was $1.2 billion higher than expected. Both core Crown tax revenue and core Crown expenses were close to forecast but, when combined, had a significant impact on the OBEGAL result (increasing OBEGAL by $1.3 billion).

Operating Balance

The total Crown operating balance was $2.8 billion lower than expected. More than offsetting the favourable OBEGAL result ($1.2 billion), ACC and GSF incurred higher than forecast actuarial losses due to lower discount rates ($2.0 billion and $1.1 billion respectively) while losses on the Emissions Trading Scheme were $0.9 billion higher than forecast due to an increased carbon price.

Residual Cash

The residual cash deficit was $0.8 billion lower due in part to higher than forecast tax receipts ($0.7 billion). Operating payments were $0.4 billion lower than forecast, this was partly offset by higher than forecast capital payments ($0.3 billion).

Net Debt

Net debt at $61.9 billion (24.6% of GDP) was $0.4 billion below forecast mainly due to the more favourable residual cash mentioned above.

Gross Debt

Gross debt at $86.9 billion (34.5% of GDP) was close to forecast.

Net Worth Attributable to the Crown

The net worth attributable to the Crown was $5.8 billion stronger than expected mainly due to revaluation uplifts of the Crown's property, plant and equipment (that were not forecast) more than offsetting the operating balance variance.

Core Crown Expenses Compared to Budget 2015

Government budget spending decisions tend to occur some 15 months prior to the actual results being known. For example, spending decisions for the current financial year were part of the *Budget 2015* process in early 2015.

It is therefore useful to compare the actual results back to the point at which the decisions were made (often referred to as the Original Budget). In the past a large portion of the variances have represented significant one-off events (such as the Canterbury earthquakes and the impact of the deposit guarantee scheme). Furthermore, debt impairments have tended to be volatile and difficult to predict.

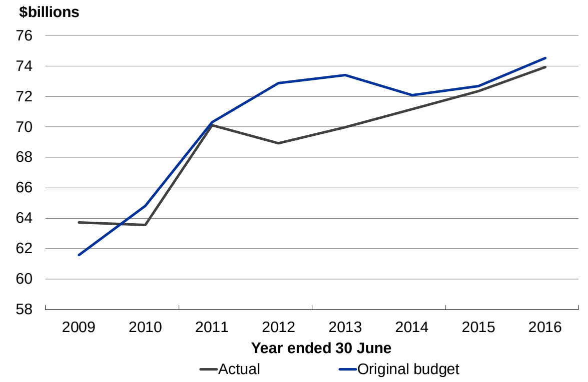
In addition, departments tend to base their expense forecasts on the level of appropriated expenditure (ie, the amount of authorised spending) even though historically, most departments tend to spend below their upper limits.

In the current year the variance to original budget was $602 million. A large portion of this variance related to debt impairments, which were $530 million less than the original budget.

At each Budget a high level adjustment (referred to as the “top down” adjustment) is made to reflect the fact that actual expenditure trends below individual agency budgets. This top down adjustment has increased over the past few years to counter this over forecasting.

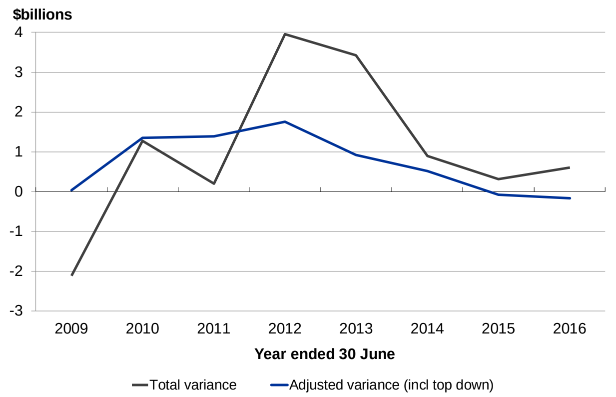
When debt impairments and costs associated with one-off large events such as the Canterbury rebuild are excluded, the resulting “adjusted variance” provides a useful tool for assessing forecasting performance over time (Figure 22).

Figure 21 – Core Crown expenses compared to Original Budget



Source: The Treasury

Figure 22 – Core Crown expenses total variance versus underlying variance



Source: The Treasury

Historical Financial Information

Year ended 30 June $ million	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual
Statement of financial performance											
Core Crown tax revenue	50,973	53,477	56,747	54,681	50,744	51,557	55,081	58,651	61,563	66,636	70,445
Core Crown other revenue	4,526	4,494	4,828	4,510	5,013	5,642	5,347	5,154	5,530	5,577	5,676
Core Crown revenue	55,499	57,971	61,575	59,191	55,757	57,199	60,428	63,805	67,093	72,213	76,121
Crown entities, SOE revenue and eliminations	15,690	16,378	19,660	20,024	18,509	24,013	22,918	22,506	22,106	22,299	22,038
Total Crown revenue	**71,189**	**74,349**	**81,235**	**79,215**	**74,266**	**81,212**	**83,346**	**86,311**	**89,199**	**94,512**	**98,159**
Social security and welfare	15,451	16,621	17,730	19,189	20,814	21,724	21,956	22,459	23,026	23,523	24,081
Health	9,547	10,355	11,297	12,368	13,128	13,753	14,160	14,498	14,898	15,058	15,626
Education	9,914	9,269	9,551	11,455	11,724	11,650	11,654	12,504	12,300	12,879	13,158
Core government services	2,507	4,817	3,371	5,293	2,974	5,563	5,428	4,294	4,502	4,134	4,102
Law and order	2,146	2,606	2,797	2,992	3,103	3,312	3,338	3,394	3,463	3,515	3,648
Other core Crown expenses	9,519	10,096	12,007	12,415	11,811	14,097	12,403	12,813	12,985	13,254	13,314
Core Crown expenses	49,084	53,764	56,753	63,711	63,554	70,099	68,939	69,962	71,174	72,363	73,929
Crown entities, SOE expenses and eliminations	15,015	14,725	18,845	19,397	17,027	29,509	23,647	20,701	20,668	21,408	21,951
Total Crown expenses	**64,098**	**68,489**	**75,598**	**83,108**	**80,581**	**99,608**	**92,586**	**90,663**	**91,842**	**93,771**	**95,880**
OBEGAL (excluding minority interests)	**7,091**	**5,860**	**5,637**	**(3,893)**	**(6,315)**	**(18,396)**	**(9,240)**	**(4,414)**	**(2,802)**	**414**	**1,831**
Gains/(losses)	2,451	2,162	(3,253)	(6,612)	1,806	5,036	(5,657)	11,339	5,741	5,357	(7,200)
Operating balance (excluding minority interests)	**9,542**	**8,022**	**2,384**	**(10,505)**	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**	**2,939**	**5,771**	**(5,369)**
Statement of financial position											
Property, plant and equipment	89,141	95,598	103,329	110,135	113,330	114,854	108,584	109,833	116,306	124,558	134,499
Financial assets	66,396	73,718	85,063	93,359	95,971	115,362	116,178	118,779	123,918	135,787	138,255
Other assets	9,503	11,031	12,443	13,657	14,054	14,999	15,556	15,804	16,600	18,869	19,925
Total assets	**165,040**	**180,347**	**200,835**	**217,151**	**223,355**	**245,215**	**240,318**	**244,416**	**256,824**	**279,214**	**292,679**
Borrowings	40,027	41,898	46,110	61,953	69,733	90,245	100,534	100,087	103,419	112,580	113,956
Other liabilities	41,042	41,622	49,211	55,683	58,634	74,083	80,004	74,318	72,708	74,398	83,202
Total liabilities	**81,069**	**83,520**	**95,321**	**117,636**	**128,367**	**164,328**	**180,538**	**174,405**	**176,127**	**186,978**	**197,158**
Minority interests	293	369	382	447	402	308	432	1,940	5,211	5,782	6,155
Net worth attributable to the Crown	**83,678**	**96,458**	**105,132**	**99,068**	**94,586**	**80,579**	**59,348**	**68,071**	**75,486**	**86,454**	**89,366**
Cash position											
Core Crown residual cash	2,985	2,793	2,057	(8,639)	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)
Debt Indicators											
Net debt	16,163	13,380	10,258	17,119	26,738	40,128	50,671	55,835	59,931	60,631	61,880
Gross debt	33,903	30,647	31,390	43,356	53,591	72,420	79,635	77,984	81,956	86,125	86,928

Historical Financial Information (continued)

Year ended 30 June as % of GDP	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual
Nominal GDP (revised)	164,678	175,456	189,138	189,523	196,698	205,861	215,348	218,817	235,033	241,597	251,760
Statement of financial performance											
Core Crown tax revenue	31.0%	30.5%	30.0%	28.9%	25.8%	25.0%	25.6%	26.8%	26.2%	27.6%	28.0%
Core Crown other revenue	2.7%	2.6%	2.6%	2.4%	2.5%	2.7%	2.5%	2.4%	2.4%	2.3%	2.3%
Core Crown revenue	33.7%	33.0%	32.6%	31.2%	28.3%	27.8%	28.1%	29.2%	28.5%	29.9%	30.2%
Crown entities, SOE and elimination revenue	9.5%	9.3%	10.4%	10.6%	9.4%	11.7%	10.6%	10.3%	9.4%	9.2%	8.8%
Total Crown revenue	**43.2%**	**42.4%**	**43.0%**	**41.8%**	**37.8%**	**39.4%**	**38.7%**	**39.4%**	**38.0%**	**39.1%**	**39.0%**
Social security and welfare	9.4%	9.5%	9.4%	10.1%	10.6%	10.6%	10.2%	10.3%	9.8%	9.7%	9.6%
Health	5.8%	5.9%	6.0%	6.5%	6.7%	6.7%	6.6%	6.6%	6.3%	6.2%	6.2%
Education	6.0%	5.3%	5.0%	6.0%	6.0%	5.7%	5.4%	5.7%	5.2%	5.3%	5.2%
Core government services	1.5%	2.7%	1.8%	2.8%	1.5%	2.7%	2.5%	2.0%	1.9%	1.7%	1.6%
Law and order	1.3%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%	1.4%
Other core Crown expenses	5.8%	5.8%	6.3%	6.6%	6.0%	6.8%	5.8%	5.9%	5.5%	5.5%	5.3%
Core Crown expenses	29.8%	30.6%	30.0%	33.6%	32.3%	34.1%	32.0%	32.0%	30.3%	30.0%	29.4%
Crown entities, SOE and elimination expenses	9.1%	8.4%	10.0%	10.2%	8.7%	14.3%	11.0%	9.5%	8.8%	8.9%	8.7%
Total Crown expenses	**38.9%**	**39.0%**	**40.0%**	**43.9%**	**41.0%**	**48.4%**	**43.0%**	**41.4%**	**39.1%**	**38.8%**	**38.1%**
OBEGAL (excluding minority interests)	**4.3%**	**3.3%**	**3.0%**	**-2.1%**	**-3.2%**	**-8.9%**	**-4.3%**	**-2.0%**	**-1.2%**	**0.2%**	**0.7%**
Gains/(losses)	1.5%	1.2%	-1.7%	-3.5%	0.9%	2.4%	-2.6%	5.2%	2.4%	2.2%	-2.9%
Operating balance (excluding minority interests)	**5.8%**	**4.6%**	**1.3%**	**-5.5%**	**-2.3%**	**-6.5%**	**-6.9%**	**3.2%**	**1.3%**	**2.4%**	**-2.1%**
Statement of financial position											
Property, plant and equipment	54.1%	54.5%	54.6%	58.1%	57.6%	55.8%	50.4%	50.2%	49.5%	51.6%	53.4%
Financial assets and sovereign receivables	40.3%	42.0%	45.0%	49.3%	48.8%	56.0%	53.9%	54.3%	52.7%	56.2%	54.9%
Other assets	5.8%	6.3%	6.6%	7.2%	7.1%	7.3%	7.2%	7.2%	7.1%	7.8%	7.9%
Total assets	**100.2%**	**102.8%**	**106.2%**	**114.6%**	**113.6%**	**119.1%**	**111.6%**	**111.7%**	**109.3%**	**115.6%**	**116.3%**
Borrowings	24.3%	23.9%	24.4%	32.7%	35.5%	43.8%	46.7%	45.7%	44.0%	46.6%	45.3%
Other liabilities	24.9%	23.7%	26.0%	29.4%	29.8%	36.0%	37.2%	34.0%	30.9%	30.8%	33.0%
Total liabilities	**49.2%**	**47.6%**	**50.4%**	**62.1%**	**65.3%**	**79.8%**	**83.8%**	**79.7%**	**74.9%**	**77.4%**	**78.3%**
Minority interests	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%	0.9%	2.2%	2.4%	2.4%
Net worth attributable to the Crown	**50.8%**	**55.0%**	**55.6%**	**52.3%**	**48.1%**	**39.1%**	**27.6%**	**31.1%**	**32.1%**	**35.8%**	**35.5%**
Cash position											
Core Crown residual cash	1.8%	1.6%	1.1%	-4.6%	-4.6%	-6.5%	-4.9%	-2.6%	-1.7%	-0.8%	-0.5%
Debt Indicators											
Net debt	9.8%	7.6%	5.4%	9.0%	13.6%	19.5%	23.5%	25.5%	25.5%	25.1%	24.6%
Gross debt	20.6%	17.5%	16.6%	22.9%	27.2%	35.2%	37.0%	35.6%	34.9%	35.6%	34.5%

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 2016

Opinion

I have audited the financial statements of the Government of New Zealand (the financial statements of the Government) for the year ended 30 June 2016 using my staff, resources and appointed auditors and their staff. The financial statements of the Government on pages 34 to 151 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2016, the statement of financial performance, analysis of expenses by functional classification, statement of comprehensive revenue and expense, statement of changes in net worth, and statement of cash flows for the year ended on that date, a statement of segments, and notes to the financial statements that include accounting policies, borrowings as at 30 June 2016, and other explanatory information;
- a statement of unappropriated expenditure for the year ended 30 June 2016;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended 30 June 2016; and
- a statement of trust money, administered by departments, for the year ended 30 June 2016.

In my opinion, the financial statements of the Government on pages 34 to 151:

- present fairly, in all material respects the Government's:
  - financial position as at 30 June 2016;
  - financial performance and cash flows for the year ended on that date;
  - borrowings as at 30 June 2016;
  - unappropriated expenditure for the year ended 30 June 2016;
  - emergency expenses and capital expenditure for the year ended 30 June 2016; and
  - trust money administered by departments for the year ended 30 June 2016.
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Sector Public Benefit Entity Accounting Standards.

Basis for Opinion

The audit has been carried out in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand) (ISAs (NZ)). My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements of the Government* section of this report.

While carrying out this audit, my staff, and appointed auditors and their staff followed my independence requirements, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with my independence requirements.

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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the Government of the current period. In applying my professional judgement to determine key audit matters, I considered those matters that could be complex, have a high degree of uncertainty, or are important to the public.

Because of the nature of the Government's activities, I recognise that key audit matters may be long-standing, and therefore, may not change significantly from one year to the next. These matters were addressed in my audit of the financial statements of the Government as a whole, and in forming my opinion thereon.

Recognition of tax revenue	
Key audit matter	*What we did*
The Government recognised tax revenue of $63.1 billion for the year ended 30 June 2016. Tax revenue is the main source of revenue for the Government. As outlined in note 2, it is necessary to estimate some components of tax revenue at 30 June 2016 because of timing differences between the reporting date for the financial statements of the Government and when taxpayers file tax returns. At 30 June 2016, the most significant estimates were those about companies' and other persons' income tax revenue totalling $14.4 billion (net of refunds). Estimating income tax revenue is complex and relies on judgement. The recognition of income tax revenue is a key audit matter because it is a significant source of the Government's revenue, and is subject to significant uncertainties, complexities, and judgements.	We obtained an understanding of the systems, processes, and controls in place over the receipt of tax revenue, and assessed significant reconciliation processes. We carried out audit procedures to confirm the value of tax revenue as at 30 June 2016. This involved testing the data used in the estimation models to ensure that it was relevant and was used appropriately, checking the evidence to support the reasonableness of underlying assumptions applied in the models, and testing the sensitivity of the underlying assumptions used in the models. We also reviewed the historical accuracy of the estimation models to ensure that they had previously provided reasonably accurate estimates, and we checked receipts after year end to confirm the validity of some estimates. I am satisfied that the estimates included in tax revenue at 30 June 2016 are reasonable, and that the disclosures about the key estimates and judgements are appropriate.

Valuing property, plant and equipment	
Key audit matter	*What we did*
The Government owns a number of significant assets that can be difficult to value because of the nature of the assets. I have identified the following specific asset types where such difficulties are considered key audit matters because of the significance of those assets, and the uncertainties inherent in making the valuations.	
State highway network As outlined in note 18, the state highway network has been valued at $22.3 billion at 30 June 2016 by an independent external valuer. The valuation is based on information from a number of databases that identify the asset components that make up the network (roads, bridges, culverts, etc.), and their expected useful lives. These asset components exclude land which is separately recorded, as set out in note 18. It is possible that some of the information in the databases could be incomplete or has been indexed using assumptions that cannot be easily verified. This includes additional brownfields costs, such as traffic management, that cannot be applied to historic road construction because of incomplete records about these costs. As a result, there are uncertainties about the valuation of the state highway network.	We obtained an understanding of how the state highway network is valued. This involved confirming the competence, capabilities, and objectivity of the valuer, testing the valuer's valuation procedures, including the information they extracted from databases, and challenging the valuer's critical assumptions and judgements. We also carried out audit procedures to confirm that key controls were operating over the state highway network systems. This involved testing a sample of asset components to check whether appropriate approval had been obtained for expenditure on the components and whether there was adequate supporting documentation. We also reviewed the valuer's estimates of known brownfields costs, and in particular brownfields costs associated with roading components constructed or acquired during the year. I am satisfied that the value of the state highway network is reasonable and consistent with valuation practices, and that the disclosures appropriately outline the uncertainties about the valuation of the state highway network.

<table>
<tr><th colspan="2">Valuing property, plant and equipment (continued)</th></tr>
<tr><td>Electricity generation assets

As outlined in note 18, the electricity generation assets, which are at least 51% owned by the Government, are valued at $15.7 billion at 30 June 2016. The valuation of these assets is carried out by specialist valuers because of the complexity and significance of the assumptions about the future prices of electricity, the generation costs, and the generation volumes that these assets will create.

As a result, small changes to these assumptions, in particular the forecast prices of electricity and the discount rates used to determine the present value of these prices, could significantly change the value of these assets.</td><td>We obtained an understanding of how electricity generation assets are valued. This involved confirming the competence, capabilities, and objectivity of the valuers, testing the valuer’s procedures for carrying out the valuations, including the information they used to carry them out, and challenging the valuer’s critical assumptions and judgements. We also used our own valuation specialists to assess the valuers procedures.

We tested the sensitivity of the key underlying assumptions used by the valuers to ensure that they were reasonable, and we compared the forecast prices of electricity to the expected longer-term wholesale prices and market data where it was available.

We also confirmed the underlying information held about assets by verifying asset purchases and disposals in the current period. This included testing whether there was adequate supporting documentation for those purchases and disposals. It also involved confirming the opening assets balances, and evaluating the related financial statement disclosures.

I am satisfied that the valuation of electricity generation assets is reasonable and the disclosures appropriately outline the sensitivity and the complexity of the valuation of electricity generation assets.</td></tr>
<tr><td>Rail network

As outlined in note 18, the rail network has been valued at $959 million at 30 June 2016. In arriving at this value the freight and the metro transport parts of the network have been valued on different bases, reflecting the commercial nature of the freight part of the network and public benefit nature of the metro transport part of the network.

The extent to which the freight part of the network is commercial is open to debate, given the expected government funding required in future years. If it was not considered commercial, the basis for valuing the freight part of the network would change to reflect a public benefit nature. As outlined in note 18, if the freight part of the network had been valued based on a public benefit value rather than a commercial value, the rail network would increase in value by $4.2 billion.</td><td>We considered the evidence around the commercial nature versus the public benefit nature of the freight part of the rail network. The evidence included reviewing:
• the State owned Enterprises Act 1986;
• strategy documents;
• forecast results;
• correspondence setting out the Minister’s expectations; and
• minutes from Board meetings.

As in past years, the evidence showed mixed results for the commercial nature versus the public benefit nature of the freight part of the rail network.

It is a finely balanced judgement whether to value the freight part of the network on a commercial basis.

On balance, I am satisfied that the judgement to value the freight part of the network on a commercial basis is once again marginal but reasonable, and that the disclosures are appropriate.</td></tr>
</table>

<table>
<tr><th colspan="2">Valuing long-term liabilities</th></tr>
<tr><th>Key audit matter</th><th>What we did</th></tr>
<tr><td>The valuation of the Government’s long-term liabilities is complex and requires actuaries to estimate the value, based on assumptions about the future. I have identified the following specific liabilities where such complexities are considered key audit matters because of the significance of the value of those liabilities, and the uncertainties inherent in making those valuations.</td><td></td></tr>
<tr><td>ACC’s outstanding claims liability

As outlined in note 22, ACC’s outstanding claims liability has been valued at $36.6 billion at 30 June 2016 by an independent actuary.

The assumptions used to calculate the value of the outstanding claims liability include estimating the length of rehabilitation from injuries, estimating amounts of cash payments and when they will occur, and estimating inflation and discount rates.

The sensitivities are demonstrated in note 2, which indicates that changes in the assumptions can have a large effect on the amount of the liability, which also effects the amount of the actuarial gain or loss on the liability.</td><td>We obtained an understanding of how ACC’s outstanding claims liability is valued, which included considering the appropriateness of the assumptions adopted by ACC for each significant claim type.

We tested the underlying process for recording claims, used our own actuarial specialists to assess the approach taken to valuing the liability, and assessed the significant assumptions used in the valuation by evaluating them against past claims.

We also tested the reconciliations of the underlying claims data to ACC’s systems, examined the sensitivity analysis for movements in key assumptions, and evaluated the related financial statement disclosures.

I am satisfied that ACC’s outstanding claims liability is reasonable, and that the disclosures appropriately outline the sensitivities of the valuation to changes in assumptions.</td></tr>
</table>

Valuing long-term liabilities (continued)	
Valuing Government employees superannuation liability As outlined in note 23, the Government's liability for public servants superannuation entitlements for past and current members under the Government Superannuation Fund has been valued at $12.4 billion at 30 June 2016 by an independent actuary. The assumptions used to calculate the value of the liability include estimating the return on assets owned by the Fund, estimating expected rates of salary increases for public servants who are members of the Fund, and estimating inflation and discount rates. As demonstrated in note 2, changes in the assumptions can have a large effect on the amount of the liability.	We obtained an understanding of how the Government's liability for public servants superannuation entitlements is valued. This involved, confirming the competence, capabilities, and objectivity of the actuary, as well as testing the actuary's valuation procedures. We used our own valuation specialists to assess the actuary's procedures, and we challenged the actuary's critical assumptions and judgements. We also tested key controls over the completeness and accuracy of membership data, which was used in the actuary's valuation and we evaluated the appropriateness of key assumptions on the return on assets and expected rates of salary increases, against external benchmarks. I am satisfied that the Government's liability for public servants superannuation entitlements is reasonable, and that the disclosures appropriately outline the sensitivities of the valuation to changes in assumptions.

Valuing financial assets and liabilities at their fair value	
Key audit matter	*What we did*
As outlined in note 29, the Government has financial assets of $125.8 billion, of which $71.8 billion are valued at their fair value, and financial liabilities of $127.2 billion, of which $12.3 billion are valued at their fair value. The financial assets and liabilities measured at fair value include derivatives (which have a principal value of $221.5 billion), marketable securities, and share investments. Where quoted market prices are not available to determine the value of financial assets and liabilities, fair value must be estimated. This is done by applying a valuation approach that is most appropriate for the asset or liability, such as using valuation models. Inputs into the models will use market data when available, otherwise inputs are derived from non-market data, which requires judgement. We consider that valuing financial assets and financial liabilities at their fair value is a key audit matter, given their significance, including the principal value of derivatives, and the estimations required.	We obtained an understanding of the valuation processes used by entities to determine the fair value of financial assets and liabilities. Where a fund manager carries out the valuation, we obtained an understanding of the controls and valuation approaches applied. We also carried out a range of audit procedures which reflected the nature of the financial assets and liabilities being valued and the uncertainties associated in determining their fair value. These audit procedures included a mixture of: • testing the internal controls over data relating to financial assets and liabilities that has been entered into systems; • confirming the fair value of financial assets and liabilities to independently sourced valuations, and investigating any significant variances; • confirming the value of financial assets and liabilities to independent pricing sources; and • evaluating the appropriateness of the inputs used for valuing financial assets and liabilities where the fair value was dependent on significant non-market inputs. I am satisfied that the fair values for financial assets and liabilities are reasonable and that the disclosures are appropriate.

Accounting for the effects of the Canterbury earthquakes	
Key audit matter	*What we did*
The outstanding earthquake insurance liabilities for the Canterbury earthquakes, as outlined in note 31, are $2.1 billion at 30 June 2016. The calculation of these liabilities is complex and is carried out by independent actuaries. The calculations have to take into account estimates of the extent of the damage, which is often not clearly known, uncertainties arising from changing land policies and engineering requirements in response to issues such as liquefaction and flooding, and associated legal claims. I have included the outstanding Canterbury earthquakes liabilities as a key audit matter because of the public interest in these liabilities.	We obtained an understanding of how the outstanding earthquake insurance liabilities for the Canterbury earthquakes were valued. This involved confirming the competence, capabilities, and objectivity of the actuaries, testing the actuaries' valuation procedures, including the information they used, and challenging the actuaries critical assumptions and judgements. We evaluated whether the latest information about the effects of the earthquakes, including the damage, claims paid out, and repairs undertaken, had been used by the actuaries. We also used our own actuarial specialists to assess the actuaries' procedures. We tested a sample of claims and payments of claims during the year to ensure that appropriate controls were in place, they had been appropriately approved, they had supporting evidence, and they had been correctly incorporated into the information used by the actuaries. I am satisfied that the earthquake insurance liabilities are reasonable and that the disclosures appropriately outline the uncertainties over the valuation of the earthquake insurance liabilities.

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

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

- comply with generally accepted accounting practice in New Zealand in accordance with Public Sector Public Benefit Entity Accounting Standards;
- present fairly, in all material respects the Government's financial position, financial performance, and cash flows; and
- presents fairly, in all material respects the Government's:
  - borrowings;
  - unappropriated expenditure;
  - expenses or capital expenditure incurred in emergencies; and
  - trust money administered by departments.

The Minister of Finance is responsible for forming an opinion that the financial statements of the Government present fairly in all material respects the financial position and financial performance of the Government.

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

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

In preparing the financial statements of the Government, the Treasury is responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements of the Government

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

My objectives are to obtain reasonable assurance about whether the financial statements of the Government as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions users take on the basis of the financial statements of the Government. If material misstatements had been found that were not corrected, I would have referred to them in my opinion.

As part of an audit in accordance with ISAs (NZ), I exercised professional judgement and maintained professional scepticism throughout the audit. Also:

- I identified and assessed the risks of material misstatement of the financial statements of the Government, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control used by the Treasury to prepare the financial statements of the Government.

- I evaluated the appropriateness of accounting policies used, and the reasonableness of accounting estimates and related disclosures made by the Treasury.
- I concluded on the appropriateness of the use of the going concern basis of accounting that has been used by the Treasury to prepare the financial statements of the Government, up to the date of my auditor's report based on the audit evidence I have obtained.
- I evaluated the overall presentation, structure, and content of the financial statements of the Government, including the disclosures, and whether the financial statements of the Government represent the underlying transactions and events in a manner that achieves fair presentation.

For the budget information reported in the financial statements of the Government, my procedures were limited to checking that the amounts agree to the Government's most recent forecast.

As part of my audit, I obtained information from my staff, and appointed auditors of the organisations that are consolidated into the financial statements of the Government, including information about:

- eliminations of transactions between the organisations that are consolidated into the financial statements of the Government;
- application by those organisations of appropriate accounting policies and Treasury instructions to prepare the financial statements of the Government; and
- relevant risks of material misstatement of the financial statements of those organisations that may affect the financial statements of the Government.

I have communicated with the Treasury, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

From the matters communicated with the Treasury, I determined those matters that were of most significance in the audit of the financial statements of the Government of the current period and are therefore the key audit matters described in this report.

I did not evaluate the security and controls over the publication, whether in printed or electronic form, of the financial statements of the Government.

Other information

In addition to preparing the financial statements of the Government, the Treasury is also responsible for preparing the other information on pages 3 to 24 and 153 to 162.

My opinion on the financial statements of the Government does not cover the other information. As a result, I do not express any form of audit opinion or assurance conclusion on that information.

In connection with my audit of the financial statements of the Government, my responsibility is to read the other information, and, in doing so, consider whether this information is materially inconsistent with the financial statements of the Government, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Lyn Provost
Controller and Auditor-General
Wellington, New Zealand
30 September 2016

AUDITED FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND

Statement of Financial Performance

for the year ended 30 June 2016

2016 Forecast				Actual	
Budget 2015 $m	Budget 2016 $m		Note	30 June 2016 $m	30 June 2015 $m
		Revenue			
68,098	68,931	Taxation revenue	3	69,668	66,055
4,606	4,637	Other sovereign revenue	3	4,643	4,953
72,704	**73,568**	**Total sovereign revenue**		**74,311**	**71,008**
17,044	16,618	Sales of goods and services	4	16,364	16,365
4,064	3,721	Interest revenue and dividends	5	3,603	3,524
3,580	3,607	Other revenue	6	3,881	3,615
24,688	**23,946**	**Total revenue earned through operations**		**23,848**	**23,504**
97,392	**97,514**	**Total revenue (excluding gains)**		**98,159**	**94,512**
		Expenses			
24,482	24,421	Transfer payments and subsidies	7	24,312	23,723
21,594	21,783	Personnel expenses	8	21,763	21,124
4,253	4,234	Depreciation		3,912	3,873
38,131	37,696	Other operating expenses	9	36,832	36,378
4,687	4,472	Interest expenses	10	4,336	4,563
4,348	4,335	Insurance expenses	11	4,725	4,110
305	2	Forecast new operating spending		-	-
(1,025)	(600)	Top-down expense adjustment		-	-
96,775	**96,343**	**Total expenses (excluding losses)**		**95,880**	**93,771**
441	503	Less minority interests share of operating balance before gains and losses		448	327
176	**668**	**Operating balance before gains and losses (excluding minority interests)**		**1,831**	**414**
2,560	1,041	Net gains/(losses) on financial instruments	12	1,117	6,196
(45)	(4,496)	Net gains/(losses) on non-financial instruments	13	(8,636)	(1,649)
2,515	**(3,455)**	**Total gains/(losses)**		**(7,519)**	**4,547**
32	62	Less minority interests share of total gains/(losses)		(12)	218
2,483	**(3,517)**	**Gains/(losses) (excluding minority interests)**		**(7,507)**	**4,329**
331	284	Net surplus from associates and joint ventures		307	1,028
2,990	**(2,565)**	**Operating balance (excluding minority interests)**		**(5,369)**	**5,771**
		Operating balance allocated between:			
2,990	(2,565)	Operating balance (excluding minority interests)		(5,369)	5,771
473	565	Minority interests share of operating balance	25	436	545
3,463	**(2,000)**	**Operating balance (including minority interests)**		**(4,933)**	**6,316**

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 2016

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
		Total Crown expenses		
29,231	29,036	Social security and welfare	28,901	28,231
15,103	15,156	Health	15,160	14,696
13,894	13,968	Education	13,809	13,537
4,385	4,236	Core government services	3,950	3,898
3,841	3,926	Law and order	3,894	3,730
9,437	9,435	Transport and communications	9,400	9,279
7,657	7,481	Economic and industrial services	7,428	7,734
2,036	2,033	Defence	2,013	1,917
2,304	2,208	Heritage, culture and recreation	2,210	2,198
1,896	1,908	Primary services	1,852	1,740
569	687	Environmental protection	580	616
1,547	1,593	Housing and community development	1,600	1,114
371	290	GSF pension expenses	286	373
537	512	Other	461	145
4,687	4,472	Finance costs	4,336	4,563
305	2	Forecast new operating spending	-	-
(1,025)	(600)	Top-down expense adjustment	-	-
96,775	**96,343**	**Total Crown expenses (excluding losses)**	**95,880**	**93,771**

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. Details of unappropriated expenditure can be found on pages 141 to 146.

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
		Core Crown expenses		
24,275	24,296	Social security and welfare	24,081	23,523
15,581	15,635	Health	15,626	15,058
13,134	13,215	Education	13,158	12,879
4,811	4,446	Core government services	4,102	4,134
3,582	3,691	Law and order	3,648	3,515
2,214	2,246	Transport and communications	2,178	2,291
2,262	2,134	Economic and industrial services	2,107	2,228
2,087	2,047	Defence	2,026	1,961
808	794	Heritage, culture and recreation	787	778
742	777	Primary services	749	667
605	685	Environmental protection	587	723
582	583	Housing and community development	558	320
355	272	GSF pension expenses	271	358
537	512	Other	461	145
3,676	3,647	Finance costs	3,590	3,783
305	2	Forecast new operating spending	-	-
(1,025)	(600)	Top-down expense adjustment	-	-
74,531	**74,382**	**Total core Crown expenses (excluding losses)**	**73,929**	**72,363**

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

Statement of Comprehensive Revenue and Expense

for the year ended 30 June 2016

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
3,463	**(2,000)**	**Operating balance (including minority interests)**	**(4,933)**	**6,316**
		Other comprehensive revenue and expense		
-	(259)	Revaluation of physical assets	8,585	5,172
-	-	Share of associates revaluation of physical assets	280	347
20	(231)	Other revaluations reflected directly in reserves	(277)	(5)
6	(4)	Other movements	34	(13)
26	**(494)**	**Total other comprehensive revenue and expense**	**8,622**	**5,501**
3,489	**(2,494)**	**Total comprehensive revenue and expense**	**3,689**	**11,817**
		Attributable to:		
480	413	- minority interests	777	849
3,009	(2,907)	- the Crown	2,912	10,968
3,489	**(2,494)**	**Total comprehensive revenue and expense**	**3,689**	**11,817**

Statement of Changes in Net Worth

for the year ended 30 June 2016

2016 Forecast Budget 2015 $m	Budget 2016 $m		Note	Actual Taxpayer funds $m	Reserves $m	Minority interests $m	Total net worth $m
80,779	**80,697**	**Net worth at 30 June 2014**		**13,218**	**62,268**	**5,211**	**80,697**
(251)	6,316	Operating balance		5,771	-	545	6,316
(51)	5,520	Net revaluations	18	-	5,274	246	5,520
(113)	-	Transfers to/(from) reserves		392	(392)	-	-
7	(56)	(Gains)/losses transferred to the statement of financial performance		-	(56)	-	(56)
(51)	37	Other movements		(27)	6	58	37
(459)	**11,817**	**Total comprehensive revenue and expense**		**6,136**	**4,832**	**849**	**11,817**
23	-	Increase in minority interest from Government share offers		-	-	-	-
(359)	(278)	Transactions with minority interests	25	-	-	(278)	(278)
79,984	**92,236**	**Net worth at 30 June 2015**		**19,354**	**67,100**	**5,782**	**92,236**
3,463	(2,000)	Operating balance		(5,369)	-	436	(4,933)
-	(259)	Net revaluations	18	-	8,413	452	8,865
30	(211)	Transfers to/(from) reserves		(106)	55	(85)	(136)
6	22	(Gains)/losses transferred to the statement of financial performance		-	(56)	-	(56)
(10)	(46)	Other movements		53	(78)	(26)	(51)
3,489	**(2,494)**	**Total comprehensive revenue and expense**		**(5,422)**	**8,334**	**777**	**3,689**
(438)	(440)	Transactions with minority interests	25	-	-	(404)	(404)
83,035	**89,302**	**Net worth at 30 June 2016**		**13,932**	**75,434**	**6,155**	**95,521**

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

Statement of Cash Flows

for the year ended 30 June 2016

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
		Cash Flows From Operations		
		Cash was provided from		
67,001	68,401	Taxation receipts	69,027	64,945
4,357	4,566	Other sovereign receipts	4,685	4,731
17,352	17,130	Sales of goods and services	17,074	17,232
3,608	3,401	Interest and dividend receipts	3,430	3,364
4,621	4,044	Other operating receipts	4,131	3,823
96,939	**97,542**	**Total cash provided from operations**	**98,347**	**94,095**
		Cash was disbursed to		
24,498	24,449	Transfer payments and subsidies	24,338	23,896
63,069	62,110	Personnel and operating payments	61,160	60,009
4,704	4,438	Interest payments	4,333	4,598
305	2	Forecast new operating spending	-	-
(1,025)	(600)	Top-down expense adjustment	-	-
91,551	**90,399**	**Total cash disbursed to operations**	**89,831**	**88,503**
5,388	**7,143**	**Net cash flows from operations**	**8,516**	**5,592**
		Cash Flows From Investing Activities		
		Cash was provided from		
790	510	Sale of physical assets	683	775
89,988	102,816	Sale of shares and other securities	101,343	109,854
-	20	Sale of intangible assets	-	3
1,552	1,919	Repayment of advances	1,278	1,361
25	162	Sale of investments in associates	167	241
92,355	**105,427**	**Total cash provided from investing activities**	**103,471**	**112,234**
		Cash was disbursed to		
8,918	7,394	Purchase of physical assets	6,881	6,952
90,796	102,861	Purchase of shares and other securities	99,933	114,570
744	723	Purchase of intangible assets	687	635
3,177	2,881	Advances made	2,980	3,242
100	46	Acquisition of investments in associates	54	88
316	31	Forecast for new capital spending	-	-
(280)	(100)	Top-down capital adjustment	-	-
103,771	**113,836**	**Total cash disbursed to investing activities**	**110,535**	**125,487**
(11,416)	**(8,409)**	**Net cash flows from investing activities**	**(7,064)**	**(13,253)**
(6,028)	**(1,266)**	**Net cash flows from operating and investing activities**	**1,452**	**(7,661)**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2016

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
(6,028)	**(1,266)**	**Net cash flows from operating and investing activities**	**1,452**	**(7,661)**
		Cash Flows From Financing Activities		
		Cash was provided from		
164	564	Issue of circulating currency	378	372
-	-	Government share offer programme	-	579
8,462	8,342	Issue of Government bonds	8,029	8,058
-	76	Issue of foreign currency borrowings	2,480	1,227
8,010	7,834	Issue of other New Zealand dollar borrowings	8,708	14,506
16,636	**16,816**	**Total cash provided from financing activities**	**19,595**	**24,742**
		Cash was disbursed to		
1,777	1,778	Repayment of Government bonds	1,779	6,510
1,494	495	Repayment of foreign currency borrowings	270	3,548
7,045	10,062	Repayment of other New Zealand dollar borrowings	14,669	7,429
464	492	Dividends paid to minority interests	509	478
10,780	**12,827**	**Total cash disbursed to financing activities**	**17,227**	**17,965**
5,856	**3,989**	**Net cash flows from financing activities**	**2,368**	**6,777**
(172)	**2,723**	**Net movement in cash**	**3,820**	**(884)**
13,209	11,982	Opening cash balance	11,982	11,888
-	331	Foreign-exchange gains/(losses) on opening cash	(185)	978
13,037	**15,036**	**Closing cash balance**	**15,617**	**11,982**

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

Statement of Cash Flows (continued)

for the year ended 30 June 2016

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
		Reconciliation Between the Net Cash Flows from Operations and the Operating Balance		
5,388	**7,143**	**Net Cash Flows from Operations**	**8,516**	**5,592**
		Items included in the operating balance but not in net cash flows from operations		
		Gains/(losses)		
2,560	1,041	Net gains/(losses) on financial instruments	1,117	6,196
(45)	(4,496)	Net gains/(losses) on non-financial instruments	(8,636)	(1,649)
32	62	Less minority interests share of net/gains/(losses)	(12)	218
2,483	**(3,517)**	**Total gains/(losses)**	**(7,507)**	**4,329**
		Other Non-cash Items in Operating Balance		
(4,904)	(4,875)	Depreciation and amortisation	(4,875)	(4,842)
(773)	(806)	Cost of concessionary lending	(747)	(696)
(125)	(82)	Impairment of financial assets (excl receivables)	(169)	(305)
370	445	Change in accumulating pension expenses	420	373
705	170	Change in accumulating insurance expenses	(597)	746
(109)	(218)	Other non-cash items	(85)	699
(4,836)	**(5,366)**	**Total other non-cash items in operating balance**	**(6,053)**	**(4,025)**
		Movements in Working Capital		
(278)	(229)	Increase/(decrease) in receivables	(532)	141
445	286	Increase/(decrease) in accrued interest	169	196
22	(16)	Increase/(decrease) in inventories	115	(105)
(10)	(3)	Increase/(decrease) in prepayments	70	(12)
(9)	(18)	Decrease/(increase) in deferred revenue	(66)	(149)
(215)	(845)	Decrease/(increase) in payables/provisions	(81)	(196)
(45)	**(825)**	**Total movements in working capital**	**(325)**	**(125)**
2,990	**(2,565)**	**Operating balance (excluding minority interests)**	**(5,369)**	**5,771**

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

Statement of Financial Position

as at 30 June 2016

2016 Forecast				Actual	
Budget 2015 $m	Budget 2016 $m		Note	30 June 2016 $m	30 June 2015 $m
		Assets			
13,037	15,036	Cash and cash equivalents		15,617	11,982
17,468	16,946	Receivables	14	16,789	17,602
46,799	49,729	Marketable securities, deposits and derivatives in gain	15	53,398	54,298
25,921	25,443	Share investments	16	24,217	25,408
28,669	27,504	Advances	17	28,234	26,497
1,089	979	Inventory		1,110	995
2,165	2,346	Other assets		2,914	2,389
123,577	127,001	Property, plant & equipment	18	134,499	124,558
11,126	12,172	Equity accounted investments	19	12,705	12,429
3,264	3,306	Intangible assets and goodwill		3,196	3,056
316	31	Forecast for new capital spending		-	-
(655)	(100)	Top-down capital adjustment		-	-
272,776	**280,393**	**Total assets**		**292,679**	**279,214**
		Liabilities			
5,640	5,900	Issued currency		5,715	5,336
12,232	12,088	Payables	20	12,029	12,464
2,012	2,130	Deferred revenue		2,178	2,112
113,377	113,009	Borrowings	21	113,956	112,580
37,814	39,325	Insurance liabilities	22	42,126	36,431
12,190	11,287	Retirement plan liabilities	23	12,442	10,834
6,476	7,352	Provisions	24	8,712	7,221
189,741	**191,091**	**Total liabilities**		**197,158**	**186,978**
83,035	**89,302**	**Total assets less total liabilities**		**95,521**	**92,236**
		Net Worth			
15,978	16,807	Taxpayer funds		13,932	19,354
61,873	66,831	Property, plant and equipment revaluation reserve	18	75,626	67,107
(39)	(91)	Other reserves		(192)	(7)
77,812	**83,547**	**Total net worth attributable to the Crown**		**89,366**	**86,454**
5,223	5,755	Net worth attributable to minority interests	25	6,155	5,782
83,035	**89,302**	**Total net worth**		**95,521**	**92,236**

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

Statement of Segments

	Current Year Actual vs Estimated Actuals (Budget 2016)									
	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2016 $m	Forecast Budget 2016 $m	Actual 2016 $m	Forecast Budget 2016 $m	Actual 2016 $m	Forecast Budget 2016 $m	Actual 2016 $m	Forecast Budget 2016 $m	Actual 2016 $m	Forecast Budget 2016 $m
Revenue										
Taxation revenue	70,445	69,682	-	-	-	-	(777)	(751)	69,668	68,931
Other sovereign revenue	1,116	1,178	4,712	4,632	-	-	(1,185)	(1,173)	4,643	4,637
Revenue from core Crown funding	-	-	26,197	26,326	113	118	(26,310)	(26,444)	-	-
Sales of goods and services	1,453	1,470	1,938	1,863	13,538	13,807	(565)	(522)	16,364	16,618
Interest revenue and dividends	2,389	2,404	1,484	1,470	997	1,061	(1,267)	(1,214)	3,603	3,721
Other revenue	718	595	2,807	2,376	729	849	(373)	(213)	3,881	3,607
Total Revenue (excluding gains)	**76,121**	**75,329**	**37,138**	**36,667**	**15,377**	**15,835**	**(30,477)**	**(30,317)**	**98,159**	**97,514**
Expenses										
Transfer payments and subsidies	24,312	24,421	-	-	-	-	-	-	24,312	24,421
Personnel expenses	6,666	6,683	12,205	12,185	2,921	2,937	(29)	(22)	21,763	21,783
Other operating expenses	39,361	40,229	25,004	24,641	10,133	10,383	(29,029)	(28,988)	45,469	46,265
Interest expenses	3,590	3,647	215	176	1,154	1,246	(623)	(597)	4,336	4,472
Forecast new operating spending and top down adjustment	-	(598)	-	-	-	-	-	-	-	(598)
Total Expenses (excluding losses)	**73,929**	**74,382**	**37,424**	**37,002**	**14,208**	**14,566**	**(29,681)**	**(29,607)**	**95,880**	**96,343**
Minority interest share of operating balance before gains/(losses)	-	-	14	13	(474)	(549)	12	33	(448)	(503)
Operating Balance before gains and losses (excluding minority interests)	**2,192**	**947**	**(272)**	**(322)**	**695**	**720**	**(784)**	**(677)**	**1,831**	**668**
Gains/(losses) and other items	(3,104)	(1,384)	(3,208)	(1,789)	25	153	(913)	(213)	(7,200)	(3,233)
Operating Balance	**(912)**	**(437)**	**(3,480)**	**(2,111)**	**720**	**873**	**(1,697)**	**(890)**	**(5,369)**	**(2,565)**
Assets										
Financial assets	88,014	87,146	47,485	45,268	24,237	23,706	(21,481)	(21,462)	138,255	134,658
Property, plant and equipment	35,697	32,995	66,770	62,967	32,033	31,039	(1)	-	134,499	127,001
Investments in associates, CEs and SOEs	38,376	38,222	10,819	10,077	228	548	(36,718)	(36,675)	12,705	12,172
Other assets	3,083	3,063	1,795	1,268	2,421	2,336	(79)	(36)	7,220	6,631
Forecast adjustments	-	(69)	-	-	-	-	-	-	-	(69)
Total Assets	**165,170**	**161,357**	**126,869**	**119,580**	**58,919**	**57,629**	**(58,279)**	**(58,173)**	**292,679**	**280,393**
Liabilities										
Borrowings	95,036	95,671	5,961	5,924	29,813	29,579	(16,854)	(18,165)	113,956	113,009
Other liabilities	33,515	31,271	50,615	46,977	7,848	7,480	(8,776)	(7,646)	83,202	78,082
Total Liabilities	**128,551**	**126,942**	**56,576**	**52,901**	**37,661**	**37,059**	**(25,630)**	**(25,811)**	**197,158**	**191,091**
Net Worth	**36,619**	**34,415**	**70,293**	**66,679**	**21,258**	**20,570**	**(32,649)**	**(32,362)**	**95,521**	**89,302**
Cost of Acquisition of Physical Assets (Cash)	**1,971**	**2,130**	**3,240**	**3,218**	**1,681**	**2,077**	**(11)**	**(31)**	**6,881**	**7,394**

Statement of Segments (continued)

Current Year Actual vs Prior Year Actual

	Core Crown		Crown entities		State-owned enterprises		Inter-segment eliminations		Total Crown	
	Actual 2016 $m	Actual 2015 $m	Actual 2016 $m	Actual 2015 $m	Actual 2016 $m	Actual 2015 $m	Actual 2016 $m	Actual 2015 $m	Actual 2016 $m	Actual 2015 $m
Revenue										
Taxation revenue	70,445	66,636	-	-	-	-	(777)	(581)	69,668	66,055
Other sovereign revenue	1,116	993	4,712	5,062	-	-	(1,185)	(1,102)	4,643	4,953
Revenue from core Crown funding	-	-	26,197	25,535	113	139	(26,310)	(25,674)	-	-
Sales of goods and services	1,453	1,393	1,938	1,854	13,538	13,670	(565)	(552)	16,364	16,365
Interest revenue and dividends	2,389	2,452	1,484	1,429	997	1,043	(1,267)	(1,400)	3,603	3,524
Other revenue	718	739	2,807	2,414	729	822	(373)	(360)	3,881	3,615
Total Revenue (excluding gains)	**76,121**	**72,213**	**37,138**	**36,294**	**15,377**	**15,674**	**(30,477)**	**(29,669)**	**98,159**	**94,512**
Expenses										
Transfer payments and subsidies	24,312	23,723	-	-	-	-	-	-	24,312	23,723
Personnel expenses	6,666	6,552	12,205	11,660	2,921	2,935	(29)	(23)	21,763	21,124
Other operating expenses	39,361	38,305	25,004	23,750	10,133	10,493	(29,029)	(28,187)	45,469	44,361
Interest expenses	3,590	3,783	215	221	1,154	1,280	(623)	(721)	4,336	4,563
Total Expenses (excluding losses)	**73,929**	**72,363**	**37,424**	**35,631**	**14,208**	**14,708**	**(29,681)**	**(28,931)**	**95,880**	**93,771**
Minority interest share of operating balance before gains/(losses)	-	-	14	21	(474)	(384)	12	36	(448)	(327)
Operating Balance before gains and losses (excluding minority interests)	**2,192**	**(150)**	**(272)**	**684**	**695**	**582**	**(784)**	**(702)**	**1,831**	**414**
Gains/(losses) and other items	(3,104)	4,029	(3,208)	2,102	25	107	(913)	(881)	(7,200)	5,357
Operating Balance	**(912)**	**3,879**	**(3,480)**	**2,786**	**720**	**689**	**(1,697)**	**(1,583)**	**(5,369)**	**5,771**
Assets										
Financial assets	88,014	88,754	47,485	45,257	24,237	22,588	(21,481)	(20,812)	138,255	135,787
Property, plant and equipment	35,697	32,289	66,770	61,416	32,033	30,852	(1)	1	134,499	124,558
Investments in associates, CEs and SOEs	38,376	35,394	10,819	9,790	228	565	(36,718)	(33,320)	12,705	12,429
Other assets	3,083	2,787	1,795	1,792	2,421	2,404	(79)	(543)	7,220	6,440
Total Assets	**165,170**	**159,224**	**126,869**	**118,255**	**58,919**	**56,409**	**(58,279)**	**(54,674)**	**292,679**	**279,214**
Liabilities										
Borrowings	95,036	95,549	5,961	5,640	29,813	28,437	(16,854)	(17,046)	113,956	112,580
Other liabilities	33,515	30,273	50,615	45,277	7,848	7,573	(8,776)	(8,725)	83,202	74,398
Total Liabilities	**128,551**	**125,822**	**56,576**	**50,917**	**37,661**	**36,010**	**(25,630)**	**(25,771)**	**197,158**	**186,978**
Net Worth	**36,619**	**33,402**	**70,293**	**67,338**	**21,258**	**20,400**	**(32,649)**	**(28,903)**	**95,521**	**92,236**
Cost of Acquisition of Physical Assets (Cash)	**1,971**	**1,999**	**3,240**	**2,882**	**1,681**	**2,085**	**(11)**	**(14)**	**6,881**	**6,952**

Notes to the Financial Statements

Note 1: Basis of Reporting

Statement of compliance

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

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

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

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

These financial statements were authorised for issue by the Minister of Finance on 30 September 2016.

Reporting period

The reporting period for these financial statements is the year ended 30 June 2016.

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

Basis of preparation

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

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

Accounting Standards issued and not yet effective and not early adopted

In 2015, the External Reporting Board issued *Disclosure Initiative (Amendments to PBE IPSAS 1)*, *2015 Omnibus Amendments to PBE Standards*, and *Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments*. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. The Government will apply these amendments in preparing its 30 June 2017 financial statements but expects there will be no material effect in applying them.

Note 1: Basis of Reporting (continued)

Government Reporting Entity as at 30 June 2016

Reporting entity

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

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

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

Basis of combination

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

Core Crown entities

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

Other entities

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

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

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

Tertiary education institutions are equity-accounted for the reasons explained in note 19 to the financial statements for the period ended 30 June 2016. This treatment recognises these entities’ net assets, including asset revaluation movements, surpluses and deficits.

Note 1: Basis of Reporting (continued)

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

Core Crown

Departments

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 Pacific Peoples
Ministry for Primary Industries
Ministry for the Environment
Ministry for Women
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 Social Development
Ministry of Transport
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
Office of the Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned Enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
Kiwirail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
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

Other

Air New Zealand Limited

Note 1: Basis of Reporting (continued)

Crown entities

Accident Compensation Corporation
Accreditation Council
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 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 (2,418)
Social Workers Registration Board
Sport and Recreation New Zealand
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 (28)
Transport Accident Investigation Commission
WorkSafe New Zealand

Note 1: Basis of Reporting (continued)

Crown entities

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust
Asia New Zealand Foundation
Fish and Game Councils (12)
Game Animal Council
Leadership Development Centre Trust
Māori Trustee
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngāi Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Reserves Boards (20)
Sentencing Council
Te Ariki Trust

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

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

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

Te Urewera

Others

Education Council of Aotearoa New Zealand
Regenerate Christchurch

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

Note 2: Key Assumptions and Judgements

These financial statements reflect the financial position (service potential and financial capacity) as at 30 June 2016, and the financial results of operations and cash flows for the year ended on that date. Underpinning these financial statements are a number of judgements, estimations and assumptions. These include assumptions and judgements about the future, in particular, the service benefits and future cash flows in relation to existing assets and liabilities.

Key assumptions

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

The valuation of many assets and liabilities are based on assumptions using market information. The most significant of these are:

Key Assumption	Methodology
Foreign exchange rates	Foreign currency denominated financial assets and liabilities are translated to New Zealand dollars at the reporting date.
Share prices	Listed share investments, which consist of approximately 95% of the Government's total share investments, are based on quoted market prices at balance date.
Interest rates	The majority of marketable securities and borrowings are valued using current market yield curves.
Carbon price	The carbon price has been determined by the Ministry for the Environment based on the quoted NZU spot price at the end of the reporting date as published by OM Financial Limited on their CommTrade Carbon website.
Property prices	Where possible property owned by the Crown is valued using market evidence. Property prices in relation to land and buildings can therefore impact the value of the Crown's assets.

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

Key Assumption	Methodology
Inflation rates	Inflation rate assumptions are used to help estimate future cash flows, as prices are expected to increase through time. The consumer price index (CPI) is often used to indicate the inflation rate. However, some costs are assumed to increase faster than the rate of inflation (referred to as superimposed inflation) due to factors such as innovation in medical treatment.
Discount rates (time value of money)	Discount rates are used to determine the value of future cash flows in today's dollar values. The Treasury sets a risk free discount rate for accounting valuation purposes. In the near term discount rates are based on market data and then smoothed to a single long-term risk-free interest rate of 4.75%. A full description of the evidence and methodology used to determine this rate can be found at http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates.

Note 2: Key Assumptions and Judgements (continued)

Key Assumption	Methodology
Amount and duration of future cash flows	Judgements around the duration of future cash flows are critical for valuations. Some examples of this are: • the length of rehabilitation from injuries for the ACC obligation • mortality rates for the GSF obligation • repayment rates of student loans. These assumptions are largely based on extrapolating historical experience. As time goes on, better information becomes available and estimates are updated to reflect more current information.

Sensitivity of key assumptions

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

The value of financial assets and financial liabilities are particularly sensitive to changes in market prices and account for a significant portion of the financial position. At 30 June 2016 financial assets totalled $125.8 billion (2015: $123.3 billion) while financial liabilities totalled $127.2 billion (2015: $126.0 billion).

	Impact on operating balance	
	2016 $m	**2015 $m**
Increase in NZ interest rates 1% (100 basis points)	**(896)**	(492)
Decrease in NZ interest rate 1% (100 basis points)	**926**	539
NZ dollar exchange rate strengthens by 10%	**(963)**	(907)
NZ dollar exchange rate weakens by 10%	**1,087**	1,043
Share prices strengthen by 10%	**2,394**	2,522
Share prices weaken by 10%	**(2,394)**	(2,522)
NZD carbon price increases by $1	**(127)**	(126)
NZD carbon price decreases by $1	**127**	126

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

Long term liabilities such as the ACC claims liability ($39.1 billion) and the GSF retirement plan ($12.4 billion) are particularly sensitive to the assumptions associated with estimating discounted cash flows. The table below outlines the sensitivity of those liabilities to key assumptions:

	Change	Impact on operating balance	
		2016 $m	**2015 $m**
Sensitivity of assumptions			
Risk-free discount rate	+1%	**6,967**	5,457
	-1%	**(9,139)**	(7,062)
Inflation rates (including superimposed inflation)	+1%	**(9,100)**	(7,074)
	-1%	**7,048**	5,545
Average weighted term to settlement from reporting date (ACC only)	+1 year	**1,106**	902
	-1 year	**(1,141)**	(930)
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims (ACC only)	+1%	**(3,336)**	(2,517)
	-1%	**2,445**	1,860

Note 2: Key Assumptions and Judgements (continued)

Areas of significant estimation

Along with the assumptions used above, these financial statements include estimations that include a number of uncertainties (discussed below).

<table>
<tr><th>Key estimation</th><th>Basis of estimation</th></tr>
<tr><td>Recognition of tax revenue</td><td>The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income.

Income tax

Income tax revenue is recognised on an accruals basis in the period the taxable event occurs. It is deemed to accrue evenly over the period to which it relates.

Where income tax returns have not been filed for the relevant period, accrued income tax revenue receivable or payable has been estimated based on current provisional assessments or prior year terminal assessments. The outcome of income tax revenue and refunds is not known with certainty until income tax returns for the period have been filed. This usually occurs sometime after the publication of these financial statements.

The measurement of the tax revenue accruals requires significant estimates where terminal tax assessments are not yet available for the period. Key features of the estimation used are as follows:

• Where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment for the period, revenue is recognised based on provisional tax at balance date plus estimated provisional tax due after the balance date that relates to the current period. The estimation of provisional tax due after balance date uses forecast cash flows from Treasury which are based on assumptions in the Treasury's most recent Economic and Fiscal Update. A key assumption in this estimation is the split of cash receipts between terminal and provisional tax. This split is calculated based on historical information. A change in the assumption may change the amount of revenue recognised.

• Where taxpayers have made payments to Inland Revenue but have not submitted a provisional tax assessment for the period, their credit balance is accrued as revenue. Payments into the tax pool are not captured by this approach as payments into the tax pool are not limited to provisional tax and information as to their nature is not available. At year-end this is not considered to be material as provisional assessments should have been filed for the year-end.

• For individual taxpayers not subject to provisional tax, an estimate is made of the tax revenues receivable and refundable based on prior year returns adjusted for current year experience.

• For company taxpayers not subject to provisional tax for the current year, revenue is recognised when terminal tax is assessed, i.e. no estimate of tax revenue is accrued in the period of the taxable event. This is because a reliable estimate cannot be made in the period of the taxable event.

Business Transformation

The Inland Revenue (IR) is currently undertaking a major business transformation process which involves implementing a new core IT platform, START (Simplified Tax And Revenue Technology). As with any major transformation, the IR may identify things that they can or should be doing differently. As maintaining the integrity of the tax system is critical, any systematic or procedural issues that are identified are, and will be resolved in a timely and accurate way.</td></tr>
</table>

Note 2: Key Assumptions and Judgements (continued)

Key estimation	Basis of estimation
State Highway network	There are some uncertainties about the values assigned to different components (formation, bridges, etc) of the state highway network. These uncertainties include whether the New Zealand Transport Agency's (NZTA) databases have accurate quantities and lives and whether there is complete capture for some cost components. Some uncertainties are inherent, but those arising from both the quantity and costs of components can be reduced by improvements in the accuracy of the underlying databases. The NZTA has identified a few instances where some of the quantities and costs have not been captured in the underlying databases relied upon by the valuer. Additional 'brownfield' costs associated with road construction (eg, traffic management) in urban areas are assessed as being the most significant part of the potential undervaluation, with the remaining due to incomplete records. An allowance to recognise these costs has been included for the current and the previous years. However, historic 'brownfield' costs cannot be reliably measured and are currently excluded from the valuation.
Rail network	The rail network infrastructure used for freight services (including dual use assets required for freight operations) is measured at fair value, reflecting the amount that could be expected to be received from a third party in an orderly transaction. The portion of dual use assets not required for freight operations and metro only assets are reported in these financial statements at an optimised depreciated replacement cost basis, as the community benefits enabled by this investment do not provide a return at the whole-of-Government level. The valuation of the freight services on a commercial basis reflects the objectives of the Government to achieve a commercial return on those assets. Any change from a commercial valuation to public benefit valuation at optimised depreciated replacement cost would result in a significant increase in the reported value of rail assets.
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.
Canterbury recovery	The measurement of the Government's earthquake-related assets and liabilities contain a number of uncertainties. 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 damaged property or infrastructure and making judgements over the escalation of costs due to building inflation in the Canterbury construction industry. In particular, significant uncertainty continues to exist for EQC land claims where there 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 are refined and tested against the emerging experience over time, the level of this uncertainty will reduce.

Other uncertainties

In addition to those items on the statement of financial position there are a number of liabilities or assets that may arise in the future but are not recognised. This is because they are dependent on an uncertain future event occurring or the liability/asset cannot be measured reliably. If these contingencies crystallised, there will be an associated impact on the operating balance and net worth of the Crown. These contingencies are reported in note 28 of these financial statements.

Note 2: Key Assumptions and Judgements (continued)

Risk management

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

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

The Crown is exposed to changes in market conditions (eg, interest rates). Further discussion on the risk management of financial instruments can be found in note 29.

Note 3: Sovereign Revenue

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		Direct Income Tax Revenue		
		Individuals		
26,364	26,578	Source deductions	27,019	25,309
5,584	5,705	Other persons	5,786	5,848
(1,696)	(1,698)	Refunds	(1,739)	(1,595)
540	529	Fringe benefit tax	502	514
30,792	**31,114**	**Total individuals**	**31,568**	**30,076**
		Corporate Tax		
9,785	10,578	Gross companies tax	10,566	9,972
(148)	(240)	Refunds	(238)	(143)
506	624	Non-resident withholding tax	734	470
2	(9)	Foreign-source dividend withholding payments	(8)	(3)
10,145	**10,953**	**Total corporate tax**	**11,054**	**10,296**
		Other Direct Income Tax		
2,094	1,791	Resident withholding tax on interest revenue	1,667	1,830
537	590	Resident withholding tax on dividend revenue	626	543
2,631	**2,381**	**Total other direct income tax**	**2,293**	**2,373**
43,568	**44,448**	**Total direct income tax**	**44,915**	**42,745**
		Indirect Income Tax Revenue		
		Goods and Services Tax		
30,242	28,969	Gross goods and services tax	29,366	28,123
(11,949)	(10,840)	Refunds	(11,158)	(10,954)
18,293	**18,129**	**Total goods and services tax**	**18,208**	**17,169**
		Other Indirect Taxation		
1,790	1,825	Petroleum fuels excise and duty[1]	1,876	1,739
1,506	1,620	Tobacco excise and duty[1]	1,710	1,507
1,339	1,345	Road user charges	1,381	1,283
944	932	Alcohol excise and duty[1]	947	910
160	127	Other customs duty	127	214
498	505	Miscellaneous indirect taxation	504	488
6,237	**6,354**	**Total other indirect taxation**	**6,545**	**6,141**
24,530	**24,483**	**Total indirect taxation**	**24,753**	**23,310**
68,098	**68,931**	**Total taxation revenue**	**69,668**	**66,055**
		Other Sovereign Revenue		
2,941	2,766	ACC levies	2,819	3,276
357	371	Fire service levies	372	351
281	284	EQC levies	280	281
278	275	Child support and working for families penalties	278	283
110	104	Court fines	100	110
639	837	Other miscellaneous items	794	652
4,606	**4,637**	**Total other sovereign revenue**	**4,643**	**4,953**
72,704	**73,568**	**Total sovereign revenue**	**74,311**	**71,008**

1 Includes customs excise-equivalent duty.

More detailed information on tax revenue and receipts can be found at www.treasury.govt.nz/government/revenue/taxoutturn.

Note 4: Sales of Goods and Services

Budget 2015 $m	Budget 2016 $m		30 June 2016 $m	30 June 2015 $m
8,082	7,778	Sales of goods[1]	7,566	7,788
8,962	8,840	Rendering of services	8,798	8,577
17,044	**16,618**	**Total sales of goods and services**	**16,364**	**16,365**

1 Comparatives have been restated to reflect a change in electricity hedge settlements previously reported on a gross basis.

Note 5: Interest Revenue and Dividends

2016 Forecast				Actual	
Budget 2015 $m	Budget 2016 $m		Note	30 June 2016 $m	30 June 2015 $m
605	594	Student loans (interest unwind)	17	603	604
1,499	1,336	Other financial assets classified as amortised cost or for sale		1,267	1,348
3	5	Financial assets classified as held for trading		5	6
1,277	994	Financial assets classified as fair value through the operating balance		913	844
3,384	**2,929**	**Total interest revenue**		**2,788**	**2,802**
680	792	Dividends		815	722
4,064	**3,721**	**Total interest revenue and dividends**		**3,603**	**3,524**

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

Note 6: Other Revenue

2016 Forecast			Actual	
Budget 2015 $m	Budget 2016 $m		30 June 2016 $m	30 June 2015 $m
1,385	1,322	Rental revenue	1,314	1,272
259	220	Sale of royalties	235	293
5	42	EQC insurance claim on reinsurers	12	(44)
1,931	2,023	Other revenue	2,320	2,094
3,580	**3,607**	**Total other revenue**	**3,881**	**3,615**

Note 7: Transfer Payments and Subsidies

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
12,256	12,261	New Zealand superannuation	12,267	11,591
1,837	1,824	Family tax credit	1,793	1,854
1,616	1,674	Jobseeker support and emergency benefit	1,671	1,684
1,519	1,524	Supported living payment	1,523	1,515
1,137	1,135	Accommodation assistance	1,164	1,129
1,187	1,151	Sole parent support	1,153	1,186
774	766	Income related rent subsidy	755	703
720	701	KiwiSaver subsidies	698	856
577	568	Other working for families tax credits	559	549
542	530	Official development assistance	534	513
529	496	Student allowances	486	511
379	377	Disability allowances	377	377
1,409	1,414	Other social assistance benefits	1,332	1,255
24,482	**24,421**	**Total transfer payments and subsidies**	**24,312**	**23,723**

Note 8: Personnel Expenses

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
20,053	20,639	Salaries and wages	20,370	19,851
376	293	Costs incurred on GSF and other defined benefit plans	309	375
406	405	Costs incurred on defined contribution plans (eg, KiwiSaver)	498	446
759	446	Other personnel expenses	586	452
21,594	**21,783**	**Total personnel expenses**	**21,763**	**21,124**

Key management personnel compensation was $10 million (2015: $10 million). This reflects salaries, benefits and allowances. Key management personnel are the 28 Ministers of the Crown who are members of the Executive Council (including the Prime Minister).

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

Note 9: Other Operating Expenses

2016 Forecast			Actual	
Budget 2015 $m	Budget 2016 $m		30 June 2016 $m	30 June 2015 $m
5,174	5,304	Grants and subsidies	4,962	4,566
1,271	1,223	Rental and leasing costs	1,266	1,188
651	641	Amortisation and impairment of non-financial assets	963	969
1,351	1,187	Impairment of financial assets	861	1,243
773	806	Cost of concessionary lending	747	696
555	511	Lottery prize payments	537	473
226	255	Inventory expenses	261	459
5	3	Fees paid to audit firms other than the Auditor-General (refer below)	5	4
28,125	27,766	Other operating expenses[1]	27,230	26,780
38,131	**37,696**	**Total other operating expenses**	**36,832**	**36,378**

1 Comparatives have been restated to reflect a change in electricity hedge settlements previously reported on a gross basis.

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

Audit fees paid to the Controller and Auditor-General

Fees paid to the Controller and Auditor-General (including audit service providers) for the audit of the financial statements of the Government and its reporting entities were $40.8 million (2015: $40.0 million). Fees for assurance and related services paid to the Controller and Auditor-General were $0.4 million (2015: $0.6 million). As the Controller and Auditor-General is part of the Government reporting entity these fees are eliminated on consolidation.

Note 10: Interest Expenses

2016 Forecast			Actual	
Budget 2015 $m	Budget 2016 $m		30 June 2016 $m	30 June 2015 $m
4,550	4,278	Financial liabilities classified as amortised cost	4,153	4,330
80	175	Financial liabilities classified as fair value through the operating balance	144	192
57	19	Interest unwind on provisions	39	41
4,687	**4,472**	**Total interest expenses**	**4,336**	**4,563**

Note 11: Insurance Expenses

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		By entity		
4,317	4,079	Accident Compensation Corporation (ACC)	4,166	4,104
57	128	Earthquake Commission (EQC)	337	(357)
(49)	117	Southern Response	200	335
23	11	Other	22	28
4,348	**4,335**	**Total insurance expenses**	**4,725**	**4,110**

The remainder of note 11 provides additional information on the insurance expenses for ACC.
Note 31 contains further discussion on total costs of the earthquakes to the Crown.

An analysis of the insurance liabilities is provided in note 22. Given the uncertainty over the cost of outstanding insurance claims, it is likely that the final cost will be different from the original liability established.

Analysis of ACC Insurance Expense	Actual 30 June 2016 $m	Actual 30 June 2015 $m
By type		
Claims expense	9,577	5,593
Movement in unearned premium deficiency liability	103	265
Other underwriting expenses	129	101
Total ACC claims and other expenses	**9,809**	**5,959**
Less expenses reported elsewhere in the statement of financial performance		
Actuarial gain/(loss) - (refer note 13)	(5,099)	(1,352)
Operating costs relating to claims	(544)	(503)
Total ACC insurance expenses (excluding gains/(losses) and operations)	**4,166**	**4,104**

Note 11: Insurance Expenses (continued)

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 2016 $m	Actual 30 June 2015 $m
ACC Claims Incurred		
Current year net ACC claims incurred		
Gross claims incurred and related expenses – undiscounted	7,017	7,510
Discount and discount movement	(3,072)	(3,913)
Total current year net claims incurred	**3,945**	**3,597**
Previous years' net ACC claims incurred		
Reassessment of gross claims and expenses – undiscounted	(8,187)	(8,051)
Discount and discount movement	13,819	10,047
Total previous years' net claims incurred	**5,632**	**1,996**
ACC claims expense	**9,577**	**5,593**

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

	Actual 30 June 2016 $m	Actual 30 June 2015 $m
Net ACC Underwriting Result		
Premium revenue (refer to note 3)	2,819	3,276
Less claims and other expenses	(9,809)	(5,959)
Net ACC underwriting surplus/(deficit)	**(6,990)**	**(2,683)**
ACC operating cash flows associated with the underwriting result are:		
Cash receipts	3,137	3,170
Cash payments	(3,385)	(3,057)
Net ACC operating cash flows	**(248)**	**113**

Note 12: Gains and Losses on Financial Instruments

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
30	853	Foreign exchange gains on financial assets and financial measured at amortised cost	348	1,449
5	(127)	Foreign exchange losses on financial assets and financial measured at amortised cost	(60)	(241)
1	(1)	Change in fair value of financial assets and financial classified as held for trading	(2)	(1)
(6)	(8)	Gains/(losses) on disposal of financial assets and financial liabilities measured at amortised cost	(26)	6
1,193	958	Change in fair value of financial assets and financial classified as fair value through the operating balance	(2,501)	10,029
1,223	**1,675**	**Net gains/(losses) on financial assets and financial liabilities**	**(2,241)**	**11,242**
1,337	(634)	Net gain/(loss) on derivatives	3,358	(5,046)
2,560	**1,041**	**Net gains/(losses) on financial instruments**	**1,117**	**6,196**

Note 13: Gains and Losses on Non-Financial Instruments

2016 Forecast Budget 2015 $m	Budget 2016 $m		Note	Actual 30 June 2016 $m	30 June 2015 $m
-	(3,065)	Actuarial gains/(losses) on ACC outstanding claims	11	(5,099)	(1,352)
-	(898)	Actuarial gains/(losses) on GSF liability	23	(2,028)	(322)
-	(558)	Gains/(losses) on the Emissions Trading Scheme	24	(1,503)	(366)
-	-	Foreign exchange gains/(losses)		2	(2)
(45)	(30)	Gains/(losses) on disposal or revaluation of property, plant and equipment		(18)	401
-	55	Other gains/(losses) on non-financial instruments		10	(8)
(45)	**(4,496)**	**Net gains/(losses) on non-financial instruments**		**(8,636)**	**(1,649)**

The ACC and GSF liabilities are valued by an independent actuary (refer notes 22 and 23). Actuarial gains/(losses) represent differences between actual results and what the actuary had assumed when previously calculating the liability and the effect of changes in actuarial assumptions (experience adjustments).

Note 14: Receivables

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
9,290	9,040	Tax receivables	9,161	8,957
3,013	2,364	ACC levy receivables	2,294	2,755
483	604	Social benefit receivables	704	566
159	302	Other levies, fines and penalty receivables	288	254
12,945	**12,310**	**Sovereign receivables**	**12,447**	**12,532**
29	401	Reinsurance receivables (refer to note 31)	534	1,064
4,494	4,235	Trade and other receivables	3,808	4,006
17,468	**16,946**	**Total receivables**	**16,789**	**17,602**
		By maturity		
15,743	15,320	Expected to be realised within one year	14,822	15,302
1,725	1,626	Expected to be outstanding for more than one year	1,967	2,300
17,468	**16,946**	**Total receivables**	**16,789**	**17,602**

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

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

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

30 June 2015	Gross receivable $m	Impairment $m	Net receivable $m
Tax receivables	13,172	(4,215)	8,957
ACC levy receivables	2,848	(93)	2,755
Social benefit receivables	1,354	(788)	566
Other levies, fines and penalty receivables	2,757	(2,503)	254
Reinsurance receivables	1,064	-	1,064
Trade and other receivables	4,074	(68)	4,006
Total receivables	**25,269**	**(7,667)**	**17,602**

Note 14: Receivables (continued)

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

Other levies, fines and penalty receivables comprise debtor portfolios administered by Ministry of Justice (ie, court fines) and Inland Revenue (ie, child support). These receivables are recorded at fair value, which on initial recognition represent the face value of the amount owed to the Crown, adjusted to reflect the amount expected to be recoverable. For the current year the initial adjustment from face value to fair value of these receivables was $312 million (2015: $293 million), with $252 million (2015: $226 million) of the adjustment relating to child support debt administered by Inland Revenue.

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

Trade and other receivables are relatively short term, with $3,454 million (2015: $3,736 million) expected to be settled in the next year. Their carrying amount provides a reasonable approximation of their fair value.

	Actual	
	30 June 2016 $m	**30 June 2015 $m**
Tax Receivables		
Gross Tax Receivable		
Current	8,247	8,019
Past due	4,680	5,153
Total gross tax receivable	**12,927**	**13,172**
% past due	36.2%	39.1%
Impairment of Tax Receivables		
Opening balance	4,215	4,478
Impairment losses recognised during the year	683	868
Amounts written off as uncollectible	(1,132)	(1,131)
Closing balance	**3,766**	**4,215**
Tax Receivable Net of Impairment		
Current	8,192	7,959
Past due	969	998
Total tax receivable net of impairment	**9,161**	**8,957**
% past due	10.6%	11.1%
Ageing of Tax Receivables Past Due (Gross)		
Less than six months	738	975
Between six months and one year	398	337
Between one year and two years	662	680
Greater than two years	2,882	3,161
Total tax receivables past due (Gross)	**4,680**	**5,153**

The Inland Revenue Department (IRD) administers the majority of the tax receivable portfolio. The recoverable amount of the portfolio is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current market rate of 6.0% (2015: 6.0%). If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.

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

Note 15: Marketable Securities, Deposits and Derivatives in Gain

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		By type		
38,476	39,180	Marketable securities	40,822	43,770
2,848	5,053	Long term deposits	4,791	5,214
2,950	3,209	Derivatives in gain	5,888	3,015
2,525	2,287	IMF financial assets	1,897	2,299
46,799	**49,729**	**Total marketable securities, deposits and derivatives in gain**	**53,398**	**54,298**
		Expected Realisation		
29,813	32,811	Expected to be realised within one year	31,992	35,006
16,986	16,918	Expected to be held for more than one year	21,406	19,292
46,799	**49,729**	**Total marketable securities, deposits and derivatives in gain**	**53,398**	**54,298**

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 these financial assets is provided in note 29.

Note 16: Share Investments

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		Expected Realisation		
14,807	14,167	Expected to be realised within one year	13,407	15,161
11,114	11,276	Expected to be held for more than one year	10,810	10,247
25,921	**25,443**	**Total share investments**	**24,217**	**25,408**

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 these financial assets is provided in note 29.

Note 17: Advances

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
		By type		
17,446	16,640	Kiwibank loans and advances	16,689	15,598
9,171	9,097	Student loans	8,982	8,864
2,052	1,767	Other advances	2,563	2,035
28,669	**27,504**	**Total advances**	**28,234**	**26,497**

Further information on the management of risks associated with these financial assets is provided in note 29.

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
		Kiwibank Loans and Advances		
		By maturity		
1,221	1,165	Expected to be repaid within one year	1,267	1,059
16,225	15,475	Expected to be outstanding for more than one year	15,422	14,539
17,446	**16,640**	**Total Kiwibank Loans and Advances**	**16,689**	**15,598**
		Impairment of Kiwibank Loans and Advances		
		Opening balance	53	59
		Impairment losses recognised	21	17
		Amounts written off as uncollectible	(11)	(19)
		Impairment losses reversed	(10)	(4)
		Closing balance	**53**	**53**
		Collective impairment allowance	44	41
		Individual impairment allowance	9	12
		Impairment of Kiwibank Loans and Advances	**53**	**53**
		Ageing of Kiwibank Loans Past Due But Not Impaired		
		Less than six months	108	134
		Between six months and one year	-	-
		Greater than one year	-	-
		Total Kiwibank loans past due but not impaired	**108**	**134**

Kiwibank loans are measured at amortised cost. The fair value of Kiwibank loans is $16,804 million (2015: $15,704 million). This fair value is based on a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses.

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

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Note	Actual 30 June 2016 $m	Actual 30 June 2015 $m
		Student Loans			
15,375	15,287	Nominal value		15,340	14,837
(6,204)	(6,190)	Write-down on initial recognition and impairment		(6,358)	(5,973)
9,171	**9,097**	**Total student loans**		**8,982**	**8,864**
		Gross carrying value		10,838	10,580
		Impairment of student loans		(1,856)	(1,716)
		Total student loans		**8,982**	**8,864**
		By maturity			
		Expected to be repaid within one year		1,209	1,122
		Expected to be outstanding for more than one year		7,773	7,742
		Total student loans		**8,982**	**8,864**
		Movement During the Year			
8,878	8,864	Opening balance		8,864	8,716
1,583	1,539	Net new lending (excluding fees)		1,512	1,518
12	10	New lending - establishment fee		10	11
(646)	(670)	Initial write-down to fair value		(659)	(602)
(1,161)	(1,191)	Repayments made during the year		(1,208)	(1,114)
605	594	Interest unwind	5	603	604
(100)	(49)	Movement in impairment during the year		(140)	(269)
9,171	**9,097**	**Closing balance student loans**		**8,982**	**8,864**
		Impairment of Student Loans			
		Opening balance		1,716	1,447
		Impairment losses recognised during the year		175	272
		Amounts written off as uncollectible		(35)	(3)
		Impairment losses reversed		-	-
		Closing balance		**1,856**	**1,716**

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

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

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

Note 17: Advances (continued)

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

	Actual	
	30 June 2016	**30 June 2015**
Significant assumptions behind the carrying value are:		
Effective interest rate - weighted average	6.9%	7.0%
Interest rate applied to loans for overseas borrowers	3.6%-5.5%	4.5%-6.2%
Consumer Price Index	0.4%-2.0%	0.3%-2.5%
Future salary inflation	1.1%-3.0%	2.3%-3.5%

In contrast to the amortised cost approach described above, fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2016. It is determined by discounting the cash flows at an appropriate discount rate.

	Actual	
	30 June 2016 $m	**30 June 2015 $m**
Fair value of the student loan portfolio	9,794	9,267
Impact on fair value of a 1% increase in discount rate	(558)	(492)
Impact on fair value of a 1% decrease in discount rate	630	554

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 2016. At that date the fair value was calculated on a discount rate (including expenses) of 5.4% (2015: 6.2%) whereas a weighted average effective interest rate of 6.9% (2015: 7.0%) was used for the carrying value.

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

The Student Loan Scheme Annual Report contains more information on the student loan scheme. This can be found at: http://www.educationcounts.govt.nz/publications/series/student_loan_scheme_annual_reports

Note 18: Property, Plant and Equipment

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

The total amount of property, plant and equipment under construction is $2,083 million

Note 18: Property, Plant and Equipment (continued)

For the year ended 30 June 2015	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Aircraft (excluding military) $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2014	**129,449**	37,139	28,952	19,702	14,275	5,183	2,304	3,028	3,471	1,364	14,031
Additions	**7,229**	293	1,968	1,637	149	280	635	458	26	218	1,565
Disposals	**(1,211)**	(255)	(156)	(61)	(25)	(49)	(48)	(3)	(7)	-	(607)
Net revaluations	**3,064**	2,869	(167)	(400)	462	-	268	-	32	-	-
Transfers from/(to) assets held for sale	**(194)**	(82)	(24)	-	(4)	-	(45)	-	-	-	(39)
Other	**344**	(52)	130	156	138	(53)	177	1	(1)	(24)	(128)
Total gross carrying amount	**138,681**	**39,912**	**30,703**	**21,034**	**14,995**	**5,361**	**3,291**	**3,484**	**3,521**	**1,558**	**14,822**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2014	**13,143**	-	1,556	(7)	334	1,191	17	138	496	428	8,990
Eliminated on disposal	**(655)**	-	(77)	7	(19)	(15)	(13)	-	(6)	-	(532)
Eliminated on transfer to held for sale	**(235)**	-	(57)	-	(9)	(95)	(38)	-	-	-	(36)
Eliminated on revaluation	**(2,159)**	-	(960)	(523)	(517)	-	(159)	-	-	-	-
Impairment losses charged to operating balance	**78**	-	60	-	82	-	2	-	-	118	(184)
Depreciation expense	**3,873**	-	1,270	523	432	174	210	293	27	26	918
Other	**78**	-	(3)	-	(47)	(1)	-	(27)	-	3	153
Total accumulated depreciation and impairment	**14,123**	**-**	**1,789**	**-**	**256**	**1,254**	**19**	**404**	**517**	**575**	**9,309**
Carrying value as at 30 June 2015	**124,558**	**39,912**	**28,914**	**21,034**	**14,739**	**4,107**	**3,272**	**3,080**	**3,004**	**983**	**5,513**
By holding											
Leasehold	**2,557**	9	202	-	2	-	2,284	-	-	-	60
Public Private Partnerships	**582**	22	398	162	-	-	-	-	-	-	-
Freehold (excluding PPP)	**121,419**	39,881	28,314	20,872	14,737	4,107	988	3,080	3,004	983	5,453
	124,558	**39,912**	**28,914**	**21,034**	**14,739**	**4,107**	**3,272**	**3,080**	**3,004**	**983**	**5,513**

The total amount of property, plant and equipment under construction is $1,745 million.

Note 18: Property, Plant and Equipment (continued)

Under Section 55 of the Public Finance Act 1989, borrowing by the Crown is a charge on the revenue of the Crown equally and rateably. Therefore, no property, plant and equipment owned by the core Crown has been pledged as security for liabilities. Government-owned property, plant and equipment is, however, subject to a significant number of legislative and policy restrictions with respect to its use and disposal. Property, plant and equipment owned by State-owned Enterprises and mixed ownership companies has been pledged to secure borrowings and finance lease obligations of $3,153 million (2015: $2,827 million).

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

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

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

	Actual	
Property, plant and equipment revaluation reserve	**30 June 2016 $m**	**30 June 2015 $m**
Opening revaluation reserve	67,107	62,225
Net revaluations	8,413	5,274
Transfers from/(to) taxpayer funds	106	(392)
Closing revaluation reserve	**75,626**	**67,107**
Class of Asset		
Land	30,718	25,579
Building	18,787	16,953
State highways	13,071	12,489
Electricity generation assets	10,267	9,277
Specified cultural and heritage assets	1,440	1,407
Specialist military equipment	332	311
Rail network	13	13
Other plant and equipment	998	1,078
Closing revaluation reserve	**75,626**	**67,107**

Net revaluations in the note above exclude movements attributable to minority interests and includes the share of associates revaluation of physical assets. It will therefore differ from the movements on pages 66 and 67.

Note 18: Property, Plant and Equipment (continued)

The remainder of this note provides detailed analysis and information about the following asset classes.

Land and Buildings

Breakdown of land and buildings (total valuation over $500m)

30 June 2016	Actual Land $m	Actual Buildings $m	Actual Total $m
Housing stock	15,632	8,568	24,200
School property	4,770	9,876	14,646
State highway corridor land	9,757	9	9,766
Conservation estate	5,691	90	5,781
Hospitals	995	4,468	5,463
Rail network corridor land	3,354	-	3,354
Prisons and Department of Corrections	140	2,399	2,539
Defence Force land and buildings	938	1,456	2,394
Landcorp farmland and buildings	1,092	131	1,223
Ministry of Justice land and buildings	487	731	1,218
Police stations	152	491	643
Other	1,951	3,271	5,222
Total land and buildings	**44,959**	**31,490**	**76,449**

30 June 2015	Actual Land $m	Actual Buildings $m	Actual Total $m
Housing stock	12,976	7,931	20,907
School property	3,420	8,843	12,263
State highway corridor land	9,307	9	9,316
Conservation estate	5,521	93	5,614
Hospitals	891	4,214	5,105
Rail network corridor land	3,360	-	3,360
Prisons and Department of Corrections	141	1,977	2,118
Defence Force land and buildings	620	1,214	1,834
Landcorp farmland and buildings	1,173	127	1,300
Ministry of Justice land and buildings	443	607	1,050
Police stations	163	531	694
Other	1,897	3,368	5,265
Total land and buildings	**39,912**	**28,914**	**68,826**

Note 18: Property, Plant and Equipment (continued)

Description	Valuer/Reviewer	Approach	Timing
Housing stock	Quotable Value NZ Limited	Valuations based on market evidence using sales comparison data.	Annual valuation with the latest completed in the 30 June 2016 financial year.
School property	Quotable Value Limited or experienced staff (reviewed by Quotable Value Limited)	Valuations based on market evidence where possible, or optimised depreciated replacement cost (ODRC).	Annual valuation with the latest completed as at 30 June 2016.
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. The valuation for held properties was determined by reference to quoted prices in an active or liquid market unless it is a specialised asset, where the depreciated replacement cost was used.	A full valuation is completed on a rolling regional basis, with each region fully valued at least once every 3 – 5 years. The latest valuation and indexation was completed as at 30 June 2016.
Conservation estate (national parks, forest parks, conservation areas, reserves)	Corelogic 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 2016.
Hospitals	Each District Health Board uses an independent valuer	Land values were based on market evidence while buildings were valued at ODRC.	Each DHB revalues land and buildings on a three to five year cycle with varying valuation dates.
New Zealand 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 2015.
NZ Defence Force Land and Buildings	Beca Valuations Limited and updated internally by NZ Defence Force.	Valued using market based approaches for land and buildings outside defence areas and updated using indices. And an index/ODRC method for land and buildings inside defence areas.	Valuations completed at least once every five years with the latest full independent land and buildings valuation completed as at 30 June 2013. Auckland land has been revalued at 30 June 2016, other land holdings have been updated internally using indices. Buildings have been updated internally using indices with assistance from Beca as at 30 June 2016.

Note 18: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

	Actual 30 June 2016 $m	Actual 30 June 2015 $m
National Library	1,010	1,007
Te Papa	924	876
National Archives	625	624
Conservation	442	450
Other	34	47
	3,035	**3,004**

Description	Valuer/Reviewer	Approach	Timing
National Library collections	Webbs	The collection was divided into categories by format to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature.	Valuations completed cyclically with all collections valued at least once every three years with the latest full valuation completed as at 30 June 2014.
Te Papa collections	Art, Library, History, Mataraunga Māori, Philatelic, Pacific and International and Photography Collections: Webbs Auckland and Dunbar Sloane. Natural History Collection: Webbs Auckland & internal experts.	Art, Library, History, Mataraunga Māori, Philatelic, Pacific and International and Photography Collections are valued based on market value by independent valuers. The Natural History Collection is valued at replacement cost value.	Valuations completed cyclically with all collections valued at least once every three years with the latest valuations completed as at 30 June 2016.
National Archives	Dunbar Sloane	The collection was divided into categories by format and age to associate records that could be said to have a broad commonality of value. Items were then valued based on market assessments and comparisons with other items of a similar nature. Documents of exceptional value (including Treaty of Waitangi) are valued independently based on overseas market research.	Valuations completed cyclically with all collections valued at least once every three years with the latest full valuation completed as at 30 June 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. Visitor buildings and roads were valued at fair value effective as at 30 June 2016.

There are difficulties associated with obtaining an objective valuation for the specified cultural and heritage assets of the Government. For example, Crown research institutes own various collections, library resources and databases that are an integral part of the research work they undertake. These collections are highly specialised and there is no reliable basis for establishing a valuation. They have therefore not been valued for financial reporting purposes.

Note 18: Property, Plant and Equipment (continued)

State highways

	Actual 30 June 2016 $m	30 June 2015 $m
State highways	22,347	21,034

Description	Valuer/Reviewer	Approach	Timing
Roads, bridges, culverts, tunnels, underpasses including the formation works, road structure, drainage works and traffic facilities.	Opus International Consultants Limited	State Highways are valued using the 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 2016.

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

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

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

Specialist military equipment

	Actual 30 June 2016 $m	30 June 2015 $m
Specialist military equipment	3,070	3,080

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

Note 18: Property, Plant and Equipment (continued)

Electricity generation assets

	Actual	
	30 June 2016 $m	**30 June 2015 $m**
Meridian Energy Limited	7,657	6,990
Mighty River Power Limited (now Mercury NZ Limited)	5,268	5,267
Genesis Energy Limited	2,955	2,644
Inter segment eliminations	(161)	(162)
Total electricity generation assets	**15,719**	**14,739**

Description	Valuer/Reviewer	Approach	Timing
Meridian Energy: Hydro stations, wind and solar farms	Independent valuer	Based on a revenue approach assessing both the capitalisation of earnings and the discounted cash flow methodology.	Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance date.
Mighty River Power (now Mercury NZ Limited): Hydro and Geothermal stations	PwC, Independent valuer	Based on net present value of future earnings of the assets on an existing use basis excluding disposal and restoration costs.	Annual valuation with the latest completed as at 30 June 2016.
Genesis Energy: Thermal and Hydro stations and Wind farms	Internal valuation independently reviewed by an independent valuer	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 2016.

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 (now Mercury NZ Limited) 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.

Note 18: Property, Plant and Equipment (continued)

Meridian Energy Limited

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Future NZ electricity price estimates	$62/MWh to $78/MWh (in real terms)	+/- $3/MWh	$419million / ($419) million
Generation volume	13,033 GWh p.a to 13,386 GWh p.a	+/- 250 GWh	$124 million / ($124) million
Operating expenditure	$256 million p.a. (in real terms)	+/- $10 million p.a.	($144) million / $144 million
EBITDAF earnings multiple	12.0 x EBITDAF	+/- 0.5x	$382 million / ($382) million

Genesis Energy Limited

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Wholesale electricity price path	$65/MWh to $111/MWh by 2026 (in nominal terms)	+/- 10%	$555 million / ($555) million
Generation volume	5,215 GWh to 7,452 GWh	+/- 10%	$555 million / ($555) million
Discount rate	Pre-tax equivalent discount rate of 10.8%	+/- 1%.	$373 million / ($300) million

Mighty River Power Limited (now Mercury NZ Limited)

Assumption		Sensitivity range	Valuation Impact on fair value of generation assets
Future wholesale electricity price path	$66/MWh to $102/MWh (in real terms)	+/- 10%	$786 million / ($790) million
Discount rate	Post-tax discount rate between 7.4% to 7.9%	+/- 0.5%	$(521) million / $624 million
Operational expenditure	$174 million p.a.	+/- 10%	($237) million / $238 million

Aircraft

	Actual 30 June 2016 $m	30 June 2015 $m
Aircraft (excluding military)	3,860	3,272

Description	Valuer/Reviewer	Approach	Timing
Aircraft and spare engines and flight simulators	The Aircraft Value Analysis Company	An external valuation is obtained to ascertain indicative market values of each aircraft on a stand-alone basis.	Annual valuation with the latest completed as at 30 June 2016.

Note 18: Property, Plant and Equipment (continued)

Rail network

Recoverable amount $m	ODRC $m	30 June 2015 Carrying value $m		Recoverable amount $m	ODRC $m	30 June 2016 Carrying value $m
99	4,298	99	Network required for freight	101	4,304	101
13	787	787	Network not required for freight (including metro)	8	769	769
112	**5,085**	**886**	**Total rail infrastructure**	**109**	**5,073**	**870**
		45	Buildings			49
		52	Capital work in progress			40
		983	**Rail network**			**959**

Description	Valuer/Reviewer	Approach	Timing
Buildings, bridges, tunnels, tracks, level crossings signals and electrification. All these assets are held on freehold basis.	Buildings – Darroch Limited Other Rail Network Assets – Internal valuation	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. 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.	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 for buildings and 30 June 2016 for other rail network assets.

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 recovered 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 $159 million (2015: $145 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 $184 million (2015: $195 million) on the rail network during the year.

Note 18: Property, Plant and Equipment (continued)

Public Private Partnerships

	Actual	
	30 June 2016 $m	30 June 2015 $m
Auckland South Corrections Facility	318	328
Transmission Gully	287	162
Education Public Private Partnerships	210	92
Auckland Prison	148	-
Total public private partnerships	**963**	**582**
Carrying value of assets by source		
Provided by private sector partner	842	557
Existing government assets	121	25
Total public private partnerships	**963**	**582**

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.

Auckland South Corrections Facility

The Department of Corrections has entered into a service concession arrangement with SecureFuture Wiri Limited to design, build, finance and operate a men's prison at Wiri through a Public Private Partnership. Under the agreement, the Department of Corrections has provided land to the contractor on which to build the prison. The prison commenced operations in May 2015. The contractor will continue to operate and maintain the prison for a period of 25 years, after which responsibility for on-going operation and maintenance will revert to the Department.

Movements in carrying value for Auckland South Corrections Facility

	Actual	
	30 June 2016	30 June 2015
Gross carrying amount	$m	$m
Opening balance 1 July	329	239
Assets provided by private sector partner(s)	-	81
Existing Government assets	-	9
Total Gross Carrying Amount	**329**	**329**
Accumulated Depreciation and Impairment		
Opening balance 1 July	1	-
Depreciation expense	10	1
Total accumulated depreciation	**11**	**1**
Carrying value as at 30 June	**318**	**328**

Note 18: Property, Plant and Equipment (continued)

Transmission Gully Public Private Partnership

The New Zealand Transport Agency has entered into a Project Agreement with Wellington Gateway Partnership for the delivery of a new Transmission Gully State Highway through a Public Private Partnership. The Wellington Gateway Partnership will design, construct, finance, operate and maintain the piece of State Highway. Under the agreement, the New Zealand Transport Agency has provided land to the contractor on which to construct the State Highway. As the State Highway is currently under construction, no depreciation on the asset has been incurred to date. The construction is expected to be completed by 2020, with total expected construction costs of $1.1 billion. The operational agreement runs for 25 years from the service completion date and is expected to cost $1.6 billion after which responsibility for on-going operation and maintenance will revert to the Government.

Movements in carrying value for Transmission Gully

	Actual	
Gross carrying amount	**30 June 2016 $m**	**30 June 2015 $m**
Opening balance 1 July	162	-
Assets provided by private sector partner(s)	83	162
Existing Government assets	42	-
Disposals	-	-
Net revaluations	-	-
Other	-	-
Total Gross Carrying Amount	**287**	**162**

Education Public Private Partnerships

The Ministry of Education has entered into two public private partnership (PPP) agreements. The Ministry of Education entered into a PPP agreement with Learning Infrastructure Partners in 2011 for delivery of a new primary and secondary school at Hobsonville Point. Under this agreement Learning Infrastructure Partners undertook finance, design and construction of the primary and secondary school as well as provide the operational services, which comprise building maintenance, landscaping, cleaning and other types of services. Under the agreement the Ministry of Education provided two existing land parcels to the contractor to use valued at $6.9 million. Hobsonville Point Primary School opened in January 2013 and the Hobsonville Point Secondary School opened in February 2014. The agreement runs for a period of 25 years, after which responsibility for ongoing maintenance will revert to the Government.

The Ministry of Education entered into a PPP agreement with Future Schools Partners in 2015 for the delivery of four schools in Auckland, Christchurch and Queenstown. Under this agreement Future Schools Partners have undertaken to finance, design and construct four schools and provide the operational services, which comprise building maintenance, landscaping, cleaning and other types of services. Under the agreement the Ministry of Education provided four land parcels to the contractor to use valued at $23.2 million. The agreement runs for a period of 25 years, after which responsibility for ongoing maintenance will revert to the Government.

Note 18: Property, Plant and Equipment (continued)

Movements in carrying value for Education Public Private Partnerships

	Actual	
	30 June 2016	**30 June 2015**
Gross carrying amount	**$m**	**$m**
Opening balance 1 July	92	74
Assets provided by private sector partner(s)	98	9
Existing Government assets	23	2
Net revaluations	-	7
Total Gross Carrying Amount	**213**	**92**
Accumulated Depreciation and Impairment		
Opening balance 1 July	-	-
Depreciation expense	3	3
Reversal of accumulated depreciation on revaluation	-	(3)
Total accumulated depreciation	3	-
Carrying value as at 30 June	**210**	**92**

Auckland Prison

The Department of Corrections has entered into a service concession arrangement with Next Step Partners Limited to design, finance, build and maintain a new maximum security facility at Auckland Prison through a Public Private Partnership. Under the agreement, custodial operations will continue to be carried out by the Department of Corrections. The Department of Corrections has provided land to the contractor on which to build the prison. The prison construction commenced October 2015 and is on target for completion for late 2017. The contractor will continue to maintain the prison for a period of 25 years, after which responsibility for on-going maintenance will revert to the Department. The contractor will also maintain the Auckland West facility which is being integrated with the new facilities via secure links as part of the construction.

Movements in carrying value for Auckland Prison

	Actual	
	30 June 2016	**30 June 2015**
Gross carrying amount	**$m**	**$m**
Opening balance 1 July	-	-
Assets provided by private sector partner(s)	111	-
Existing Government assets	37	-
Total Gross Carrying Amount	**148**	**-**

Note 19: Equity Accounted Investments

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
9,551	9,925	Tertiary Education Institutions[1]	10,669	10,168
1,019	1,295	Kaingaroa Timberlands Partnership	1,396	1,312
556	952	Other	640	949
11,126	**12,172**	**Total equity accounted investments**	**12,705**	**12,429**

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:

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		Operating Results		
2,315	2,343	Revenue from Crown	2,308	2,259
2,578	2,473	Other revenue	2,683	3,085
(4,643)	(4,633)	Expenses	(4,857)	(4,659)
250	**183**	**Net surplus**	**134**	**685**
		Assets		
1,364	1,792	Financial assets[1]	2,221	2,303
9,578	9,442	Property, plant and equipment	9,673	9,173
480	649	Other assets	1,036	650
11,422	**11,883**	**Total assets**	**12,930**	**12,126**
		Liabilities		
222	230	Borrowings	426	230
1,649	1,728	Other liabilities	1,835	1,728
1,871	**1,958**	**Total liabilities**	**2,261**	**1,958**
9,551	**9,925**	**Net worth**	**10,669**	**10,168**

[1] Comparatives have been restated to reflect an adjustment for TEI's grant receivable resulting from the transition to Public Benefit Accounting Standards.

Kaingaroa Timberlands Partnership

The New Zealand Superannuation Fund has a 42% ownership interest (2015: 42%) in Kaingaroa Timberlands Partnership.

New Zealand Local Government Funding Agency (NZLGFA)

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

For the year ended 30 June 2016, NZLGFA recognised revenue of $278 million (2015: $222 million) and a surplus of $10 million (2015: $9 million). NZLGFA's assets and liabilities were $6,669 million (2015: $5,412 million) and $6,625 million (2015: $5,375 million) respectively. The Crown's share of the net assets is $9 million (2015: $7 million). The Crown is not a guarantor of the LGFA and has no share of any contingent liabilities of the LGFA.

Note 20: Payables

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
		By type		
7,445	7,325	Accounts payable[1]	7,508	8,110
4,787	4,763	Taxes repayable	4,521	4,354
12,232	**12,088**	**Total payables**	**12,029**	**12,464**
		By maturity		
11,230	11,217	Expected to be settled within one year	10,966	11,166
1,002	871	Expected to be outstanding for more than one year	1,063	1,298
12,232	**12,088**	**Total payables**	**12,029**	**12,464**

[1] Comparatives have been restated to reflect an adjustment for TEI's grant receivable resulting from the transition Public Benefit Accounting Standards.

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 21: Borrowings

2016 Forecast			Actual	
Budget 2015 $m	Budget 2016 $m		30 June 2016 $m	30 June 2015 $m
		By type		
64,149	64,045	Government bonds	65,046	58,743
13,936	14,546	Kiwibank customer deposits	14,113	13,006
7,311	7,657	Settlement deposits with Reserve Bank	6,878	7,931
2,281	4,228	Derivatives in loss	4,577	6,261
3,939	3,407	Treasury bills	3,799	6,734
2,706	2,290	Finance lease liabilities	1,631	1,788
179	190	Government retail stock	201	188
18,876	16,646	Other borrowings	17,711	17,929
113,377	**113,009**	**Total borrowings**	**113,956**	**112,580**
		By maturity		
34,223	32,893	Expected to be settled within one year	33,109	39,157
79,154	80,116	Expected to be outstanding for more than one year	80,847	73,423
113,377	**113,009**	**Total borrowings**	**113,956**	**112,580**
		By guarantee		
82,878	83,148	Sovereign-guaranteed debt	84,043	84,008
30,499	29,861	Non-sovereign debt	29,913	28,572
113,377	**113,009**	**Total borrowings**	**113,956**	**112,580**

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

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

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

Other borrowings includes $3,820 million (2015: $4,663 million) of sovereign-guaranteed debt administered by the Reserve Bank and New Zealand Debt Management Office (NZDMO).

Note 21: Borrowings (continued)

Government bonds

	Actual	
	30 June 2016 $m	30 June 2015 $m
Government bonds measured at amortised cost	63,336	57,246
Government bonds measured at fair value	1,710	1,497
Total Government bonds	**65,046**	**58,743**

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 $70,414 million (2015: $61,269 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 Government 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 2016 $m	30 June 2015 $m
Government bonds measured at fair value		
Carrying value	1,710	1,497
Amount payable on maturity	1,581	1,345

Kiwibank customer deposits

	Actual	
	30 June 2016 $m	30 June 2015 $m
Kiwibank customer deposits at amortised cost	14,113	13,006
Total Kiwibank customer deposits	**14,113**	**13,006**

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

The fair value of Kiwibank customer deposits measured at amortised cost is $14,127 million (2015: $13,025 million). For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

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

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 21: 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). 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.

Other borrowings

	Actual	
	30 June 2016 $m	**30 June 2015 $m**
Other borrowings measured at amortised cost	11,706	11,267
Other borrowings measured at fair value	6,005	6,662
Total other borrowings	**17,711**	**17,929**

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 $10,695 million (2015: $11,320 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 2016 $m	**30 June 2015 $m**
Other borrowings measured at fair value		
Carrying value	6,005	6,662
Amount payable on maturity	5,819	6,252
Fair value impact from changes in credit risk for the year	35	(356)
Cumulative fair value impact from changes in credit risk	188	(325)

Note 22: Insurance Liabilities

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		By entity		
36,842	36,976	ACC liability	39,106	32,518
262	1,908	EQC property damage liability	2,485	2,965
645	710	Southern Response liability	807	1,216
65	62	Other insurance liabilities	57	68
-	(331)	Inter-segment eliminations	(329)	(336)
37,814	**39,325**	**Total insurance liabilities**	**42,126**	**36,431**
		By component		
		Outstanding claims liability	39,466	34,045
		Unearned premium liability	2,019	1,867
		Unearned premium liability deficiency	641	519
		Other	-	-
		Total insurance liabilities	**42,126**	**36,431**
		By maturity		
		Expected to be settled within one year	8,004	6,950
		Expected to be outstanding for more than one year	34,122	29,481
		Total insurance liabilities	**42,126**	**36,431**
		Assets arising from insurance obligations are:		
		Receivables for premiums	2,253	2,475
		Reinsurance claim recoveries	534	1,064

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 31. Further information on these liabilities may also be found in the annual reports of each of these entities and on their respective websites.

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

All assets held by the three insurance entities are considered available to back present and future claims obligations. There are no deferred acquisition costs (eg, marketing costs) in respect of insurance obligations at the reporting date.

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 2016.

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

The remainder of the note provides a detailed analysis of the ACC insurance liability. This analysis includes a breakdown of the outstanding claims liability, unearned premium liability, and the unearned premium liability deficiency.

Note 22: 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 that occurred prior to balance date, whether or not the claims have been reported to or accepted by ACC. The PricewaterhouseCoopers actuarial report is signed by Mr Paul Rhodes, Fellow of the Institute and Faculty of Actuaries (UK), Mr Michael Playford, Fellow of the Institute of Actuaries of Australia. Mr Paul Rhodes and Mr Michael Playford are also Fellows of the New Zealand Society of Actuaries.

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

	Actual	
	30 June 2016 $m	**30 June 2015 $m**
The ACC liability comprises:		
ACC outstanding claims liability	36,663	30,328
ACC unearned premium liability	1,873	1,723
ACC unearned premium liability deficiency	570	467
Total ACC liability	**39,106**	**32,518**
Analysis of Outstanding ACC Claims Liability		
Undiscounted outstanding claims liability	67,827	71,940
Discount adjustment	(35,370)	(45,084)
Risk margin	4,206	3,472
Total outstanding ACC claims liability	**36,663**	**30,328**
Discounted central estimate of future payments for outstanding claims	30,471	25,112
Claims handling expenses	1,986	1,744
Outstanding claims liability before risk margin	**32,457**	**26,856**
Risk margin	4,206	3,472
Total outstanding ACC claims liability	**36,663**	**30,328**
Movement in Outstanding ACC Claims Liability		
Opening balance	30,328	27,696
Claims incurred for the year	4,272	3,909
Claims paid out in the year	(3,917)	(3,621)
Discount rate unwind	881	992
Experience adjustments (actuarial gains and losses):		
- actual and assumed claim experience	210	(107)
- change in discount rate	6,355	3,225
- change in inflation rate	(1,466)	(1,766)
Other movements	-	-
Closing outstanding ACC claims liability	**36,663**	**30,328**
Movement in ACC Unearned Premium Liability		
Opening balance	1,723	2,050
Earning of premiums previously deferred	(1,723)	(2,050)
Deferral of premiums on current year contracts	1,873	1,723
Other	-	-
Closing ACC unearned premium liability	**1,873**	**1,723**

Note 22: Insurance Liabilities (continued)

	Actual 30 June 2016 $m	Actual 30 June 2015 $m
Analysis of ACC unearned premium liability deficiency		
Unearned premium liability	1,873	1,723
Adjusted for unearned premium relating to claims arising from medical misadventure premium liabilities without deficiency	(118)	(122)
Adjusted ACC unearned premium liability	**1,755**	**1,601**
Discounted central estimate of payments for insured future claims	2,089	1,868
Central estimate of discounted future reinsurance recoveries	-	-
Risk margin	236	200
Present value of expected cash flows for future accident claims	**2,325**	**2,068**
Total ACC unearned premium liability deficiency	**570**	**467**

Claims development historical analysis

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

	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	30 June 2016 $m
Estimate of ultimate claims costs:								
At the end of the accident year	7,035	7,517	6,877	6,794	7,264	7,192	6,884	
One year later	6,739	6,288	6,118	6,608	6,547	6,682		
Two years later	5,939	5,890	5,546	5,762	5,823			
Three years later	5,722	5,310	4,979	5,007				
Four years later	5,274	5,070	4,458					
Five years later	4,723	4,596						
Six years later	4,548							
Current estimate of cumulative claim costs	4,548	4,596	4,458	5,007	5,823	6,682	6,884	37,998
Cumulative payments	(1,582)	(1,494)	(1,479)	(1,535)	(1,618)	(1,576)	(972)	(10,256)
Outstanding claims undiscounted	**2,966**	**3,102**	**2,979**	**3,472**	**4,205**	**5,106**	**5,912**	**27,742**
Discount								(15,533)
Claims handling costs								2,240
2009 and prior claims (net present value)								22,199
Short tail outstanding claims								15
Total outstanding ACC claims liability								**36,663**

Note 22: 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 3.22% (2015: 4.34%) and a long term discount rate of 4.75% beyond 39 years (2015: 5.50% beyond 30 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 22: Insurance Liabilities (continued)

	30 June 2016 Next Year	30 June 2016 Beyond Next Year	30 June 2015 Next Year	30 June 2015 Beyond Next Year
Summary of assumptions				
Average weighted term to settlement from reporting date	16 years 9 months		15 years 7 months	
Weighted average risk margin	13.0%		12.9%	
Probability of adequacy of liability	75.0%		75.0%	
Weighted average risk margin for liability adequacy test	13.0%		12.9%	
Probability of adequacy of liability to cover unearned premiums	75.0%		75.0%	
Risk-free discount rate[1]	2.1%	2.0% to 4.8%	2.9%	2.8% to 5.5%
Inflation rates (excluding superimposed inflation):				
Weekly compensation	2.5%	2.5% to 3.0%	2.6%	2.6% to 3.5%
Impairment benefits	0.4%	1.5% to 2.0%	0.1%	0.1% to 2.5%
Social rehabilitation benefits (serious and non serious injury)	1.7%	1.7% to 2.2%	1.8%	1.8% to 2.7%
Hospital rehabilitation benefits	1.7%	1.7% to 2.2%	1.8%	1.8% to 2.7%
Medical costs	1.7%	1.7% to 2.2%	1.8%	1.8% to 2.7%
Superimposed inflation:				
Social rehabilitation benefits (serious injury)	5.7%	2.8% to 5.9%	2.8%	2.3% to 5.7%
Social rehabilitation benefits (non-serious injury)	4.3%	2.0% to 4.3%	4.3%	2.0% to 4.3%
Hospital rehabilitation benefits	5.0%	4.0% to 5.0%	5.0%	4.0% to 5.0%
Medical costs (GPs)	4.0%	3.0% to 4.0%	3.0%	3.0% to 4.0%
Medical costs (Radiology)	5.8%	5.0% to 5.8%	5.0%	5.0% to 5.8%
Medical costs (Physiotherapists)	2.0%	2.0%	2.0%	2.0%
Medical costs others (specialists)	3.3%	2.5% to 3.3%	2.5%	2.5% to 3.3%

1 The risk-free discount rate beyond 39 years is 4.75% (2015: the rate beyond 30 years was 5.5%).

Note 22: 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 2016 $m	30 June 2015 $m
Sensitivity of assumptions			
Average weighted term to settlement from reporting date	+1 year	(1,106)	(902)
	-1 year	1,141	930
Risk-free discount rate	+1%	(5,196)	(3,930)
	-1%	6,982	5,212
Inflation rates (including superimposed inflation)	+1%	7,118	5,370
	-1%	(5,380)	(4,106)
Social rehabilitation benefits - superimposed inflation for non-serious injury claims	+1%	835	587
	-1%	(613)	(446)
Social rehabilitation benefits - superimposed inflation after four years for serious injury claims	+1%	3,336	2,517
	-1%	(2,445)	(1,860)

Undiscounted outstanding claims liability

The reported outstanding claims liability (before risk margin) of $32,457 million (2015: $26,856 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 2016. These estimated cash flows include the effects of assumed future inflation.

	Actual 30 June 2016 $m	30 June 2015 $m
No later than 1 year	2,321	2,137
Later than 1 year and no later than 2 years	1,672	1,578
Later than 2 years and no later than 5 years	4,350	4,184
Later than 5 years and no later than 10 years	6,514	6,411
Later than 10 years and no later than 15 years	6,054	5,836
Later than 15 years and no later than 20 years	5,783	5,619
Later than 20 years and no later than 25 years	5,591	5,567
Later than 25 years and no later than 30 years	5,370	5,519
Later than 30 years and no later than 35 years	5,122	5,456
Later than 35 years and no later than 40 years	4,825	5,300
Later than 40 years and no later than 45 years	4,451	5,038
Later than 45 years and no later than 50 years	3,979	4,639
Later than 50 years	11,795	14,656
Undiscounted outstanding claims liability	**67,827**	**71,940**

Note 23: Retirement Plan Liabilities

2016 Forecast Budget 2015 $m	Budget 2016 $m		Actual 30 June 2016 $m	30 June 2015 $m
12,192	11,297	Government Superannuation Fund (GSF)	12,441	10,845
(2)	(10)	Other funds	1	(11)
12,190	**11,287**	**Total retirement plan liabilities**	**12,442**	**10,834**

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 2016. 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 2016 $m	30 June 2015 $m
Net GSF Obligation		
Present value of defined benefit obligation	16,406	14,932
Fair value of plan assets	(3,965)	(4,087)
Present value of unfunded defined benefit obligation	**12,441**	**10,845**
Present value of defined benefit obligation		
Opening defined benefit obligation	14,932	14,560
Expected current service cost	73	77
Expected unwind of discount rate	426	525
Actuarial losses/(gains)	1,846	647
Benefits paid	(871)	(877)
Other	-	-
Closing defined benefit obligation	**16,406**	**14,932**
Fair value of plan assets		
Opening fair value of plan assets	4,087	3,674
Expected return on plan assets	220	216
Actuarial gains/(losses)	(182)	325
Funding of benefits paid by Government	703	721
Contributions from other entities	18	22
Contributions from members	33	37
Benefits paid	(871)	(877)
Other	(43)	(31)
Closing fair value of plan assets	**3,965**	**4,087**

Note 23: Retirement Plan Liabilities (continued)

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

2016 Forecast			Actual	
Budget 2015 $m	Budget 2016 $m		30 June 2016 $m	30 June 2015 $m
		Personnel Expenses		
		Expected current service cost	73	77
		Expected unwind of discount rate on GSF obligation	426	525
		Expected return on plan assets	(220)	(216)
		Contributions from members and funding employers	(51)	(59)
		Other expenses	43	31
		Past service cost	-	-
355	**272**	**Total included in personnel expenses**	**271**	**358**
		Net (Gains)/Losses on Non-Financial Instruments		
-	898	Actuarial (gain)/loss recognised in the year	2,028	322
355	**1,170**	**Total GSF expense**	**2,299**	**680**

The Government expects to make a contribution of $724 million to GSF in the year ending 30 June 2017. 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 2016 %	30 June 2015 %
Summary of assumptions		
For following year		
Discount rate	2.1%	2.9%
Expected return on plan assets	5.0%	5.5%
Expected rate of salary increases	2.5%	3.0%
Expected rate of inflation	1.5%	1.6%
Beyond next year		
Discount rates between 2 and 21 years	2.0% to 3.9%	2.8% to 5.0%
Discount rates between 22 and 29 years	3.9% to 4.3%	5.1% to 5.4%
Discount rates between 30 and 38 years	4.3% to 4.7%	5.5% to 5.5%
Discount rate from 39 years onwards	4.8%	5.5%
Expected return on plan assets	5.0%	5.5%
Expected rate of salary increases	2.5%	3.0%
Expected rate of inflation from years 2 to 12	1.5%	1.6%

Assumed inflation increases of 1.5% each year to year 11, then gradually increases, reaching 2.0% in year 38.

The defined benefit obligation increased in the year to 30 June 2016 by $1,474 million, mainly due to a decrease in the short and medium term discount rates over the year, partially offset by a reduction in the assumed rate of increase in the Consumer Price Index.

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

Note 23: Retirement Plan Liabilities (continued)

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

	Actual	
	30 June 2016 $m	30 June 2015 $m
Equity instruments	2,227	2,561
Other debt instruments	544	589
Cash and short term investments	348	307
Property	7	7
Other	839	623
Fair value of plan assets	**3,965**	**4,087**

The expected rate of return on the plan assets of 5.0% (2015: 5.5%) has been calculated by taking the expected long-term returns from each asset class, reduced by tax (using the current rates of tax).

The actual return on plan assets for the year ended 30 June 2016 was 1.0%, or $38 million (2015: 15.0% or $542 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 2016 $m	30 June 2015 $m
Sensitivity of assumptions			
Discount rate (present value of the obligation)	+ 1%	(1,771)	(1,527)
	- 1%	2,157	1,850
Share price (fair value of equity instruments)	+ 10%	(223)	(256)
	- 10%	223	256
Expected rate of inflation	+ 1%	1,982	1,704
	- 1%	(1,668)	(1,439)

Note 23: 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 2016 $m	30 June 2015 $m	30 June 2014 $m	30 June 2013 $m	30 June 2012 $m
Present value of defined benefit obligation	16,406	14,932	14,560	15,290	16,557
Fair value of plan assets	(3,965)	(4,087)	(3,674)	(3,382)	(3,018)
Present value of unfunded defined benefit obligation	**12,441**	**10,845**	**10,886**	**11,908**	**13,539**
Experience adjustment - increase/(decrease) in plan assets	(182)	325	212	331	(210)
Less experience adjustment - increase/(decrease) in plan liabilities	184	157	68	(90)	28
Total experience adjustments - (losses)/gains	(366)	168	144	421	(238)
Changes in actuarial assumptions	(1,662)	(490)	433	830	(3,658)
Actuarial (losses)/gains recognised in the year	**(2,028)**	**(322)**	**577**	**1,251**	**(3,896)**

Undiscounted defined benefit obligation

The reported GSF defined benefit obligation of $16,406 million (2015: $14,932 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 2016. These estimated cash flows include the effects of assumed future inflation.

	30 June 2016 $m	30 June 2015 $m
No later than 1 year	916	921
Later than 1 year and no later than 2 years	902	910
Later than 2 years and no later than 5 years	2,723	2,763
Later than 5 years and no later than 10 years	4,477	4,588
Later than 10 years and no later than 15 years	4,174	4,305
Later than 15 years and no later than 20 years	3,647	3,828
Later than 20 years and no later than 25 years	2,943	3,204
Later than 25 years and no later than 30 years	2,197	2,517
Later than 30 years and no later than 35 years	1,503	1,837
Later than 35 years and no later than 40 years	931	1,219
Later than 40 years and no later than 45 years	512	722
Later than 45 years and no later than 50 years	241	366
Later than 50 years	122	203
Undiscounted defined benefit obligation	**25,288**	**27,383**

Note 24: Provisions

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Note	Actual 30 June 2016 $m	Actual 30 June 2015 $m
		By type			
3,251	3,441	Provision for employee entitlements	a	3,604	3,533
821	1,303	Provision for ETS credits	b	2,250	855
833	847	Provision for National Provident Fund guarantee	c	918	893
-	-	Aircraft Lease Return Costs	d	295	253
-	52	Provision for Water Infrastructure package (refer note 31)		75	234
1,571	1,709	Other provisions	e	1,570	1,453
6,476	**7,352**	**Total provisions**		**8,712**	**7,221**
		By longevity			
3,252	3,507	Expected to be settled within one year		3,785	3,764
3,224	3,845	Expected to be outstanding for more than one year		4,927	3,457
6,476	**7,352**	**Total provisions**		**8,712**	**7,221**

For the year ended 30 June 2016	Employee entitlements $m	ETS $m	NPF guarantee $m	Aircraft lease return costs $m
Opening Provision	3,533	855	893	253
Additional Provision	1,735	163	-	84
Provision Utilised	(1,492)	(271)	(67)	(34)
Reversal of previous provision	(172)	-	(27)	-
(Gains) / Losses on NZ Units	-	1,503	-	-
Other Movements	-	-	119	(8)
Closing Provision	**3,604**	**2,250**	**918**	**295**

For the year ended 30 June 2015	Employee entitlements $m	ETS $m	NPF guarantee $m	Aircraft lease return costs $m
Opening Provision	3,444	521	910	173
Additional Provision	1,948	133	-	63
Provision Utilised	(1,705)	(138)	(75)	(29)
Reversal of previous provision	(154)	-	(52)	-
(Gains) / Losses on NZ Units	-	366	-	-
Other Movements	-	(27)	110	46
Closing Provision	**3,533**	**855**	**893**	**253**

Note 24: Provisions (continued)

a) Employee entitlements

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

b) Emissions Trading Scheme

The Emissions Trading Scheme (ETS) was established to encourage a reduction in New Zealand's greenhouse gas emissions. The carbon price used to calculate the ETS provision at 30 June 2016 is $NZ17.75 (2015: $NZ6.80).

The ETS provision represents the tradeable NZ units outstanding, that will be accepted by the government as emitters honour the emissions obligations under the ETS.

The carbon price has been determined by the Ministry for the Environment based on the quoted NZU spot price at the end of the reporting date as published by OM Financial Limited on their CommTrade Carbon website.

c) National Provident Fund guarantee

The Government has guaranteed superannuation schemes managed by the National Provident Fund (NPF). Included in the provision is the NPF's DBP Annuitants Scheme unfunded liability position of $918 million (2015: $893 million), represented by a gross estimated pension obligation of $955 million (2015: $929 million) with net investment assets valued at $37 million (2015: $36 million).

d) Aircraft lease return costs

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

e) Other provisions

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

Note 25: Minority Interests

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		Net Worth Attributable to Minority Interests		
5,181	5,782	Opening minority interest	5,782	5,211
473	565	Operating balance attributable to minority interests	436	545
-	-	Increase in minority interest from Government share offers	-	41
(438)	(440)	Transactions with minority interests	(404)	(319)
-	-	Movement in reserves attributable to minority interests	367	246
7	(152)	Other movements	(26)	58
5,223	**5,755**	**Closing minority interest**	**6,155**	**5,782**
		Consisting of interests in:		
		Mighty River Power (now Mercury NZ Limited)	1,513	1,537
		Meridian Energy	2,301	2,137
		Genesis Energy	927	826
		Air New Zealand	1,224	1,125
		Other	190	157
		Closing minority interest	**6,155**	**5,782**
		Minority share of Operating Balance		
		Mighty River Power (now Mercury NZ Limited)	73	22
		Meridian Energy	84	111
		Genesis Energy	41	66
		Air New Zealand	252	379
		Other	(14)	(33)
		Operating balance attributable to minority interests	**436**	**545**

Transactions with minority interests include dividend payments and dividend reinvestments.

Other minority interests consists of interests in Crown Fibre Holdings Limited (investments in local fibre companies) and the New Zealand Post Group (capital notes issued by the Kiwibank group).

Note 26: Capital Objectives and Fiscal Policy

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

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

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

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

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

Long Term Fiscal Objectives - Fiscal Strategy Report 2016[6]

Debt

Manage total debt at prudent levels. Manage net debt within a range of 0% to 20% of GDP.

Operating balance

Deliver operating balances sufficient to meet the Government's net capital requirements, including contributions to the NZS Fund, and ensure consistency with the debt objective.

Operating expenses

Control the growth in government spending so core Crown expenses are below 30% of GDP.

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6 The long-term fiscal objectives are stated in the Fiscal Strategy Report 2016.

Note 26: 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, the Crown will build 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 2015	**Fiscal Strategy Report 2016**	**Fiscal Position 2016**[7]
Debt Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 31.4% of GDP in 2018/19. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 22.9% in 2018/19, 20.9% of GDP in 2019/20 and 19.7% of GDP in 2020/21.	**Debt** Our intention is to reduce net debt to around 20% of GDP in 2020. Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 30.4% of GDP in 2019/20. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 23.1% in 2018/19, 20.8% of GDP in 2019/20 and projected to be 19.3% of GDP in 2020/21.	**Debt** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) at 30 June 2016 was 37.1% of GDP (2015: 38.6%). Net core Crown debt (excluding NZS Fund and advances) at 30 June 2016 was 24.6% of GDP (2015: 25.1%).
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 -0.3% of GDP in 2014/15, 0.1% of GDP in 2015/16 and 1.3% of GDP in 2018/19. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 2.3% of GDP in 2018/19.	**Operating balance** Our intention is to maintain rising operating balance (before gains and losses) surpluses so that net core Crown debt begins to reduce in dollar terms (subject to any significant shocks to the economy). The operating balance (before gains and losses) is forecast to be 0.3% of GDP in 2015/16, 0.3% of GDP in 2016/17 and 2.2% of GDP in 2019/20. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 3.2% of GDP in 2019/20.	**Operating balance** The operating balance (before gains and losses) for the year ended 30 June 2016 was a surplus of 0.7% of GDP (2015: 0.2%). The operating deficit for the year ended 30 June 2016 was (2.1%) of GDP (2015: surplus of 2.4%).
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 29.0% of GDP in 2018/19. Total Crown expenses are forecast to be 37.7% of GDP in 2018/19. This assumes a new operating allowance of $1 billion in Budget 2016 and $2.5 billion in Budget 2017.	**Expenses** Our intention is to support fiscal surpluses by restraining the growth in core Crown expenses and managing these to below 30% of GDP. Core Crown expenses are forecast to fall from 29.7% of GDP in 2015/16 to 28.3% of GDP in 2019/20. Total Crown expenses are forecast to be 36.4% of GDP in 2019/20. This assumes a new operating allowance of $1.5 billion in Budget 2017 and for the remainder of the forecast period, growing at 2% thereafter.	**Expenses** Core Crown expenses for the year ended 30 June 2016 were 29.4% GDP (2015: 30.0%). Total Crown expenses for the year ended 30 June 2016 were 38.1% of GDP (2015: 38.8%).

7 GDP for the year ended 30 June 2016 was $251,760 million (2015: $241,597 million revised).

Note 26: Capital Objectives and Fiscal Policy (continued)

Fiscal Strategy Report 2015	Fiscal Strategy Report 2016	Fiscal Position 2016
Revenues Total Crown revenues are forecast to be 39.2% of GDP in 2018/19. Core Crown revenues are forecast to be 30.6% of GDP in 2018/19. Core Crown tax revenues are forecast to be 28.2% of GDP in 2018/19.	**Revenues** Our intention is to support fiscal surpluses by growing revenue in dollar terms, although maintaining it at broadly the same proportion of GDP. Total Crown revenues are forecast to be 38.8% of GDP in 2019/20. Core Crown revenues are forecast to be 30.6% of GDP in 2019/20. Core Crown tax revenues are forecast to be 28.2% of GDP in 2019/20.	**Revenues** Total Crown revenues for the year ended 30 June 2016 were 39.0% of GDP (2015: 39.1%). Core Crown revenues for the year ended 30 June 2016 were 30.2% of GDP (2015: 29.9%). Core Crown tax revenues for the year ended 30 June 2016 were 28.0% of GDP (2015: 27.6%).
Net worth Total Crown net worth is forecast to be 34.6% of GDP in 2018/19. Total net worth attributable to the Crown is forecast to be 32.8% of GDP in 2018/19.	**Net worth** Our intention is to strengthen the Crown's financial positions as a buffer against future adverse shocks. Total net worth attributable to the Crown is forecast to be 36.4% of GDP in 2019/20. Total Crown net worth is forecast to be 38.4% of GDP in 2019/20.	**Net worth** Total net worth attributable to the Crown as at 30 June 2016 was 35.5% of GDP (2015: 35.8%). Total Crown net worth as at 30 June 2016 was 37.9% of GDP (2015: 38.2%).

Note 27: Commitments

	Actual 30 June 2016 $m	30 June 2015 $m
Capital Commitments		
State highways[1]	5,398	4,060
Aircraft and engines (excluding military)	2,210	2,517
Specialist military equipment	235	420
Land and buildings	2,200	1,122
Other property, plant and equipment	368	441
Other capital commitments	246	694
Tertiary Education Institutions	533	480
Total capital commitments	**11,190**	**9,734**
Operating Lease Commitments		
Non-cancellable accommodation leases	3,197	3,088
Other non-cancellable leases	2,411	2,291
Tertiary Education Institutions	730	540
Total operating lease commitments	**6,338**	**5,919**
Total commitments	**17,528**	**15,653**
By source		
Core Crown	5,102	4,453
Crown entities	8,392	7,231
State-owned enterprises	4,826	4,887
Inter-segment eliminations	(792)	(918)
Total commitments	**17,528**	**15,653**
By Term		
Capital Commitments		
One year or less	4,973	4,284
From one year to two years	2,334	2,309
From two to five years	2,416	2,967
Over five years	1,467	174
Total capital commitments	**11,190**	**9,734**
Operating Lease Commitments		
One year or less	1,096	1,131
From one year to two years	884	1,023
From two to five years	1,765	1,691
Over five years	2,593	2,074
Total operating lease commitments	**6,338**	**5,919**
Total commitments	**17,528**	**15,653**

[1] The state highways capital commitment is primarily made up of the Transmission Gully project, expected to be completed in 2020, the property purchase project (the purchasing of parcels of land to enable the improvement of the state highway asset), and other new and improved infrastructure state highway projects. For more details on the Transmission Gully Public Private Partnership, refer to note 18.

Note 28: Contingent Liabilities and Contingent Assets

Contingent liabilities are:

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

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

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

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

Contingent liabilities and contingent assets involving amounts of over $20 million are separately disclosed. Any quantifiable contingencies less than $20 million are included in the "other quantifiable" total. Some contingencies of the Crown are not able to be quantified; these unquantifiable contingent liabilities and contingent assets are disclosed as at 30 June 2016 where they are expected to be material but not remote. Where there is an obligation under New Zealand GAAP, amounts have been recognised in the financial statements.

Contingent liabilities

	Note	Actual 30 June 2016 $m	30 June 2015 $m
Quantifiable Contingent Liabilities			
Uncalled capital	a	7,910	7,337
Guarantees and indemnities	b	288	310
Legal proceedings and disputes	c	221	247
Other contingent liabilities	d	314	379
Total quantifiable contingent liabilities		**8,733**	**8,273**
By source			
Core Crown		8,593	8,025
Crown entities		40	30
State-owned enterprises		100	218
Total quantifiable contingent liabilities		**8,733**	**8,273**

Note 28: Contingent Liabilities and Contingent Assets (continued)

a) Uncalled capital

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

		Actual	
	Note	30 June 2016 $m	30 June 2015 $m
Asian Development Bank	i	3,051	3,193
International Monetary Fund - promissory notes	ii	2,205	1,337
International Bank for Reconstruction and Development	iii	1,558	1,625
International Monetary Fund - arrangements to borrow	iv	559	1,164
Asian Infrastructure Investment Bank	v	519	-
Other uncalled capital		18	18
Total uncalled capital		**7,910**	**7,337**

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. The increase from last year follows an increase in the Securities Account with the IMF (as a result of the 14th Quota increase) as well as foreign exchange movements. The increase in promissory notes is somewhat offset by a decrease in the IMF arrangements to borrow (see iv below).

iii) International Bank for Reconstruction and Development (IBRD)

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

iv) IMF arrangements to borrow

The Crown has agreed to make funds available to the IMF to support international financial systems in the event of a significant crisis. This is a contingent liability as it will depend upon uncertain trigger events occurring and the IMF calling the funds. Following the increase in the IMF promissory notes above, the arrangements to borrow have significantly reduced from the previous year.

v) Asian Infrastructure Investment Bank (AIIB)

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

Note 28: Contingent Liabilities and Contingent Assets (continued)

Southern Response Earthquake Services Ltd

In addition to the uncalled capital above, the Crown Support Deed agreed with Southern Response Earthquake Services Ltd includes:

- a $500 million preference share facility under the Crown's agreement dated 5 April 2012. This facility has been fully called and paid as at 30 June 2016, and
- $500 million of uncalled ordinary shares under an amended Crown Support Deed dated 30 January 2013. This capital facility has since been extended with an additional $250 million during 2015/16.

As at 30 June 2016, $555 million has been called and $43 million paid under the uncalled ordinary capital facility. There is also a possibility that the remaining $195 million will be called due to significant complexities that exist in settling Christchurch earthquake claims. The extent to which the subscription is called and paid depends on the ultimate cost of settling earthquake claims, which continues to be subject to significant uncertainty.

These arrangements are within the Government Reporting Entity and do not impact the consolidated results of the Government. However, movements in these capital facilities will impact on net core Crown debt.

b) Guarantees and indemnities

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

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

	Note	Actual 30 June 2016 $m	 30 June 2015 $m
New Zealand Export Credit Office guarantees	i	211	177
Air New Zealand letters of credit and performance bonds	ii	33	58
Other guarantees and indemnities		44	75
Total guarantees and indemnities		**288**	**310**

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.

Note 28: 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.

	Note	Actual 30 June 2016 $m	30 June 2015 $m
Legal proceedings	i	172	148
Other legal proceedings and disputes		49	99
Total legal proceedings and disputes		**221**	**247**

i) Legal proceedings

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

d) Other quantifiable contingent liabilities

	Note	Actual 30 June 2016 $m	30 June 2015 $m
Unclaimed monies	i	133	120
Air New Zealand partnership	ii	68	76
Education legal dispute	iii	26	-
Other contingent liabilities		88	183
Total other contingent liabilities		**314**	**379**

i) Unclaimed monies

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

ii) Air New Zealand partnership

The Air New Zealand Group has a partnership agreement 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.

iii) Education legal dispute

A breach of contract claim has taken by the New Zealand Educational Institute on behalf of support staff in schools. The NZEI claim that the collective agreement requires that the support workers' pay for 2016 should be based on the higher equivalent rate for 26 pay periods for each of the 2016 pay periods of which there are 27.

Note 28: 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 28: 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 and 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 Contact 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 39 of the Civil Defence Emergency Management Act 2002. Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.
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 28: 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	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited dated 24 September 2015. The Crown has indemnified Westpac New Zealand Limited: • for all amounts paid by Westpac New Zealand under letters of credit issued on behalf of the Crown, and • against certain cost, damages and losses to third parties resulting from: - unauthorised, forged or fraudulent payment instructions - unauthorised or incorrect direct debit instructions, or - cheques mistakenly drawn in favour of a third party rather than drawn in favour of the Crown.

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

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

ii) Air New Zealand litigation

Air New Zealand is defending a class action in the United States, in which it is alleged that Air New Zealand together with other airlines acted anti-competitively in respect of fares and surcharges on trans-Pacific routes.

Allegations of anti-competitive conduct in the air cargo business in Hong Kong and Singapore were the subject of proceedings by the Australian Competition and Consumer Commission (ACCC). Following a defended hearing, the Federal Court released its decision in October 2014, finding in favour of Air New Zealand. The ACCC has appealed the decision and the appeal was heard in August 2015 finding in favour of the ACCC. Application has been made to the High Court of Australia for leave to appeal the latest decision. In the event that a Court determined that Air New Zealand had breached competition laws, the Group would have potential liability for damages or (in Australia) pecuniary penalties. No other significant contingent liability claims are outstanding at balance date.

Note 28: Contingent Liabilities and Contingent Assets (continued)

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 for Primary Industries – Kiwifruit vine disease

In November 2014, 42 growers and post-harvest operators filed a claim against the Ministry for Primary Industries (MPI) alleging MPI is legally liable for damages they have suffered from a biosecurity incursion of the kiwifruit vine disease, Psa-V, in New Zealand. There are now approximately 178 grower claims included in the proceeding and one post-harvest operator claim. The plaintiffs have not quantified their losses, but publicly claim it is in the vicinity of $380 million (and cite total industry losses of $885 million). Although the plaintiffs have now provided some of the types of loss for which they are claiming, the loss has not been quantified for each claim, so it is still not possible to provide a more accurate assessment of the contingent liability.

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

iii) Treaty of Waitangi claims – settlement relativity payments

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

The relativity mechanism has now been triggered, and in future years, additional costs are likely to be incurred in accordance with the relativity mechanism as Treaty settlements are reached. However, no value can be placed on these at this point in time, as there is uncertainty as to when each negotiation will settle, and the value of any settlement when reached. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

Note 28: Contingent Liabilities and Contingent Assets (continued)

iv) Holidays Act and other relevant legislation

A number of entities have commenced a review of payroll calculations over the last six years in order to ensure compliance with the Holidays Act and other relevant legislation. Where possible, provision has been made in these financial statements for obligations arising from that review. To the extent that an obligation cannot reasonably be quantified at 30 June 2016, a contingent liability exists.

Contingent assets

	Note	Actual 30 June 2016 $m	30 June 2015 $m
Contingent assets			
Tax disputes	i	22	103
Suspensory loans issued to integrated schools	ii	20	25
Transpower	iii	21	75
Other contingent assets		10	35
Total contingent assets		**73**	**238**
By source			
Core Crown		51	160
Crown entities		1	3
State-owned enterprises		21	75
Total quantifiable contingent assets		**73**	**238**

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.

iii) Transpower New Zealand Limited

Transpower operates its revenue setting methodology within an economic value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. Under Commerce Commission regulations, Transpower is required to pass onto or claim from customers over time the economic value of the gains or losses. Transpower's contingent asset includes the provisional balance from the EV accounts at 30 June 2016. These figures will not be finalised until October 2016.

Note 29: Financial Instruments

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

- Social policy purposes. Primarily held to achieve social policy objectives. A large portion of the financial instruments for social policy purposes relates to student loans to support tertiary education policy. The associated risk for the Student Loan portfolio is that borrowers will default on their obligation.

- Investment purposes. Primarily held for the purpose of generating returns to assist in funding long-term obligations. The main investment portfolios are managed by ACC and the NZ Superannuation Fund. Associated risks include performance of the New Zealand and global markets.

- Funding purposes. Primarily financial assets and liabilities are held to finance the Government's borrowing requirements and provide funds to Government entities. Examples include Government bonds and Treasury bills. Financing activity exposes the Government to financial risks from interest rates and global demand for New Zealand Government bonds.

- Central bank purposes. Primarily held for the Reserve Bank's foreign reserve management and market operations. The main financial risks to which the Reserve Bank is exposed includes foreign exchange risks, liquidity risks and financial stability risks.

- Commercial purposes. Primarily held for by entities that operate on a commercial basis, who will hold financial instruments arising from their normal business activity. The main examples are State owned enterprises (including the mixed ownership model companies). Associated risks include interest rates risks, foreign exchange risks and price risks.

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

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

The institutional frameworks and policy objectives of these portfolios are reviewed periodically. Otherwise, reporting on the consolidated financial management and performance of these portfolios is done in the context of the interim and annual Financial Statements of the Government 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 revenue and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in note 33 to the financial statements.

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

- Analysis of financial assets and financial liabilities

- Fair value measurement

- Derivative disclosures

- Risk management, and

- Sensitivity analysis.

Note 29: Financial Instruments (continued)

Analysis of financial assets and financial liabilities

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

Financial assets

	Note	Actual 30 June 2016 $m	30 June 2015 $m
By class			
Cash and cash equivalents		15,617	11,982
Reinsurance, trade and other receivables	14	4,342	5,070
Long-term deposits	15	4,791	5,214
Derivatives in gain	15	5,888	3,015
Marketable securities	15	40,822	43,770
IMF financial assets	15	1,897	2,299
Share investments	16	24,217	25,408
Kiwibank loans	17	16,689	15,598
Student loans	17	8,982	8,864
Other advances	17	2,563	2,035
Total financial assets		**125,808**	**123,255**
By valuation methodology			
Loans and receivables at amortised cost		54,015	50,064
Fair value			
Available for sale		747	822
Held for trading		5,948	3,090
Fair value through the operating balance		65,098	69,279
Total financial assets at fair value		**71,793**	**73,191**
Total financial assets		**125,808**	**123,255**

As at 30 June 2016, the carrying value of financial assets that had been pledged as collateral was $2,416 million (2015: $3,660 million). These transactions are conducted under terms that are usual and normal to standard securities borrowing. The increase in collateral pledged is largely as a result of securities pledged as collateral by Reserve Bank. For more information refer to the individual entity's annual report.

Note 29: Financial Instruments (continued)

Financial liabilities

	Note	Actual 30 June 2016 $m	30 June 2015 $m
By class			
Issued currency		5,715	5,336
Accounts payable	20	7,508	8,110
Borrowings:	21		
Government bonds		65,046	58,743
Kiwibank customer deposits		14,113	13,006
Settlement deposits with Reserve Bank		6,878	7,931
Derivatives in loss		4,577	6,261
Treasury bills		3,799	6,734
Finance lease liabilities		1,631	1,788
Government retail stock		201	188
Other borrowings		17,711	17,929
Total borrowings		**113,956**	**112,580**
Total financial liabilities		**127,179**	**126,026**
By valuation methodology			
Amortised cost (loans and receivables)		114,887	111,606
Fair value			
Held for trading		4,577	6,261
Fair value through the operating balance		7,715	8,159
Total financial liabilities at fair value		**12,292**	**14,420**
Total financial liabilities		**127,179**	**126,026**

Fair Value Measurement

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

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

Note 29: Financial Instruments (continued)

	Actual As at 30 June 2016 $m	As at 30 June 2015 $m
Financial assets		
Quoted market price	30,447	32,919
Observable market inputs	37,882	36,514
Significant non-observable inputs	3,464	3,758
Total financial assets at fair value	**71,793**	**73,191**
Financial liabilities		
Quoted market price	2,591	1,819
Observable market inputs	9,552	12,502
Significant non-observable inputs	149	99
Total financial liabilities at fair value	**12,292**	**14,420**
Net financial instruments at fair value	**59,501**	**58,771**

Significant non-observable inputs

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

	Actual As at 30 June 2016 $m	As at 30 June 2015 $m
Financial assets	3,464	3,758
Financial liabilities	149	99
Net financial instruments	**3,315**	**3,659**
Opening balance	3,659	3,037
Total gains/(losses) recognised in the statement of financial performance	(181)	394
Total gains/(losses) recognised in the statement of comprehensive revenue and expense	(18)	(14)
Purchases	438	796
Sales	(158)	(346)
Issues	1	186
Settlements	(423)	(253)
Transfers into and out of non-observable inputs	(3)	(141)
Closing balance	**3,315**	**3,659**

Note 29: Financial Instruments (continued)

Derivatives

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

	Carrying Value As at 30 June 2016			Carrying Value As at 30 June 2015		
	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m	Derivatives in gain $m	Derivatives in loss $m	Net carrying value $m
Foreign exchange	1,943	436	**1,507**	328	2,940	**(2,612)**
Foreign exchange options	1	1	**-**	1	3	**(2)**
Cross currency swaps	1,034	752	**282**	998	1,076	**(78)**
Interest rate swaps	1,993	2,664	**(671)**	996	1,688	**(692)**
Interest rate options	-	-	**-**	-	-	**-**
Futures	28	10	**18**	27	1	**26**
Other derivatives	889	714	**175**	665	553	**112**
Total derivatives	**5,888**	**4,577**	**1,311**	**3,015**	**6,261**	**(3,246)**

	Notional Value As at 30 June 2016			Notional Value As at 30 June 2015		
	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m	Derivatives in gain $m	Derivatives in loss $m	Total Notional value $m
Foreign exchange	46,420	15,564	**61,984**	10,595	48,330	**58,925**
Foreign exchange options	17	293	**310**	19	75	**94**
Cross currency swaps	10,638	8,642	**19,280**	7,233	9,260	**16,493**
Interest rate swaps	41,363	51,547	**92,910**	35,977	49,829	**85,806**
Interest rate options	-	-	**-**	115	-	**115**
Futures	3,375	4,207	**7,582**	3,648	5,254	**8,902**
Other derivatives	24,101	15,359	**39,460**	21,157	14,264	**35,421**
Total derivatives	**125,914**	**95,612**	**221,526**	**78,744**	**127,012**	**205,756**

Note 29: Financial Instruments (continued)

Derivatives in loss liquidity analysis

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

As at 30 June 2016	Total cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Derivatives in loss settled gross						
- inflow	78,370	66,082	2,124	4,202	4,420	1,542
- outflow	76,135	64,518	1,927	3,979	4,058	1,653
Total settled gross	2,235	1,564	197	223	362	(111)
Derivatives in loss settled net	3,636	873	644	1,468	603	48
Total net cash flows	**5,871**	**2,437**	**841**	**1,691**	**965**	**(63)**

As at 30 June 2015	Total cash flows $m	<1 year $m	1-2 years $m	2-5 years $m	5-10 years $m	> 10 years $m
Derivatives settled gross						
- inflow	74,288	62,292	3,265	3,879	3,653	1,199
- outflow	76,723	64,589	3,363	3,893	3,476	1,402
Total settled gross	(2,435)	(2,297)	(98)	(14)	177	(203)
Derivatives in loss settled net	3,518	1,095	324	760	616	723
Total net cash flows	**1,083**	**(1,202)**	**226**	**746**	**793**	**520**

Risk management

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

The Government's exposure to market risk reflects the combination of these portfolio management practices. These practices include use of Value-at-Risk (VaR) limits and stop-loss limits to manage risk. While 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, and foreign currency risk. Refer to pages 114 and 115 for further derivative information.

Interest rate risk

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

Note 29: Financial Instruments (continued)

Foreign currency risk

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

	30 June 2016 $m	30 June 2015 $m
Financial Assets (excluding derivatives)		
New Zealand Dollar	55,635	53,929
United States Dollar	31,015	35,590
Yen	7,929	4,435
Euro	7,078	8,027
Other	18,263	18,259
Total financial assets (excluding derivatives)	**119,920**	**120,240**
Financial Liabilities (excluding derivatives)		
New Zealand Dollar	112,919	110,578
United States Dollar	5,971	5,883
Yen	600	266
Euro	238	24
Other	2,874	3,014
Total financial liabilities (excluding derivatives)	**122,602**	**119,765**
Derivatives in gain/(loss)		
New Zealand Dollar	43,745	44,287
United States Dollar	(19,820)	(25,621)
Yen	(7,798)	(4,146)
Euro	(8,099)	(7,534)
Other	(6,717)	(10,232)
Total derivatives	**1,311**	**(3,246)**
Net Financial Assets/(Liabilities)		
New Zealand Dollar	(13,539)	(12,362)
United States Dollar	5,224	4,086
Yen	(469)	23
Euro	(1,259)	469
Other	8,672	5,013
Net Financial Assets/(Liabilities)	**(1,371)**	**(2,771)**

Note 29: Financial Instruments (continued)

Credit risk

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

Of the financial assets held by the Government at 30 June 2016, the fair value of collateral held that could be sold or repurchased was $20,765 million (2015: $19,884 million). The majority of this relates to Kiwibank Limited, who can enforce their collateral in satisfying the debt in the event of the borrower failing to meet their contractual obligations.

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

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

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

As at 30 June 2016	**Total $m**	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**
Cash and cash equivalents	**15,617**	1,574	9,312	4,640	78	13
Trade and other receivables	**4,342**	-	192	342	-	3,808
Long-term deposits	**4,791**	-	3,932	859	-	-
Derivatives in gain	**5,888**	426	3,431	1,328	346	357
Marketable securities	**40,822**	14,278	13,264	4,413	2,754	6,113
IMF financial assets	**1,897**	-	-	-	1,897	-
Share investments	**24,217**	374	2,281	5,503	5,850	10,209
Kiwibank loans	**16,689**	-	-	-	-	16,689
Student loans	**8,982**	-	-	-	-	8,982
Other advances	**2,563**	-	665	127	457	1,314
Total credit exposure by credit rating	**125,808**	**16,652**	**33,077**	**17,212**	**11,382**	**47,485**

As at 30 June 2015	**Total $m**	**AAA $m**	**AA $m**	**A $m**	**Other $m**	**Non-rated $m**
Cash and cash equivalents	**11,982**	39	10,807	1,036	62	38
Trade and other receivables	**5,070**	-	453	611	-	4,006
Long-term deposits	**5,214**	-	3,876	1,338	-	-
Derivatives in gain	**3,015**	398	1,435	640	171	371
Marketable securities	**43,770**	14,911	19,754	2,487	2,928	3,690
IMF financial assets	**2,299**	-	-	-	2,299	-
Share investments	**25,408**	378	2,580	5,408	4,824	12,218
Kiwibank loans	**15,598**	-	-	-	-	15,598
Student loans	**8,864**	-	-	-	-	8,864
Other advances	**2,035**	-	677	180	57	1,121
Total credit exposure by credit rating	**123,255**	**15,726**	**39,582**	**11,700**	**10,341**	**45,906**

Note 29: Financial Instruments (continued)

	30 June 2016 $m	30 June 2015 $m
Financial Assets		
Concentration of credit exposure by geographical area		
USA	22,292	24,572
Europe	19,304	19,995
Japan	7,151	4,473
Australia	8,584	7,901
New Zealand	55,582	52,077
Other	12,895	14,237
Total financial assets	**125,808**	**123,255**
Concentration of credit exposure by industry		
Sovereign issuers	22,447	23,361
Supranational	7,045	5,483
NZ banking	12,326	12,001
Foreign banking	14,671	12,162
Individuals	25,881	24,706
Other	43,438	45,542
Total financial assets	**125,808**	**123,255**

At 30 June 2016, 15.1% (2015: 15.2%) of student loan borrowers were overseas. As the total advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk.

Liquidity risk

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

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

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

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

Financial Liabilities (excluding derivatives)	30 June 2016 $m	30 June 2015 $m
Less than 1 year	49,340	53,029
1-2 years	16,350	5,184
2-5 years	39,888	40,675
5-10 years	23,830	26,997
More than 10 years	10,931	12,790
Total contractual cash flows	**140,339**	**138,675**
Total carrying value	**122,602**	**119,765**

Note 29: Financial Instruments (continued)

The Government holds loan commitments of $2,650 million (2015: $2,452 million) which all have contractual cashflows of less than 1 year.

In addition to the above financial liabilities, the Crown has entered into various financial guarantees and indemnities totalling $287 million (2015: $310 million) which expose the Crown to liquidity risk. These guarantees are classified as contingent liabilities and are set out in note 28. 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 2016 was $976 million (2015: $857 million). The Government expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

Sensitivity analysis

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

	Impact on operating balance		Impact on net worth	
	2016 $m	**2015 $m**	**2016 $m**	**2015 $m**
Increase in NZ interest rates 1% (100 basis points)	**(896)**	(492)	**(887)**	(442)
Decrease in NZ interest rate 1% (100 basis points)	**926**	539	**922**	490
NZ dollar exchange rate strengthens by 10%	**(963)**	(907)	**(981)**	(890)
NZ dollar exchange rate weakens by 10%	**1,087**	1,043	**1,109**	1,035
Share prices strengthen by 10%	**2,394**	2,522	**2,394**	2,522
Share prices weaken by 10%	**(2,394)**	(2,522)	**(2,394)**	(2,522)

Interest rate sensitivity

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

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

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

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

Note 29: Financial Instruments (continued)

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

The Government's sensitivity to interest rates has increased since last year. Interest rate sensitivity on financial instruments have a minor impact compared with other longer-dated obligations such as ACC outstanding claims liability and the GSF defined benefit obligations (refer note 22 and note 23 for sensitivity information for these long-term liabilities).

Foreign currency sensitivity

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

The Government's sensitivity to foreign currency has 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.

Equity market sensitivity

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

The sensitivity analysis above has been determined based on the exposure of the NZS Fund and ACC to share price risks at the reporting date. These portfolios combined make up 99% of the Government's total share investments (2015: 99%).

The Government's sensitivity to share prices has decreased from the prior year in line with a decrease in the level of share investments held.

Note 30: 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. Such related party transactions will be disclosed if they have taken place within the Minister's portfolio or if they involve lending or guaranteeing Minister's.

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

Note 31: Canterbury Earthquakes

These consolidated financial statements include both revenue and expenses for the Government as well as the best estimate of the Government's significant assets and liabilities in relation to the earthquakes and aftershocks that have occurred in the Canterbury region. In addition, the Crown is spending money on a number of capital projects in the Canterbury region. These projects, when capitalised, form part of the Crown's property, plant and equipment balance.

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

	Note	Total to date $m	30 June 2016 $m	30 June 2015 $m	30 June 2014 $m	Actual 30 June 2013 $m	30 June 2012 $m	30 June 2011 $m
EQC insurance claims	a	**7,334**	21	(444)	(242)	(107)	662	7,444
Local Infrastructure	b	**1,637**	55	66	109	483	729	195
Land zoning	c	**1,087**	88	(1)	97	(8)	258	653
Southern Response support package	d	**1,111**	204	325	124	(53)	156	355
Christchurch central city rebuild	e	**920**	153	179	473	115	-	-
Crown assets	f	**969**	498	335	96	28	12	-
Other earthquake costs	g	**1,242**	338	129	249	17	96	413
Total Crown net earthquake costs		**14,300**	**1,357**	**589**	**906**	**475**	**1,913**	**9,060**
Gross earthquake expenses		**20,448**	1,414	904	918	815	2,823	13,574
Earthquake related revenue (e.g. reinsurance)		**(6,148)**	(57)	(315)	(12)	(340)	(910)	(4,514)
Total Crown net earthquake costs		**14,300**	**1,357**	**589**	**906**	**475**	**1,913**	**9,060**
Operating and capital expenses								
Operating expenses		**12,084**	587	(55)	326	266	1,900	9,060
Capital expenditure		**2,216**	770	644	580	209	13	-
Total Crown net earthquake costs		**14,300**	**1,357**	**589**	**906**	**475**	**1,913**	**9,060**

The capital expenditure for the year ($770 million) was largely in relation to the Justice and Emergency Precinct, hospitals, schools, state housing and universities. Operating expenses ($587 million) included costs associated with the greater Christchurch anchor projects, central city recovery and operating costs for entities involved in the rebuild (including the Canterbury Earthquake Recovery Authority and Ōtākaro Limited).

The measurement of the Government's earthquake-related assets and liabilities contain a number of uncertainties. 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 continues to exist for EQC land claims where there 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 are refined and tested against the emerging experience over time, the level of this uncertainty will reduce.

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 made. Instead they represent the costs to 30 June 2016. The costs outlined in this note also do not include the secondary impact on tax or other revenues as a result of the earthquakes. The final costs of the Canterbury earthquakes may differ from these estimates.

Note 31: Canterbury Earthquakes (continued)

The significant assets and obligations where uncertainty exists are summarised in the following table.

	Note	30 June 2016 $m	30 June 2015 $m
Canterbury earthquake-related obligations			
EQC property damage liability	a	2,158	2,741
Southern Response property damage liability	d	807	1,216
Total insurance liabilities		**2,965**	**3,957**
Provision for Canterbury Red Zone support package		-	3
Provision for water infrastructure costs	b	75	234
Other provisions		18	22
Total provisions		**93**	**259**
Inter-segment eliminations		(329)	(336)
Total Canterbury earthquake-related obligations		**2,729**	**3,880**
Canterbury earthquake-related receivables			
EQC reinsurance receivables		515	962
Southern Response reinsurance receivables		19	102
Total reinsurance receivables	h	**534**	**1,064**
Red Zone insurance recoveries	c	336	344
Other receivables		36	31
Total other receivables		**372**	**375**
Inter-segment eliminations		(329)	(336)
Total Canterbury earthquake-related receivables		**577**	**1,103**
Net Canterbury earthquake-related obligations		**2,152**	**2,777**

a) Earthquake Commission (EQC) Insurance Claims

EQC's obligation (and reinsurance recoveries) in relation to the Canterbury earthquakes has been valued by an independent actuary (Melville Jessup Weaver) as at 30 June 2016. The actuary considered that overall the information and data supplied to Melville Jessup Weaver was adequate and appropriate for the purposes of their valuation.

The key sources of uncertainty in estimating the obligation are:

- Increased Liquefaction Vulnerability (ILV) land damage payments have only recently begun in small numbers limiting actual data on which to base the outstanding liability
- the level of remedial activity required on repairs completed under the Canterbury Home Repair Programme, and
- reaching an agreed financial settlement position with insurers and reinsurers as EQC seeks to finalise its liability.

Note 31: Canterbury Earthquakes (continued)

Consequently there continues to be a degree of unavoidable uncertainty regarding the costs of claims yet to be determined. However, as the remaining dwelling claims continue to be settled and complex land settlements increase, the level of uncertainty continues to reduce as the valuation and its assumptions can be tested against increased claim payment data.

Other 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 single monetary limit and are therefore subject to greater volatility.

These financial statements include additional EQC insurance costs (net of recoveries) relating to the Canterbury earthquakes of $21 million for the year ended 30 June 2016 (2015: $444 million net recovery).

	30 June 2016 $m	30 June 2015 $m
Movement in Outstanding EQC Insurance Liability - Canterbury earthquakes		
Opening balance	2,741	4,441
Net claims incurred/reassessed for the year	21	(455)
Claims paid out in the year	(604)	(1,245)
Closing outstanding EQC insurance liability - Canterbury earthquakes	**2,158**	**2,741**

During the year, $604 million was paid out to settle claims (2015: $1.2 billion). This takes the total for settling approved claims to $9.4 billion, leaving an outstanding insurance liability estimate of $2.2 billion, some of which is expected to be offset by reinsurance proceeds.

b) Local Infrastructure

In 2013 the Government entered into a cost sharing agreement with the Christchurch City Council (CCC) covering various items including the Crown contribution to three waters infrastructure (waste water, storm water and fresh water) 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 agreement also acknowledges there is the possibility of unforeseen circumstances, so both parties can review the agreement in the future. A refresh of the cost sharing agreement is currently underway.

While best available information has been used to provide the estimate of water infrastructure recovery costs, significant uncertainties remain with regard to policy decisions on eligible expenditure, and the estimation of future eligible costs and validation of costs incurred to date.

The movement in the provision for water infrastructure costs during the year is set out below.

	30 June 2016 $m	30 June 2015 $m
Movement in provision for Water Infrastructure costs		
Opening provision	234	394
Provision used during the period	(127)	(176)
Reversal of previous provision	(42)	-
Unwind of discount rate and effect of changes in discount rate	10	16
Closing provision	**75**	**234**

Note 31: Canterbury Earthquakes (continued)

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 a number of years. This loan facility will cease in the financial year ended 30 June 2017.

During the year, $74 million (2015: $50 million) was incurred for costs associated with the repair of local roadways taking the total costs of local roading repairs to date to $525 million.

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 2016. The actuary has used the latest available data to prepare this valuation. The amount included is the best estimate using this data rather than a final cost. It is acknowledged that there have been limitations on the data available from insurers particularly in relation to land recoveries.

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.

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 current year, the remaining $400 million of the convertible preference shares was paid.

On 30 January 2013, the Crown subscribed for 500 million uncalled ordinary shares. The company may issue call notices for a number of uncalled ordinary shares at $1 per share. In the current year, the Crown agreed to increase the uncalled ordinary share facility by $250 million. In the current year the company called and was paid $43 million of the uncalled ordinary shares.

Note 31: Canterbury Earthquakes (continued)

Finity Consulting Pty Limited (the Appointed Actuary) has prepared the independent actuarial estimate of the Southern Response claims liability as at 30 June 2016. The actuary is satisfied with the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The movement in Southern Response's property damage liability is set out below:

	30 June 2016 $m	30 June 2015 $m
Movement in Outstanding Southern Response Claims Liability		
Opening balance	1,216	1,434
Net claims incurred/reassessed for the year - Canterbury earthquakes	199	334
Claims paid out in the year	(608)	(552)
Closing outstanding Southern Response claims liability	**807**	**1,216**

During the 2016 financial year $204 million of net expenses were recognised in relation to Southern Response support (2015: $325 million net expenses). Southern Response support costs include claims costs, net of insurance recoveries, plus the operating costs of the company.

The ultimate cost will be dependent on the financial performance of the company including the underlying claims settlement experience and further late notified claims in relation to the liability (and resulting reinsurance recoveries) arising from the Canterbury earthquakes. The uncertainties regarding Southern Response's outstanding claims liability are similar to those of EQC (with the exception of risks associated with land claims).

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 2016, $153 million (2015: $179 million) has been recognised relating to both capital and operating costs for these projects. These costs include project costs incurred by CERA up until 18 April (the date CERA ceased to exist), as well as those of Ōtākaro Limited who subsequently have taken on the role of managing the Anchor Projects and central city rebuild.

f) Crown Assets

Costs associated with Crown assets were $498 million (2015: $335 million) and include capital expenditure on Canterbury hospitals, the University of Canterbury and Lincoln University, the Justice and Emergency Services Precinct and Canterbury schools.

g) Other Earthquake Costs

Other costs represent various other initiatives raised in support of Canterbury. The 2016 net cost includes the operating costs of the Canterbury Earthquake Recovery Authority (CERA), state highway repairs, and net operating and capital expenses incurred by Crown entities other than EQC on the repair and rebuild of damaged state houses, hospitals and universities in Canterbury.

h) Reinsurance receivables

Associated with both EQC and Southern Response's insurance liabilities are reinsurance receivables. The movement in the Crown's total reinsurance receivable balance is set out below.

	30 June 2016 $m	30 June 2015 $m
Reinsurance receivables		
Opening balance	1,064	1,409
Reinsurance recognised/reassessed during the year	27	(25)
Reinsurance received during the year	(557)	(320)
Closing balance	**534**	**1,064**

Note 32: Events Subsequent to Balance Date

- On 14 September 2016 the Crown and Auckland Council signed a Heads of Agreement under which the Crown will fund 50% of City Rail Link. The total cost of the project is estimated to be between $2.8 billion and $3.4 billion. A separate legal entity will be established to manage the project and will be jointly owned by the Crown and the Council.

- On 15 September 2016 New Zealand Post announced that they had agreed commercial terms to sell a significant minority interest of Kiwibank to ACC and the New Zealand Superannuation Fund. As all the parties to the transaction are government reporting entities, there will be no fiscal impact on the financial statements of the Government as a result of this transaction.

Note 33: Significant Accounting Policies

Revenue

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
Income tax	The earning of assessable income during the taxation period by the taxpayer
Goods and services tax (GST)	When the purchase or sale of taxable goods and services occurs during the taxation period
Customs and excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment of the fee or charge is made
Other indirect taxes	When the debt to the Crown arises
ACC levies	The levy revenue is earned evenly over the levy period
Other levies	When the obligation to pay the levy is incurred

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 revenue

Interest revenue 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 revenue each period.

Dividend revenue

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

Note 33: Significant Accounting Policies (continued)

Rental revenue

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

Donated or subsidised assets

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

If control of the donated assets is conditional on the satisfaction of performance obligations, the revenue is deferred and recognised when the conditions are satisfied.

Gains

Gains may be reported in the Statement of Financial Performance when assets are revalued or liabilities are devalued in certain circumstances as described in the accounting policies for those assets and liabilities. For the purposes of reporting the operating balance before gains and losses (OBEGAL) these gains are excluded from total revenue and presented elsewhere 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 at the government's discretion until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria for the grant or subsidy have been fulfilled and notice has been given to the government.

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.

Losses

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

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 revenue and expense when hedge accounting is applied.

Note 33: Significant Accounting Policies (continued)

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 revenue and expense.

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

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.

Receivables arising from sovereign revenue will be initially recognised at fair value. These receivables are subsequently adjusted for penalties and interest as they are charged, and 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

Non-derivative financial assets

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

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

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

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

Note 33: Significant Accounting Policies (continued)

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

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

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

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

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

Non-derivative 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 the operating balance. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

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

Note 33: Significant Accounting Policies (continued)

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

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

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.

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

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

Note 33: Significant Accounting Policies (continued)

(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.

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, their cost is deemed to be fair value, usually determined through an assessment of 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 costs to sell 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 revenue in the statement of financial performance.

Capitalisation of borrowing costs

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

Note 33: Significant Accounting Policies (continued)

Subsequent measurement

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

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

Class of PPE	Accounting policy
Land and buildings	Land and buildings are recorded at fair value 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 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 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 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 accumulated since the assets were last revalued.
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation accumulated since the assets were last revalued.
Electricity distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation	Electricity generation assets are recorded at fair value less depreciation accumulated since the assets were last revalued.
Specified cultural and heritage assets	Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value less subsequent impairment losses. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation. For example, Crown research institutes own various collections, library resources and databases that are an integral part of the research work they undertake. These collections are highly specialised and there is no reliable basis for establishing a valuation. They have therefore not been valued for financial reporting purposes.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.

Note 33: Significant Accounting Policies (continued)

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.

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

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

Depreciation

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 150 years
Specialist military equipment (SME)	5 to 55 years
State highways:	
Pavement (surfacing)	7 years
Pavement (other)	50 years
Bridges	70 to 105 years
Rail Network:	
Track and ballast	40 to 50 years
Tunnels and bridges	75 to 200 years
Overhead traction and signalling	15 to 80 years
Aircraft (excluding SME)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 100 years
Other plant and equipment	3 to 30 years

Specified heritage and cultural assets are generally not depreciated.

Note 33: Significant Accounting Policies (continued)

Impairment

For assets held at cost, 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 generally recognised in the statement of financial performance when the significant risks and rewards of ownership of the asset have transferred to the acquirer. 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 the 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

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

However, NZ GAAP 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.

Note 33: Significant Accounting Policies (continued)

Biological assets managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as other assets. Other biological assets are recorded as other property, plant and equipment in accordance with the policies for property, plant and equipment.

Intangible assets

Intangible assets are initially recorded at cost.

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.

Where an intangible asset with a market value is internally generated for nil or nominal consideration it is initially reported at cost, which by definition is nil/nominal.

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 when the significant risks and rewards of ownership have transferred to the acquirer.

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.

Note 33: Significant Accounting Policies (continued)

Employee benefits

Pension liabilities

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

Other employee entitlements

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

Termination benefits

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

Insurance contracts

The future cost of outstanding insurance claims liabilities are valued 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 the operating balance.

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 revenue in the statement of financial performance.

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

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.

Note 33: Significant Accounting Policies (continued)

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 more than 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.

- Lease commitments: non-cancellable operating leases with a lease term exceeding one year.

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

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

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 2015 were forecasts published in the 2015 Budget Economic and Fiscal Update, while Budget 2016 were forecasts published in the 2016 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. Investments in Crown entities and SOEs are reported at historic cost with no impairment. This ensures losses in those entities are reflected in the appropriate segment.

Note 33: Significant Accounting Policies (continued)

- 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 (now Mercury NZ Limited), Meridian Energy and Genesis Energy. This group represents entities that undertake commercial activity.

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

Related parties

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

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

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

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

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

Statement of Unappropriated Expenditure

for the year ended 30 June 2016

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

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

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

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

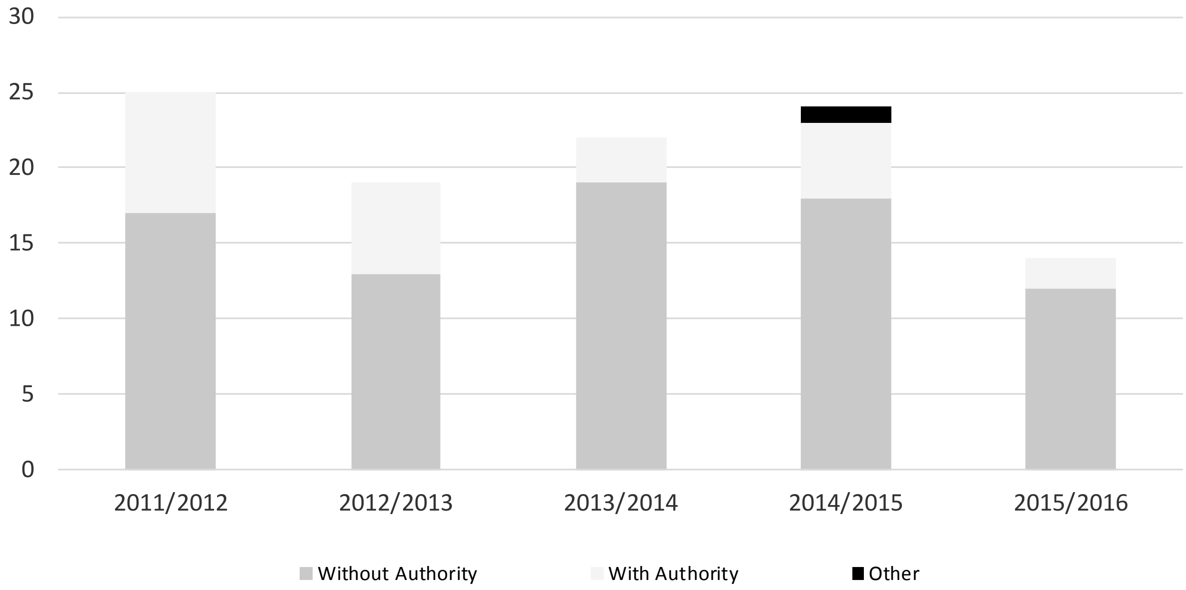
- it must be disclosed in the annual financial statements of the Government, and of the relevant administering department, and
- it must be retrospectively validated by Parliament through the passing of an Appropriation (Confirmation and Validation) Act.

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

<table>
<tr><th>Category of unappropriated expenditure</th><th>Reporting requirements to Parliament under the Act</th></tr>
<tr><td>(A) Approved by the Minister of Finance under Section 26B of the Public Finance Act 1989</td><td>Where the amount in excess (but within the scope) of an existing appropriation was within $10,000 or 2% of the appropriation, Section 26B of the Act authorises the Minister of Finance to approve these items. Such items must also be confirmed by Parliament in the Appropriation Act for the year.</td></tr>
<tr><td>(B) With Cabinet authority to use imprest supply but in excess of appropriation prior to the end of the financial year</td><td rowspan="5">Where the unappropriated items exceed the limits available for approval under Section 26B, they fall into one of five categories of unappropriated expenditure.
All such instances are unlawful unless validated by Parliament through an Appropriation Act (Section 26C of the Act).
The validating legislation will be accompanied by a report to the House of Representatives that sets out each unappropriated item together with an explanation made by the Minister responsible for the appropriation.</td></tr>
<tr><td>(C) With Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year</td></tr>
<tr><td>(D) In excess of appropriation and without prior Cabinet authority to use imprest supply</td></tr>
<tr><td>(E) Outside scope of an appropriation and without prior Cabinet authority to use imprest supply</td></tr>
<tr><td>(F) Without appropriation and without prior Cabinet authority to use imprest supply</td></tr>
</table>

Statement of Unappropriated Expenditure (continued)

The following graph shows the number of unappropriated items by year:



Unappropriated Expenditure by Category

30 June 2016 Number	30 June 2015 Number			30 June 2016 $m	30 June 2015 $m
		By category			
1	5	Approved by the Minister of Finance	A	2	21
-	-	Cabinet authority to use imprest supply but in excess of appropriation	B	-	-
1	-	Cabinet authority to use imprest supply but without appropriation	C	3	-
6	7	Without Cabinet authority and in excess of appropriation	D	52	31
1	3	Without Cabinet authority and outside scope	E	11	11
5	8	Without Cabinet authority and without	F	10	14
-	1	Other		-	-
14	**24**	**Total unappropriated expenditure**		**78**	**77**

In 2016 there were a total of 811 appropriations (2015: 868). Of these 14 or 1.7% were unappropriated (2015: 24 or 2.8%).

Statement of Unappropriated Expenditure (continued)

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 Social Development			
Social Development	*Non-Department Capital Expenditure*		
	Recoverable Assistance	150,159	2,158

The Recoverable Assistance appropriation is demand driven. There has been an across the board increase in the number of clients receiving grants, with a greater proportion of these clients receiving multiple grants.

Department Vote	*Expense type* Nature of expense or capital expenditure	Amount without appropriation $000
(C) Expenses and capital expenditure incurred with Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year		
Ministry of Justice		
Justice	Teina Pora ex-gratia compensation payment	2,521

On 13 June 2016 the Cabinet confirmed that Teina Pora will receive an ex gratia payment of $2.521 million for his wrongful conviction and imprisonment.

Statement of Unappropriated Expenditure (continued)

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 prior Cabinet authority to use imprest supply

Department of Conservation	*Non-Departmental Other Expenses*		
Conservation	Vesting of Reserves	650	4,747

An unplanned vesting of Rabbit Island Recreation Reserve following a Gazetted classification action by Tasman District Council (Reserves Act 1977 s26A) has resulted in the unappropriated expenditure.

Ministry of Business, Innovation and Employment			
Business, Science and Innovation	*Non-Departmental Other Expenses* Impairment of Crown Assets	1,140	66

In June 2016, Woosh Wireless (a wireless broadband operator company) had entered voluntary administration owing $0.066 million to Ministry of Business, Innovation and Employment for Telecommunications Developments Levy charges. This debt is now doubtful and the Ministry has incurred the full $0.066 million as an expense.

Ministry for Culture and Heritage			
Arts, Culture and Heritage	*Non-Departmental Output Expenses* Protection of Taonga Tūturu	400	254

In 2015/16 the Ministry for Culture and Heritage was invoiced for work carried out by the National Conservation Laboratory in both 2015/16 and 2014/15. The charges have resulted in the appropriation being exceeded by $0.254 million in 2015/16. The varying length (sometimes multi years) and complexity of the treatment programmes for each taonga tūturu has made it difficult in the past for the National Conservation Laboratory to forecast the total cost of treatment for each item. Work is underway to improve the forecasting and management of these services.

Ministry of Education			
Education	*Non-Departmental Other Expenses* Early Childhood Education *1 July 2014 - 30 June 2015*	1,607,342	23,391

During the current financial year, Early Childhood Education expenditure of $23.391 million was identified as being incurred in the prior period but was not recognised previously. Combined with the unappropriated expenditure of $16.029 million reported in the prior financial year, the total unappropriated amount for this appropriation for the 2014/15 financial year was $39.420 million.

Statement of Unappropriated Expenditure (continued)

Department **Vote**	***Expense type*** **Appropriation name**	**Authority at time of breach $000**	**Amount without or exceeding appropriation $000**
Ministry of Social Development			
Social Development	*Benefits or Related Expenses*		
	Accommodation Assistance	1,140,479	23,195

During the year the Ministry of Social Development identified that Accommodation Assistance had been miscalculated for a number of clients, resulting in a number of clients being underpaid. As a result, the Ministry has recognised an expense in relation to those underpayments.

Department **Vote**	***Expense type*** **Appropriation name**	**Authority at time of breach $000**	**Amount without or exceeding appropriation $000**
Treasury			
Finance	*Non-Departmental Other Expenses*		
	Crown Residual Liabilities	86	4

The purpose of this appropriation is the administration of the Crown's residual obligations relating to the settlement of claims from exposure to asbestos. Historically expenditure has come in significantly below appropriation, however toward the end of the current financial year, The Treasury received an unexpectedly large number of invoices that resulted in the department going unappropriated.

Department **Vote**	***Expense type*** **Nature of expense or capital expenditure**	**Amount without appropriation $000**

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

Ministry of Justice	*Departmental Other Expense*	
Justice	Recovery from February 2011 Christchurch Earthquake *1 July 2010 – 30 June 2011*	10,814

A provision was established in 2011 by the Ministry of Justice against the *Recovery from February 2011 Christchurch Earthquake* appropriation. During the current financial year it was deemed that $10.814 million of this expenditure recorded in the 2010/11 financial year was outside the scope of the appropriation.

Department **Vote**	***Expense Type*** **Nature of expense or capital expenditure**	**Amount without appropriation $000**

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

Ministry of Business, Innovation and Employment	*Non-Departmental Output Expense*	
Business, science and innovation	The Pike River Mine site	125

The Ministry of Business, Innovation and Employment requested an in-principle transfer of $1.834 million from the previous financial year into the current financial year. This transfer was approved in November, however $0.125 million of output expense had already been incurred prior to the approval.

Statement of Unappropriated Expenditure (continued)

Department **Vote**	***Expense Type*** **Nature of expense or capital expenditure**	**Amount without appropriation $000**

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

Ministry of Health		
Health	Health Sector Projects	
	1 July 2013 – 30 June 2014	6,380
	1 July 2014 – 30 June 2015	1,221
	1 July 2015 – 30 June 2016	726

Ministry of Health had been provided with funding for Health sector projects to meet capital expenditure such as Burwood Hospital, Christchurch Hospital, Grey Hospital and the Southern Redevelopment Project. It has been identified that some costs associated with these projects, to comply with New Zealand General Accepted Accounting Practice, have been reclassified as operating expenses and could not be allocated to the capital expenditure appropriation. No operating expenditure appropriation for these costs exists.

Ministry of Health		
Health	Write off of costs on transfer value of Burwood Hospital	1,557

Costs of $1.557 million capitalised by the Ministry of Health associated with the external project management of Burwood Hospital did not form part of the final agreed transfer amount. This amount is required to be written off.

Statement of Expenses or Capital Expenditure Incurred in Emergencies

for the year ended 30 June 2016

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 2016

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

- Money that is deposited with the Crown pending the completion of a transaction or dispute and which may become repayable to the depositor or payable to the Crown or any other person.

- All money that is paid into Court for possible repayment to the payee or a third party, by virtue of any Act, rule or authority whatsoever.

- All money that is paid to the Crown in trust for any purpose.

- Money that belongs to or is due to any person and is collected by the Crown pursuant to any agreement between the Crown and that person.

- Unclaimed money that is due to or belongs to any person and is deposited with the Crown.

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

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

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

Statement of Trust Money (continued)

for the year ended 30 June 2016

Department Trust Account	As at 30 June 2015 $000	Contributions $000	Distributions $000	Revenue $000	Expenses $000	As at 30 June 2016 $000
Department of Conservation						
Bonds/Deposits Trust	7,256	54	(758)	234	-	6,786
Conservation Project Trust	1,275	530	(790)	49	-	1,064
National Parks Trust	139	79	(76)	3	-	145
Walkways Trust	11	-	-	-	-	11
Wildlife and Reserves Trusts [1]	-	-	-	-	-	-
Department of Corrections						
Prisons Trust	2,188	13,819	(14,569)	-	-	1,438
Crown Law Office						
Legal Claims Trust	253	656	(370)	8	(2)	545
Ministry of Business, Innovation and Employment						
Coal and Minerals Deposits Trust	64	4	(6)	-	-	62
Criminal Assets Management and Enforcement Regulators Association Trust	16	5	-	-	-	21
Employment Relations Service Trust	58	465	(177)	2	(26)	322
Employment Relations Act Security of Costs Trust	4	42	-	-	-	46
New Zealand Immigration Service Trust	1,302	259	(342)	33	-	1,252
Official Assignee's Office Trust	28,407	22,322	(14,711)	864	(13,629)	23,253
Patent Co-operation Treaty Fees Trust	134	1,109	(1,098)	4	(28)	121
Petroleum Deposits Trust	81	-	-	-	-	81
Proceeds of Crime Trust	63,551	24,458	(14,036)	1,323	(10,979)	64,317
Radio Frequencies Tender Trust	226	10	(17)	-	-	219
Residential Tenancies Bond Trust	457,535	230,952	(220,822)	22,694	(22,694)	467,665
Weathertight Services Financial Assistance Trust	-	6,429	(6,429)	-	-	-
Ministry of Culture and Heritage						
Dictionary of New Zealand Biography Trust	14	-	-	1	-	15
New Zealand Historical Atlas Trust	147	-	-	5	-	152
New Zealand History Research Trust	1,499	-	(134)	56	-	1,421
New Zealand Oral History Awards Trust	970	-	(122)	32	-	880
War History Trust	290	-	-	8	(199)	99
National War Memorial Trust [2]	-	8	-	-	-	8
New Zealand Customs Services						
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	78,417	33,540	(89,856)	-	-	22,101
Health Promotion Agency Trust	968	12,984	(12,959)	-	-	993
Heavy Engineering Research Association Trust	148	1,773	(1,782)	-	-	139
Maritime Safety Authority Trust [1]	-	-	-	-	-	-
New Zealand Customs Service IBM MSA Trust	-	37,041	-	-	-	37,041
New Zealand Customs Service Multiple Deposit Scheme Release Trust	524	90,407	(90,734)	-	-	197
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	266	33,298	(33,558)	-	-	6

Statement of Trust Money (continued)

for the year ended 30 June 2016

Department Trust Account	**As at 30 June 2015 $000**	Contributions $000	Distributions $000	Revenue $000	Expenses $000	**As at 30 June 2016 $000**
Ministry of Education						
Code of Practice for Providers who Enrol International Students Trust	4,832	5,019	(2,466)	149	(423)	7,111
Conferences Trust	2	-	-	-	-	2
Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund Board Trust [2]	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade						
Afghanistan New Zealand Aid Programme Trust	412	-	(412)	3	-	3
Cook Island Trust	231	1,919	(1,843)	21	(97)	231
Fred Hollows Foundation New Zealand - Pacific Regional Blindness Prevention Programme Trust	3	-	(3)	-	-	-
Government Administration Building, Niue Trust	293	-	(235)	7	-	65
New Zealand/France Friendship Trust	66	133	(152)	1	(12)	36
Niue Primary School Infrastructure Project Trust	1,927	1,400	(2,952)	36	-	411
Niue Development Assistance Trust	2,972	1,504	(1,676)	64	-	2,864
Ministry of Health						
District Health Boards Deposit Trust	1,088	7,324,487	(7,324,151)	-	(500)	924
Medicines Review Objectors Deposit Trust [1]	-	-	-	-	-	-
Inland Revenue Department						
Child Support Agency Trust	16,199	272,161	(276,645)	-	-	11,715
KiwiSaver Returned Transactions Trust	146	(102)	-	-	-	44
KiwiSaver Employer Trust [1]	-	-	-	-	-	-
Reciprocal Child Support Agreement Trust	438	13,696	(13,695)	-	-	439
Department of Internal Affairs						
Christchurch Earthquake Appeal Trust	7,191	5,856	(12,883)	2,214	-	2,378
Interloan Billing System Trust	79	-	(36)	713	(713)	43
Macklin Bequest Fund Trust	285	-	-	8	-	293
New Zealand 1990 Scholarship Trust [1]	-	-	-	-	-	-
Ministry of Justice						
Courts Law Trust	18,023	16,568	(24,256)	-	-	10,335
Election Candidates Deposit Trust [1]	-	-	-	-	-	-
Employment Court Trust	350	321	(402)	-	-	269
Fines Trust	38,367	187,150	(184,421)	-	-	41,096
Foreign Currency Euro Fund Trust [1]	-	-	-	-	-	-
Foreign Currency United States Dollar Trust [1]	-	-	-	-	-	-
Legal Complaints Review Officer Trust	1	-	(1)	-	-	-
Maori Land Court Trust	43	6	(4)	-	-	45
Supreme Court Trust	52	100	(58)	-	-	94
Victims' Claims Trust	4	184	(122)	-	-	66

Statement of Trust Money (continued)

for the year ended 30 June 2016

Department Trust Account	**As at 30 June 2015 $000**	**Contributions** $000	**Distributions** $000	**Revenue** $000	**Expenses** $000	**As at 30 June 2016 $000**
Land Information New Zealand						
Crown Forestry Licences Trust	422	6,739	(7,089)	-	-	72
Deposits Trust [1]	-	-	-	-	-	-
Endowment Rentals Trust	1	186	(186)	-	-	1
Hunter Gift for the Settlement of Discharged Soldiers Trust	56	1	-	-	-	57
New Zealand Police						
Bequests, Donations and Appeals Trust	-	-	-	-	-	-
Found Money Trust	71	188	(124)	-	-	135
Money in Custody Trust	12,708	10,045	(10,823)	-	-	11,930
Reparation Trust	5	-	-	-	-	5
Rewards Monies Trust [1]	-	-	-	-	-	-
Ministry for Primary Industries						
MAF Overfishing Account Trust	4,222	4,695	(1,743)	153	-	7,327
MAF Fish Forfeit Property Trust	2,278	40	(1,108)	44	-	1,254
Meat Board Levies Trust	-	68,625	(68,621)	-	-	4
National Animal Identification Tracing Trust	1	2,624	(2,621)	-	-	4
Seized Timber Trust	10	-	-	-	-	10
Ministry of Social Development						
Australian Dollar Embargoed Arrears Trust	559	6,174	(6,254)	-	-	479
Australian Recovery Debt Trust	2	10	(10)	-	-	2
Maintenance Trust	108	388	(476)	3	-	23
Netherlands Recovery Debt Trust	11	88	(95)	-	-	4
Overseas Debt Recovery Trust [1]	-	-	-	-	-	-
WR Wallace Trust	424	-	(57)	52	-	419
Treasury						
Genesis Share Offer Trust	30	-	-	-	(10)	20
Meridian Share Offer Trust	25	-	-	-	(16)	9
Mighty River Share Offer Trust	3	-	-	-	(2)	1
Trustee Act 1956 Trust	5,822	4,403	(871)	150	(142)	9,362
Total	**765,505**	**8,444,852**	**(8,449,837)**	**28,934**	**(49,472)**	**739,982**

1 Inoperative trust account

2 New trust account

ADDITIONAL FINANCIAL INFORMATION

Fiscal Indicator Analysis

for the year ended 30 June 2016

The purpose of the following fiscal indicator analysis is to provide a link between the financial statements (published on pages 34 to 152) 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.

Fiscal Indicator Analysis – Core Crown Residual Cash

for the year ended 30 June 2016

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		Core Crown Cash Flows from Operations		
68,282	69,018	Tax receipts	69,750	66,348
835	829	Other sovereign receipts	835	889
1,718	1,660	Interest, profits and dividends	1,699	1,806
2,438	2,046	Sale of goods & services and other receipts	2,026	2,433
(24,498)	(24,449)	Transfer payments and subsidies	(24,338)	(23,895)
(43,745)	(43,942)	Personnel and operating costs	(43,103)	(42,064)
(3,691)	(3,627)	Finance costs	(3,604)	(3,922)
(305)	(2)	Forecast for future new operating spending	-	-
1,025	600	Top-down expense adjustment	-	-
2,059	**2,133**	**Net core Crown operating cash flows**	**3,265**	**1,595**
(2,928)	(2,336)	Net purchase of physical assets	(1,971)	(1,955)
(1,216)	(64)	Net increase in advances	(468)	(570)
(2,045)	(1,917)	Net purchase of investments	(2,148)	(1,525)
-	-	Government share offer programme	-	628
(316)	(31)	Forecast for future new capital spending	-	-
280	100	Top-down capital adjustment	-	-
(6,225)	**(4,248)**	**Net Core Crown capital cash flows**	**(4,587)**	**(3,422)**
(4,166)	**(2,115)**	**Residual cash deficit**	**(1,322)**	**(1,827)**
		The residual cash deficit is funded as follows:		
		Debt programme cash flows		
		Market:		
8,462	8,343	Issue of government bonds	8,079	8,058
(1,777)	(1,779)	Repayment of government bonds	(1,779)	(8,684)
(2,400)	(3,653)	Net issue/(repayment) of short-term borrowing[1]	(3,513)	4,179
4,285	**2,911**	**Total market debt cash flows**	**2,787**	**3,553**
		Non market:		
-	-	Issue of government bonds	-	-
(303)	(138)	Repayment of government bonds	(139)	(482)
(100)	(100)	Net issue/(repayment) of short-term borrowing	(100)	(480)
(403)	**(238)**	**Total non-market debt cash flows**	**(239)**	**(962)**
3,882	**2,673**	**Total debt programme cash flows**	**2,548**	**2,591**
		Other borrowing cash flows		
509	(1,036)	Net (repayment)/issue of other New Zealand dollar borrowing	(3,546)	3,207
(722)	844	Net (repayment)/issue of foreign currency borrowing	3,176	(2,757)
(213)	**(192)**	**Total other borrowing cash flows**	**(370)**	**450**
		Investing cash flows		
337	491	Other net sale/(purchase) of marketable securities and deposits	685	795
164	564	Issues of circulating currency	378	372
(4)	(1,421)	Decrease/(increase) in cash	(1,919)	(2,381)
497	**(366)**	**Total investing cash flows**	**(856)**	**(1,214)**
4,166	**2,115**	**Residual cash deficit funding**	**1,322**	**1,827**

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

Fiscal Indicator Analysis – Debt

as at 30 June 2016

2016 Forecast Budget 2015 $m	2016 Forecast Budget 2016 $m		Actual 30 June 2016 $m	Actual 30 June 2015 $m
		Gross and net core Crown debt analysis:		
113,377	**113,009**	Total borrowings	**113,956**	**112,580**
		Net core Crown debt:		
94,467	95,670	Core Crown borrowings[1]	95,037	95,649
(1,280)	(1,606)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(1,754)	(2,493)
93,187	**94,064**	**Gross sovereign-issued debt[2]**	**93,283**	**93,156**
73,729	74,843	Less core Crown financial assets[3]	75,793	76,434
19,458	**19,221**	**Net core Crown debt (including NZS Fund)[4]**	**17,490**	**16,722**
30,714	28,899	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	29,778	29,769
50,172	**48,120**	**Net core Crown debt (excluding NZS Fund)[4]**	**47,268**	**46,491**
15,425	14,152	Advances	14,612	14,140
65,597	**62,272**	**Net core Crown debt (excluding NZS Fund and advances)[6]**	**61,880**	**60,631**
26.3%	*24.9%*	*As a percentage of GDP*	*24.6%*	*25.1%*
		Gross debt:		
93,187	94,064	Gross sovereign-issued debt[2]	93,283	93,156
(7,625)	(8,881)	Less Reserve Bank settlement cash and bank bills	(7,955)	(8,631)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash[7]	1,600	1,600
87,162	**86,783**	**Gross sovereign-issued debt excluding settlement cash and bank bills**	**86,928**	**86,125**
34.9%	*34.7%*	*As a percentage of GDP*	*34.5%*	*35.6%*

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

[2] Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.

[3] Core Crown financial assets exclude receivables.

[4] Net core Crown debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country.

[5] Adding back the NZS Fund assets provides the financial liabilities less financial assets of the core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.

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

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

Information on State-owned Enterprises and Crown Entities

Accounting Policies

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

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

The Crown has equity accounted 100% of the net assets of TEIs on the basis that, in the event of disestablishment of a TEI (which is subject to a resolution of the House of Parliament), 100% of the net assets revert to the Crown in the absence of a decision to transfer the assets to a new or existing institution and, in the meantime, the Crown enjoys the benefits of the provision of a higher education to the public of New Zealand (refer note 19).

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 (now Mercury NZ Limited)) a number of Crown Financial Institutions (CFIs) have invested in the companies as part of their normal investment activities. These investments have the effect of reducing the overall minority interest.

Company	% minority interest before CFI investment	% minority interest after CFI investment
Air New Zealand	48.09%	45.89%
Genesis Energy	48.77%	46.14%
Meridian Energy	48.98%	45.57%
Mighty River Power (now Mercury NZ Limited)	48.85%	45.64%

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 2016:

Crown entities	Balance date	Information reported to
New Zealand Symphony Orchestra	31 December	30 June 2016
School boards of trustees	31 December	31 December 2015
TEIs	31 December	30 June 2016

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

The results presented in the following tables use Crown accounting policies and classifications. As a consequence the results may differ from those published in individual annual reports and profit announcements.

	30 June 2016				30 June 2015			
	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	205	183	23	9	186	172	15	4
AsureQuality Limited	190	185	12	7	189	179	11	10
Landcorp Farming Limited	210	218	12	-	224	219	(20)	7
New Zealand Post Group	2,126	2,029	141	5	2,241	2,149	144	5
KiwiRail Holdings Limited	730	929	(207)	-	769	871	(96)	-
Transpower New Zealand Limited	1,043	821	185	178	1,046	785	115	166
Kordia Group Limited	242	229	12	6	249	239	9	-
New Zealand Railways Corporation	-	-	-	-	-	1	3	-
Other State-owned enterprises	360	511	114	25	507	678	(171)	3
Total State-owned enterprises	**5,106**	**5,105**	**292**	**230**	**5,411**	**5,293**	**10**	**195**
Air New Zealand Limited	5,284	4,766	550	219	4,981	4,608	834	246
Genesis Energy Limited	1,975	1,889	87	162	2,067	1,982	142	146
Meridian Energy Limited	2,375	2,100	185	501	2,912	2,614	247	385
Mighty River Power Limited (now Mercury Energy)	1,114	989	160	228	1,240	1,202	49	260
Less minority interests	-	-	(474)	(509)	-	-	(384)	(476)
Total mixed ownership companies	**10,748**	**9,744**	**508**	**601**	**11,200**	**10,406**	**888**	**561**
Intra-segmental eliminations	(477)	(641)	(80)	-	(937)	(991)	(209)	-
Total SOE segment	**15,377**	**14,208**	**720**	**831**	**15,674**	**14,708**	**689**	**756**
Crown Entities								
Accident Compensation Corporation	5,197	5,487	(3,368)	-	5,444	5,364	1,611	-
Crown Fibre Holdings Limited	16	95	(111)	1	29	132	(103)	-
Crown Research Institutes	677	658	25	-	660	638	19	4
Callaghan Innovation	249	249	-	-	232	230	2	-
District Health Boards	13,453	13,550	(98)	-	13,065	13,097	(32)	-
Earthquake Commission	364	396	(33)	-	349	(308)	658	-
Housing New Zealand Corporation	1,287	1,132	101	30	1,209	995	108	108
Museum of New Zealand Te Papa	55	62	(6)	-	59	65	(5)	-
New Zealand Fire Service Commission	388	385	-	-	366	374	(3)	-
New Zealand Lotteries Commission	927	723	204	-	848	650	199	-
New Zealand Transport Agency	2,400	2,398	(149)	-	2,289	2,265	(43)	-
Otakaro Limited	29	14	14	-	-	-	-	-
Public Trust	67	14	5	-	68	70	(2)	-
Schools	7,284	7,195	83	-	6,968	6,887	75	-
Southern Response Earthquake Services	37	225	(182)	-	52	360	(329)	-
Tamaki Regeneration Limited	14	(2)	(90)	-	-	-	-	-
Tertiary Education Commission	2,922	2,874	49	7	2,851	2,831	20	16
TEIs	-	-	134	-	-	-	685	-
Television New Zealand	326	308	13	8	344	322	26	-
Other Crown entities	2,058	2,107	(37)	-	2,112	2,118	38	35
Total Crown entities	**37,750**	**37,870**	**(3,446)**	**46**	**36,945**	**36,090**	**2,924**	**163**
Intra-segmental eliminations	(612)	(446)	(34)	-	(651)	(459)	(138)	-
Total Crown entities segment	**37,138**	**37,424**	**(3,480)**	**46**	**36,294**	**35,631**	**2,786**	**163**

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

	30 June 2016 Purchase of PPE $m	Total PPE $m	Total assets $m	Borrow-ings $m	Total liabilities $m	Equity $m	30 June 2015 Equity $m
State-owned enterprises							
Airways Corporation of New Zealand Limited	22	137	194	42	94	100	87
AsureQuality Limited	6	32	107	28	57	50	41
Landcorp Farming Limited	47	1,275	1,786	346	375	1,411	1,412
New Zealand Post Group	45	166	20,235	18,634	18,942	1,293	1,167
KiwiRail Holdings Limited	279	1,437	1,756	236	441	1,315	1,294
Transpower New Zealand Limited	202	4,422	5,563	3,905	4,448	1,115	1,103
Kordia Group Limited	13	70	163	-	66	97	91
New Zealand Railways Corporation	-	3,357	3,363	-	-	3,363	3,381
Other State-owned enterprises	5	102	410	158	375	35	(54)
Total State-owned enterprises	**619**	**10,998**	**33,577**	**23,349**	**24,798**	**8,779**	**8,522**
Air New Zealand Limited	930	4,769	7,807	2,636	5,140	2,667	2,475
Genesis Energy Limited	28	3,226	3,744	997	1,783	1,961	1,791
Meridian Energy Limited	40	7,771	8,499	1,511	3,449	5,050	4,580
Mighty River Power Limited (now Mercury Energy)	62	5,440	6,081	1,466	2,767	3,315	3,340
Total mixed ownership companies	**1,060**	**21,206**	**26,131**	**6,610**	**13,139**	**12,993**	**12,186**
Intra-segmental eliminations	2	(171)	(789)	(146)	(276)	(514)	(307)
Total SOE segment	**1,681**	**32,033**	**58,919**	**29,813**	**37,661**	**21,258**	**20,401**
Crown Entities							
Accident Compensation Corporation	12	30	38,291	52	40,156	(1,865)	1,503
Crown Fibre Holdings Limited	132	37	664	-	31	633	490
Crown Research Institutes	65	466	764	1	185	579	554
Callaghan Innovation	7	34	151	-	91	60	54
District Health Boards	397	6,025	7,416	2,405	4,610	2,796	2,608
Earthquake Commission	5	16	2,051	-	2,508	(457)	(424)
Housing New Zealand Corporation	487	22,557	23,390	2,034	4,226	19,164	17,620
Museum of New Zealand Te Papa	15	1,306	1,341	-	11	1,330	1,282
New Zealand Fire Service Commission	50	694	829	2	106	723	687
New Zealand Lotteries Commission	3	18	146	2	123	23	23
New Zealand Transport Agency	1,785	32,137	32,684	636	1,028	31,656	30,334
Otakaro Limited	6	160	310	145	219	91	-
Public Trust	1	4	524	469	480	44	40
Schools	212	1,469	3,163	130	932	2,231	2,105
Southern Response Earthquake Services	-	1	736	-	804	(68)	(107)
Tamaki Regeneration Limited	2	1,655	1,770	-	38	1,732	-
Tertiary Education Commission	4	5	643	24	572	71	28
TEIs	-	-	10,669	-	-	10,669	9,657
Television New Zealand	21	140	297	4	59	238	224
Other Crown entities	37	233	1,290	59	457	843	927
Total Crown entities	**3,241**	**66,987**	**127,129**	**5,963**	**56,636**	**70,493**	**67,605**
Intra-segmental eliminations	(1)	(217)	(260)	(2)	(60)	(200)	(267)
Total Crown entities segment	**3,240**	**66,770**	**126,869**	**5,961**	**56,576**	**70,293**	**67,338**

Glossary of Terms

Commercial sector

Consists of the assets and liabilities held by companies with commercial objectives, predominantly State-owned Enterprises.

Comparatives (Budget 2015 and Budget 2016)

Comparatives referred to as Budget 2015 were forecasts published in the *2015 Budget Economic and Fiscal Update* while comparatives referred to as Budget 2016 were forecasts published in *the 2016 Budget Economic and Fiscal Update*.

Contingent assets

Revenue that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise loans with specific events that trigger repayment and Inland Revenue pending assessments (where there is a proposed adjustment to a tax assessment).

Contingent liabilities

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 44 to 47).

Core Crown expenses

The day-to-day expenditure (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not build physical assets for the core Crown. This is an accrual measure of expenses and includes items such as depreciation on physical assets.

Core Crown revenue

Consists primarily of tax revenue collected by the Government but also includes investment revenue, sales of goods and services and other revenue of the core Crown.

Corporate tax

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

Domestic bond programme

The amount and timing of government bonds expected to be issued or redeemed.

Excise duties

A tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

Financial assets

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies), or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

Financial liabilities

Any liability that is a contractual obligation to pay cash (government stock, accounts payable), or a right to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

Financial sector

Consists of the assets and liabilities held by the Crown to finance or pre-fund government expenditure.

Forecast new capital spending

An amount provided in the forecasts to represent the impact on the financial position and cash flows of capital initiatives expected to be introduced over the forecast period.

Forecast new operating spending

An amount included in the forecasts to provide for the operating balance impact of policy initiatives, changes to demographics, and other forecasting changes expected to occur over the forecast period.

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and the Government Superannuation Fund. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the statement of financial performance.

Gross domestic product (GDP)

A measure of the value of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured as the actual dollar value of goods and services at today's prices (nominal GDP), or excluding the effects of price changes over time (real GDP).

Gross debt (or Gross sovereign-issued debt)

Represents debt issued by sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission.

Insurance liabilities

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

Inter-segment eliminations

The amounts of transactions between different segments (core Crown, Crown entities and State-owned Enterprises) that are eliminated to determine total Crown results.

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

Net core Crown cash flow from operations

The cash impact of operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of State-owned Enterprises, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

Core Crown net debt

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

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.

Operating balance

Represents OBEGAL plus gains and losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long term liabilities.

Operating balance before gains and losses (OBEGAL)

Represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short term market fluctuations are not included in the calculation.

Optimised Depreciated Replacement Cost

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

Public Sector PBE Accounting Standards (PBE standards)

The reporting and measurement framework under which these financial statements are prepared. These standards are approved by the External Reporting Board in New Zealand, based on requirements of the international public sector accounting standards issued by the International Public Sector Accounting Standards Board, adjusted where appropriate for the New Zealand context.

Residual cash

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

Residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments (eg, purchase of assets, loans to others).

Settlement cash

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

Social sector

Consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations.

Tax revenue

The accrual, rather than the cash ("tax receipts") measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

Top-down adjustment

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

Total borrowings

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

Total Crown

Includes the core Crown (defined above) plus Crown entities and State-owned Enterprises. Also known as the Government Reporting Entities (which are listed on pages 44 to 47).